

Business

Barry Jensen editor/591-2300

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Annuity may be a better place for a lump sum

part II

Last week, we discussed the distribution of lump sum amount upon retirement. An alternative to receiving a lump sum distribution is called the guaranteed life annuity income.

Under certain circumstances, this provides an attractive alternative. Here is an example.

John Doe and his spouse are both age 65. John has \$175,000 coming to him from a non-contributory pension plan.

THE ANNUAL taxable income from other assets, in addition to his taxable income from Social Security, will exactly equal his annual exemptions and itemized deductions in excess of the zero bracket amount.

If the trust distributes his full \$175,000 in a lump sum, John will pay \$30,720 in taxes immediately, leaving him with \$144,280 to invest.

The gross income from the \$144,280 will be \$14,428 each year, assuming John can safely earn 10 percent on investments for the rest of his life. But income taxes of \$1,457 each year will reduce John's after-tax spendable income to \$12,971.

Will John be better off having the trustee buy an installment refund life annuity for him? The answer in this case is — yes.

HERE IS WHY.
An annuity lets John live on the principal as well as interest — giving him much more retirement income than he can safely count on from other



finances and you

Sid Mittra

Investments.

• No matter how long John lives, he can never outlive his annuity income.

• Even if John should die prematurely, identical annuity income will continue each year to his beneficiary until the full \$175,000 is paid back by the insurance company.

• John pays no immediate tax on an annuity distribution (as he would on a lump-sum distribution).

• John pays tax (totals much less than the immediate tax on the lump-sum plus tax on the income from the invested lump-sum balance).

THE RESULT of this option is phenomenal. The trustee can invest the full \$175,000 in the installment refund life annuity. So no matter how long John lives, he will receive \$23,720 of gross annuity income each year.

And — even though income tax of

\$3,190 per year will reduce this to \$20,530, John will still have \$7,559 more spendable income per year.

Another possible arrangement is a rollover of \$175,000 into an IRA when John reaches age 65. An IRA earning 10 percent would accumulate \$17,500 per year, tax deferred.

And John does not have to withdraw anything for six or seven years. If John makes no withdrawals until the required distribution date (April 1 of the year he reaches age 70½) his \$175,000 rollover will grow, tax deferred, to \$309,925 at the end of six years; \$341,075 at the end of seven years.

Of course, John will have to pay income tax on the money when they are distributed, but he will, presumably, be in a lower bracket at that time since he

will be retired and earning less income.

"WHAT CAN you do now to benefit from the proposed tax changes?" is the main topic for a seminar to be conducted by the Observer & Eccentric Newspapers and the Coordinated Financial Planning Staff. The seminar will be 7:30 p.m. Tuesday, Sept. 10, at the Baldwin Public Library in Birmingham. An out-of-town speaker will present a tax shelter suited for 1985 tax planning. The seminar is free, but registration is required. Call 643-8888 for registration.

Sid Mittra is director, personal financial planning program at Oakland University and president of Coordinated Financial Planning Inc. in Troy.

marketplace

Yaffe Berline Inc., Southfield, has changed its name to Yaffe & Company, it was announced by Fred Yaffe, chairman/CEO of the Southfield-based advertising-marketing-public relations agency.

Trentacosta-Hamilton Advertising, Birmingham, has been named agency of record for Ideal Mower Sales Inc., Ferndale. The agency will be responsible for broadcast and print development, public relations, internal promotions and trade show coordination.

Overbeck Company, West Bloomfield, has been named advertising and public relations agency for WRB Associates Inc. of Troy.

Hedden Marketing Services of Troy has been selected as the agency of

record for Hoffman Filter Corp. of Novi.

Kuhlman Corporation, Birmingham, has announced an agreement for the sale of its subsidiary Motor Metal Servicecenters Inc. to the management of the subsidiary. The company plans to concentrate on more technologically oriented lines of business in the future.

Thompson Advertising Productions, Farmington Hills, has been appointed advertising agency for Tractech Inc., a manufacturer of positive traction differential for the off highway, industrial and off road markets.

Montgomery Ward in Southfield is renovating its retail store at 28500 Telegraph Road to improve traffic flow and make shopping more convenient for customers. Renovation is part of a company-wide program to improve store interiors.

JB Communications, Farmington Hills, has been chosen as the advertising and public relations agency for Hydronic Corporation of Livonia.

French & Rogers Inc., Troy, has been named advertising agency for Helden Corporation of Illinois.

G.Temple Associates Ltd., Southfield, has been named as advertising and public relations agency for Samson Roll Formed Products Company of Skokie, Illinois.

D.A. Peash Enterprises, Birmingham, has been named by Selbert Oxiderno, an automotive and industrial paint manufacturer, to represent all General Motors facilities in the U.S. and Canada.

Leichtag Inc., Southfield, has been acquired by The Cronwell Group Inc., a New York investment firm.

Business-Expo was recently named one of the 200 largest Tradeshows in

the U.S. by the Trade Show Week, an authoritative industry newsletter. Business-Expo is produced by International Business Expositions Inc. in Southfield.

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