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Credit Unions

New law prompts new strategies

By Todd Schneider
staff writer

Michigan's state-chartered credit unions, fighting for recognition as full-service financial institutions, have received some help from Lansing.

The modernized credit union law passed by the state legislature in December should help state-chartered credit unions compete on more even footing with their federally chartered cousins, according to officials from local credit unions.

The new law and an aggressive marketing campaign launched by the Michigan Credit Union League, based in Southfield, are designed to "bring credit unions into the 1980s, in terms of public awareness," Frank Beckman, senior vice president of the MCUL said.

Of the 710 credit unions operating in Michigan, some 450 are chartered by the state, Beckman said.

Until recently, the state-chartered credit unions were regulated by a 1925 law that placed severe restrictions on the amount in outstanding loans and the types of financial services each credit union could offer.

THE LAW, sponsored by state Rep. Bill Keith, D-Garden City, removes a number of those restrictions. Under the law:

- The limit on total outstanding debts has been changed from 50 percent of available capital to 50 percent of shares, deposits, undivided earnings and reserves;
- The requirement that a loan be for "provident or productive purpose" has been deleted;
- Mergers of two or more credit unions and changes in status from state-chartered to federally chartered will be easier;
- The state banking commissioner has been given broader authority to intervene in the affairs of a financially troubled credit union.

Keith said he believes the new regulations will "provide a much healthier environment for all credit unions."

Tom Cahill, manager of the Garden City Community Credit Union, said the new law should help eliminate some of the problems faced by smaller credit unions such as the GCCCU.

"In general, I think the elimination of restrictions will allow us to keep our share of members," Cahill said.

Depositers will also benefit from the law, Keith said, since the danger of losing money in a failed institution has been reduced.

SINCE FEDERAL credit unions were deregulated under the Reagan Administration in 1981, state-chartered institutions were losing ground, he said.

According to Keith, the state credit unions lost customers to the less stringent federal credit unions and to traditional banks or savings and loan institutions.

While the $8.5 billion in current credit union assets in Michigan is an all-time high, the number federal and state credit unions in Michigan has steadily declined from a high of 1,300 in the 1960s to the current 710. The majority of the loss resulted from state-chartered credit unions going under, Keith said.

Although the new law makes mergers easier, Beckman said he doesn't forsee the same type of "merger mania" now rampant in the corporate world.

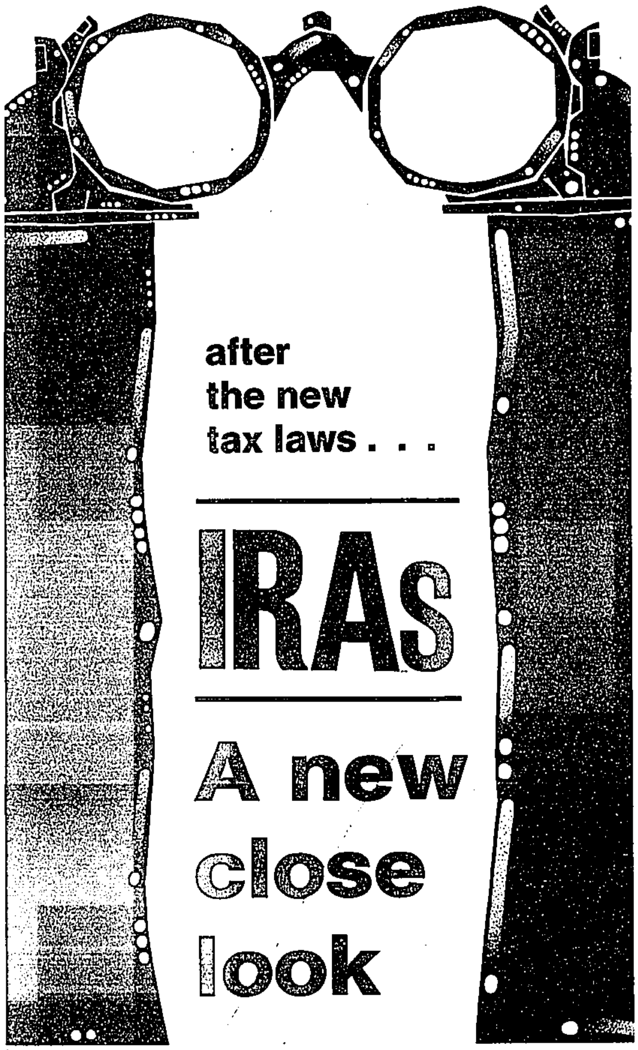
"The trend toward fewer, larger credit unions will probably continue," Beckman said. "But there has always been room in Michigan for the smaller, specialized credit union — like the various teachers' credit unions — and I expect that to continue as well."

MEANWHILE, Beckman said, the new law is only part of the effort to gain higher visibility for credit unions.

The MCUL has launched a promotional campaign touting credit union IRAs, discount stock brokerage rates and other services the general public doesn't usually associate with credit unions.

The league has run full-page advertisements in USA Today and other newspapers stressing the credit union as a modern, complete financial institution.

"We find that while credit unions often build a positive image with their members, non-members show little awareness of the range of services available," Beckman said.



after the new tax laws . . .

IRAs

A new close look

By Carolyn Carman
special writer

Investors are expected to take a closer look at their individual retirement account investments because of the 1986 Tax Reform Law.

Some financial advisers believe IRAs will remain the cornerstone of retirement investing despite the loss of the interest deduction for certain investors. But other methods of saving for the golden years are likely to be considered.

"If you are in the category that cannot get the IRA interest deduction, it is still a good investment because of the tax-deferred compounding interest," said Mark Kierzkowski, a stockbroker at Prudential-Bache's Birmingham office. "It's one of the things that really made the IRAs work."

For the 1986 tax year, all investors are eligible for an IRA deduction. Beginning in 1987, the new tax laws will allow full IRA deductions for those not covered by an employer-sponsored pension plan; married couples with combined incomes under $40,000 and single individuals with incomes of less than $25,000.

Partial deductions will be allowed for married couples with combined incomes between $40,000 and $50,000 and single persons with incomes between $25,000 and $35,000.

KIERZKOWSKI suggests annuities as an alternative to IRAs.

"Those individuals still looking for the tax-deferred compounding effect may wish to consider an annuity," he said. "It allows you to put in any amount, gives tax-deferred compounding and has the same penalty for early withdrawal. The only difference is annuities never let you shelter the income."

Dick Dickshott, a certified public accountant in Livonia, says the decision of what to do with an IRA is essentially a retirement decision.

"People need to establish their retirement goals," he said. "An IRA is a method to use to put money away for retirement so people have to decide which vehicle or combination of vehicles will accomplish those goals."

'We are not recommending contributing to an IRA for those people in 1987 if it is not deductible.'
— CPA Gary Figurski

Dickshott agrees IRAs are still beneficial because of the tax-deferred income and that annuities are a good alternative because you are not limited by the amount placed in one, and the income is tax-deferred. But he expects to see more employers offering 401K plans which reduce your gross compensation by the amount you put into the plan.

"You can contribute up to the limits of the (401K) plan or $7,000 a year into what is essentially a substitute IRA," he said. "The 401K plans are going to become very popular."

REAL ESTATE investing is another recommendation of Dickshot.

"Real estate is still a tax shelter because of depreciation," he said. "Many think inflation will return and, assuming there will be appreciation because of inflation, it will be a valuable investment and is not taxed until sold."

'If you are in the category that cannot get the IRA interest deduction, it is still a good investment because of the tax-deferred compounding interest.'
— Mark Kierzkowski, stockbroker

Whether to invest in an IRA, annuity, real estate or a combination of all three depends on an individual's personal situation, Dickshott says.

"You design your investments so that you have some liquidity and varying degrees of risk investment," he said.

Susan Hardin of Fidelity Investments in Dearborn says IRAs are a valuable investment.

"The reson we say an IRA is still beneficial is you are still accruing money on a tax-deferred basis. It is a kind of forced savings," she said. "We are not sure about Social Security in the future so this is a good way to save for retirement."

About 40 to 50 percent of IRA investors will still be able to take full or partial deductions under the new tax laws, she said.

Gary Figurski, a Livonia CPA whose company represents many Ford Motor Co. employees, says he is recommending they put up the maximum amount allowed into stock plans or thrift plans where they work.

"We are not recommending contributing to an IRA for those people in 1987 if they are not deductible," he said. "We are recommending that people who do not have a pension plan at work maintain their IRAs.

Figurski said he also recommends no-load mutual funds, which have no sales commission.

Dick Powell, branch manager of E.F. Hutton's Troy office, says individuals should compare IRAs to municipal bonds.

"When you look at the benefit of the non-deductible IRA, one of the alternatives would be to buy municipal bonds, either directly or through mutual funds or unit trusts," Powell said.

Non-deductible IRAs will make the most sense when the after-tax return is higher than that of municipal bonds, he explained.

In a reversal of the strategy many people have pursued of placing conservative, lower-yielding investments in their IRAs, Powell says the IRA may now become a place to put more aggressive investments.