

## OAKLAND BUSINESS &amp; Finance

## Annuity exchanges can be tax-free



SID MITTRA, Ph.D.

As a general rule, the sale of an investment constitutes a taxable event, even when the sale proceeds are reinvested. However, the law allows an important exception to this rule. This exception is discussed in this article.

The Internal Revenue Code Section 1035a allows for "Certain Exchanges of Insurance Policies." The code provides that there will be no gain or loss recognized on the exchange of:

1. A life insurance contract for another life insurance, endowment or annuity contract;
2. An endowment contract for another endowment contract with a maturity date no later than the maturity date of the original contract, or for an annuity contract;
3. An annuity contract for another annuity contract.

Any other type of exchange is treated as a taxable event with all gains in the contract being taxed in the year of the exchange. Incidentally, moving from a variable to a fixed annuity or from a fixed to a variable annuity, is considered a tax-free exchange as long as it falls under one of the three transactions listed above.

To effect a tax-free exchange, some very important rules must be followed. First, the owner of the contract must absolutely assign the value of the existing contract to the new carrier. This prevents the client from depositing the money in a checking account and writing a new check to the insurance company. If a client takes "constructive receipt" of the funds, the gain becomes taxable in that year. There is, however, specific relief for this method in cases where the existing carrier is in rehabilitation.

Another very important part of the exchange process is maintaining the same parties to the contract (i.e., owner and annuitant/insured). If either of these parties changes, the transaction will not qualify as a tax-free exchange.

- product performance;
- product features and costs;
- quality of service;
- costs involved in the transaction (surrender charges or interest rate adjustments);
- underwriting considerations (life insurance only); and
- carrier's quality and ratings.

Some of these items can be addressed by making changes to the current contract. A thorough investigation of all available options with the existing carrier as well as examination of alternative products is highly recommended. So, it appears that 1035 exchanges do make sense for some annuity and life insurance owners when good judgment is exercised.

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Many items must be examined before determining if a Section 1035(a) exchange makes sense. Among them are:

- needs of the owner;
- risk tolerance level;
- market outlook and interest rate environment;

Digital has developed what it calls "super spider" software which it claims runs 100 times faster than its competitors in searching out and indexing web sites. (Again, who am I to question.) Alta Vista indexed some 16.5 million pages in only eight days which, if true, means in little more than a week they amassed a bigger catalog than either InfoSeek or Lycos. Digital plans to index the entire Web. Alta Vista also maintains a separate and dynamic index of Usenet postings.

By the way, an engineer at Digital has taken data from Alta Vista tests and came up with this estimate on the size of the World Wide Web — 130,000 servers holding a total of 40-50 million pages (not including graphics, audio and video) as of November 1995.

Last year I erred in referring to an education site as an NEA site. Well, the NEA now has a presence on the Web and has since December 1995. Point to <http://www.nea.org>.

You can direct questions to Emory Daniels by e-mail at [emory@oakline.com](mailto:emory@oakline.com) or fax number 591-7279. To sign up for O&E On-Line, dial (313)591-0903, at "log-in" prompt type "new" and at "Key:" prompt type GL&NY2. Past columns may be accessed online at <http://oakline.com/titledark/emory/archiv.html>.

## Election, political sites abound on Net



EMORY DANIELS

The Internet is not only a good place to find current news but to get detailed information about the day's news. There's been a lot of interest amongst on-liners in the Telecommunications Bill that has passed the U.S. House and now awaits Senate passage, which may occur before this column's ink dries. Anyone wanting to take a look at the full text of the House bill, point your Web browser to <http://www.bell.com> — it's long.

The Congressional Quarterly also has opened a 96 election page that can be accessed at <http://voter96.cqleart.com>.

Interested in how your Congressman voted on this measure, or any other piece of legislation? A site called "How Congress Voted" allows you to find out how your Senator and Congressman voted just by entering your Zip Code. The Universal Resource Locator (URL) is <http://www.timeinc.com/cgi-bin/congress-votes>.

A similar site will take your Zip Code and returns the address and congressional district of that representative. Point to <http://www.startdot.com/zipper>. This is

one service offered by the Jefferson Project which is a fully searchable index of political sites around the globe. Point to <http://www.startdot.com/jefferson> and you find such general categories as Politicians and Candidates, Parties, Magazine Sites, Resources, Political Humor, Issues and Activists, The Left, The Right, The Radical, Political Watchdogs, Interactive and Reference, International, Government Resources, and Campaign '96. There also are links to some 60 political magazines.

Sometimes our desire to become informed about a particular subject cannot be satisfied by normal means. The University of Michigan Documents Center provides a detailed index in the News page that provides full text documents taken from original sources on such subjects as Rabin's assassination and Bosnia. The URL is <http://www.lib.umich.edu/libhome/Documents.center/docnews.html>.

Another way to stay informed on current events is by getting more detailed information to take advantage of the hundreds (thousands?) of electronic magazines or e-zines. There are so many e-zines on the Internet now that a specific search tool has been developed to help find the one that best relates to your topic.

You can access "Magfinder On-

line" by pointing to <http://www.magazinebusiness.co.uk/>. The site believes it has the widest-ranging selection of magazine links on the Web, and who am I to argue? The general categories include animals & pets, lifestyle, arts & entertainment, motoring, business & finance, professional, computers, current affairs, specialist interests, general interests, sports, publishing industry.

Another source of news maintained by GrayFire Information Services offers news stories from Reuters, Bloomberg Business News, Standard & Poor's Market Scope, Knight-Ridder/Tribune Business News, and many U.S. newspapers. The publications are updated throughout the day.

"The Wall Street section allows you to create a personal portfolio and track your stocks, including current (well, OK, 16-minute-delayed) pricing, volume, and news," says Karen Olik, director of product development for GrayFire. "You can also see historical pricing, latest trade information, and create price graphs on the fly." Visit this site by pointing to <http://www.grayfire.com>.

Any number of us would try Yahoo as a search tool for news or information. A New Kid on the Block of super search tools is Digital Equipment Corp.'s net search service called Alta Vista. Point to <http://www.altavista.digital.com>.

## Exploring mass mailings and recruiters



GEORGE HAYES

What's about mass mailings? I'm willing to drop a thousand resumes in the mail to local companies if it will pay off.

Always expect a low rate of return — 1 to 3 percent from any direct marketing effort. In employment, count on zero to one-third of all leads generated to be worth pursuing. Using this math, if you mailed out 1,000 unsolicited resumes, you could find up to 10 viable openings. Maybe not so bad. Then again, you could come up with nothing.

The odds could be improved by using a qualified mailing list that identifies managers by name (avoiding personnel departments) and companies that would logically have an interest in you. If you have skills that have wide application and that are highly sought after, e.g., surface grinding, I'd say the chances are pretty good that you'll uncover some interesting. If your background is highly specific (nuclear waste technician), don't bother.

There is a cost in time and money with this approach. You'll pay for postage and extra resumes. You can also buy expensive mailing lists or spend hours in the library developing your own.

Notice that I'm not discouraging you, however, which is absolutely heresy in my business. Mass mailing is regarded by most vocational consultants as wasted ef-

fort or, worse, having the potential to ruin otherwise good contacts. But the cost of copying and developing qualified lists (particularly if you're on-line) isn't as great as it once was for many people. Also, I've never heard of an opportunity being tainted by the earlier receipt of an unsolicited resume.

Some recruiters are so pushy! How do they get paid?

Your question assumes a connection between the obnoxious demeanor or some headhunters and money. I think you're on to something. Knowing how much a middle-manager gets paid can help you distinguish sales hype from fact. There are actually several different kinds of recruiters who are compensated in totally different ways.

Most recruiters work on a straight commission basis. They don't eat unless they are successful at placing people like you. That's quite an incentive to sell. A typical agency fee is 1 percent of the candidate's annual salary (they usually want 25 percent cap). So if I placed you at \$30,000, the hiring company would receive an invoice for \$7,500. The individual recruiter, depending upon her arrangement with the agency, could receive up to half of the total fee. That's quite an incentive, too.

Other recruiters are retained by companies, much the way accountants or attorneys are retained. They work on a per-hour or flat-fee basis and are usually guaranteed some compensation even when they don't place a candidate. These recruiters might not

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sell quite as hard and seem to screen a little more thoroughly for their client companies. They can also be slower moving and generally won't send you out on additional interviews if the outcome of one is still pending.

Many people mistakenly believe that the recruiter is working for them. The recruiter is always working for himself and the client company paying the fee. Recruiters don't find jobs for people. They find people for jobs. There's a big difference.

**Career Building Tip:** Get a job — any job — in a related field while going to school. An amazing number of graduates with excellent academic credentials in, say, engineering, spend their summers making swirly cones or delivering pizzas while good factory jobs can be had for the asking. Employers will always give the nod to a candidate who has demonstrated interest in the industry by actually working in it, even at the lowest level.

Plan now for the summer of 1996. Finance majors: sweep the floor at the bank. Aspiring architects: Clean up at job sites. Future veterinarians: Grab a shovel.

Giving notice is the right thing to do — and the smart thing. The most typical negative comment I hear when doing reference checks is: 'She left us with no backup and no warning. We thought it was unprofessional.'

Always try to exit in the least disruptive manner possible. It's fair to your employer and will preserve your reputation.

The good news is that many companies won't take you on your offer anyway and will encourage a speedy departure. Employers realize that productivity is likely to fall during a lame-duck period and won't risk having an almost ex-employee poison the atmosphere for those left behind.

One outplacement candidate tells his story of trying to leave gracefully. "... My boss immediately grabbed the phone and summoned security. I was escorted through the halls by two large rent-a-cops, put in a cab and sent home. The next morning a box containing my briefcase and personal belongings arrived via UPS. They were never much for long good-byes."

Send questions to George Hayes, Job Search, P.O. Box 2497, Southfield, MI 48037. Mr. Hayes is president of Emplex Corp., an outplacement and pre-employment testing firm located in Southfield.



## ON-LINE!

### INTERNET ADDRESS DIRECTORY

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