



KANSAS INSURANCE DEPARTMENT

Vicki Schmidt, Commissioner

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(Anti) Fraud Friday: Watch out for fraud with Self-Directed IRAs

Topeka, Kan. – An Individual Retirement Account (IRA) can be a great way to save for your retirement. Traditional IRAs are held for investors by custodians: banks, trust companies, or others regulated entities. Self-directed IRAs (SDIRA) are also held by custodians; however, they are only responsible for its administration, and have no obligation to review the investments made through the account. SDIRAs may also allow investment of retirement funds in “alternative assets,” such as precious metals, real estate, or cryptocurrency. These unique attributes of SDIRAs may be attractive to some investors, but they come with a heightened risk of fraud.

“While the decision to invest with a self-directed IRA is up to the individual investor, there are unique scams associated with these accounts,” Kansas Insurance Commissioner Vicki Schmidt said. “As with all investments, it is important to understand the risk of fraud so you can make informed decisions about your money.”

Commissioner Schmidt encourages Kansans to watch out for these fraud risks associated with SDIRAs:

- **Fake Custodians and Misrepresentations of Responsibilities** – Watch out for fraudsters using a fake SDIRA custodian in an attempt to steal your money. Before making a deposit with a SDIRA custodian, make sure they are legitimate. The IRS keeps a [list](#) of nonbank custodians on their website. While the list does not include all custodians, if they do not appear on the list, consider conducting additional research before opening an account. Fraudsters may also make false claims that SDIRA custodians have validated their investment. Since there is no such responsibility for SDIRAs, **fraudsters may still attempt to sell you fraudulent investments through legitimate custodians**. Be extra cautious of unsolicited investment offers that promote the use of a SDIRA. Contact the Office of the Kansas Securities Commissioner, a division of the Kansas Insurance Department, to verify if the offered investment is properly registered.
- **Exploitation of Tax-Deferred Account Characteristics** – As with other IRAs, SDIRAs are tax-deferred accounts that carry a financial penalty for prematurely withdrawing money before reaching a certain age. This penalty may lull an investor into passive management of their account, and combined with the lack of custodial oversight, could result in the fraud going unnoticed. If you invest using an SDIRA, verify the information in your account statements often and be mindful of the illiquidity and tax characteristics of any alternative investments.

For more information about the risks of fraud and self-directed IRAs, visit www.nasaa.org and www.finra.org. If you suspect you have been a victim of securities fraud, please contact the Office of the Kansas Securities Commissioner at 785-296-3071 or file a complaint online at <https://insurance.ks.gov/department/ksc/complaint/ksc-complaint.php>. All investments carry risk, so visit SmartInvestKS.com to learn more about different types of investments and how to avoid fraud.

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The Office of the Kansas Securities Commissioner, a division of the Kansas Insurance Department, regulates the offer and sale of securities in Kansas--the birthplace of “Blue Sky Laws.” In 2017, the Office was merged with the Kansas Insurance Department.