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Consider savings bonds for possible investment

By Sid Mittra
special writer

In recent years, U.S. savings bonds have been out of favor with investors because their yields are low compared with those of money-market funds. However, in recent months these bonds have regained much of their old attraction.

In 1982, the Treasury Department set the interest rate of E and EE bonds at 85 percent of the average yield on five-year treasury bonds. Assuming that the yield on five-year treasury marketable bonds were to remain at about 12 percent, E and EE bonds held at least five years would return approximately 10¼ percent compounded semiannually. EE bonds with a larger minimum purchase amount of $25 replaced old $18.75 E bonds in 1980.

In addition, the Treasury put a floor under this market bond rate to protect savers against dramatic declines. This guaranteed floor may vary, but it would probably be around 7½ percent.

ALONG WITH the proposed higher yield, savings bonds will continue to offer their traditional unique advantages. Double E bonds are sold at a 50 percent discount from their maturity value. They now mature in eight years and, if held to maturity, will yield around 8 percent.

Federal income tax on the interest need not be reported or paid until the bonds are cashed in or until their final maturity, which is equivalent to the original maturity plus three 10-year extensions. On old 10-year bonds, this is 40 years. The interest is free of state and local income and property taxes.

The E or EE bonds can be converted into HH bonds, and the tax on previously received interest will be further deferred. The interest on HH bonds is paid to the investor semiannually and is subject to federal but not state or local income tax.

This deferral of income taxes provides a number of advantages. Taxes can be deferred until the bondholder retires, when he or she may be in a lower tax bracket. Bonds can be put in a child's name with a parent as beneficiary, and the tax on the interest either reported annually or deferred until college time. In either case, the tax owed by the child would likely be minimal or even zero.

AT SOME POINT, say at retirement, the bondholder could rollover E or EE bonds into HH bonds once a month for six months and thereafter receive a monthly income at 8½ percent. When one or more E or EE bonds are rolled over, their value may not equal $500 or multiples thereof, so cash must be added or a partial redemption made to come out even.

Unlike passbook savings account, savings bonds do not automatically terminate at the owner's death. If in an estate, they can pass through several hands with continued income-tax deferral. They earn interest, however, only until final maturity. At that time, the income tax becomes due on all previously earned interest, if it had been deferred. This interest could be several times the face value of an older bond.

If you are interested in learning more about E or EE bonds, you may contact the U.S. Treasury Department (a local office), which handles these bonds. Their local number is listed in the telephone book.

EDUCATIONAL SEMINAR: The Observer & Eccentric Newspapers and I will conduct our next financial planning seminar 8-9:30 p.m. Wednesday, June 1, at the Michigan State University Management Center, Troy. Subjects may include: Budget analysis; children's education; tax shelters; property/casualty insurance; budget deficits; stocks and bonds investments; wills and trusts; financial independence; inflation problems; mutual funds or estate planning. The seminar is free, but registration is required. For more details, call 643-8888.

finances and you
Sid Mittra

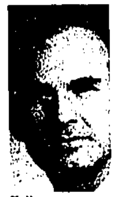
Sid Mittra is president of Coordinated Financial Planning Inc. in Troy and a professor of management at Oakland University in Rochester.

business people

Charlotte Doud has been named vice president of the Greater Detroit Chamber of Commerce's Economic Development Group, succeeding Arthur Saltzman of Franklin, who has resigned.

Jeffrey W. Kolb of Birminghm has been appointed vice president of the National Bank of Detroit's International Division. Kolb will arrange commercial loans and provide other banking services for companies in France, Spain and Portugal. He served in Hong Kong during 1979-80 as regional representative for the bank's Southeast Asia operations.

Kenneth R. Moore of Rochester is *now manufacturing manager for* National Broach and Machine, a division of Lear Siegler Inc. He has been with National Broach since 1982 with experience from General Motors Hydramatic and the Ford Motor Co. Moore replaces Stuart Miller, who has retired.



Kolb

Moore

Thad L. Piatkowski of Troy recently joined Surface Treatments Inc. as a vice president. He previously was with Occidental Chemical Corp. in the dual roles of director of manufacturing and business area manager of the OMI Plating Systems Division.

Larry Strutton of Beverly Hills has been appointed executive vice president of the Detroit Free Press. Strutton, 42, has been vice president/operations since joining the paper in January of 1981.

Mitchell

Nolte

James A. Mitchell of Bloomfield Hills has been appointed first vice president, trust operations for Comerica Bank-Detroit. He joined the bank in 1951 as a teller and achieved officer status in 1969.

Henry R. Nolte Jr. of Bloomfield

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