A personal letter from Joe

Dear Valued Client:

With another wonderful summer in the record books and so many things going on, I am glad this opportunity to communicate with you is here. I must say though that the last three months went by much too quickly.

Let me begin by thanking all of you who attended my firms 25th anniversary celebration at the Marriott in July. It was a special evening for me and we all had a fantastic time. I also want to thank the investment and insurance companies and their reps who helped sponsor the event. I consider them all personal friends but we work with them because they meet my high standards of integrity and competence in handling your money. Again, thank you to Principal Mutual, Royal Life, Putnam, Franklin -Templeton, MFS, Oppenheimer and Wells Real Estate for the support and service.

I'd like to thank all of you who responded to our recent survey. We've received hundreds of responses and are still compiling the results. There are several suggestions and comments I wanted to reply to right away. Our computer programmer has been and continues to work on a consolidated statement which will show all of your accounts. This is a major undertaking, but one we are committed to. I also have my staff working on an improved servicing of your individual stock and bond ownership needs. My philosophy is still that your equity investments are best done through mutual funds offered by quality fund families and managed by the top managers. Why buy individual stocks and compete with the best fund managers? We do extensive research on fund families and in particular, fund managers. With over 7,500 mutual funds available today, we want only the best for you.

I hope you enjoyed this issues article on annuities. With the new school year underway and some of our recent experiences I felt this was an appropriate topic. Not too long ago a teacher came to us who had been doing TSA investments with another firm. Part of the "service" she was receiving is called market timing. Her annual contributions to her plan were $3,300.00. The fee they charged for this service was $3,640.00 <u>annually</u>! Worse yet, she had been timed out of a 31.2% increase in her mutual fund and timed right back into a correction. Her losses exceeded 40%. Market timing is often described as a fools errand and I agree, but to charge such fees is not O.K. It is unethical and quite frankly a disgrace to the whole profession. Please take a look at the examples of proper and successful annuity investing we've included on the next page. You will also find an update on some upcoming changes in the tax and investment laws regarding TSAs, IRAs, gifting assets and small business retirement plans. I hope this information is helpful. If you have any questions or have not been in for an appointment to review your financial plan within the last year or so, please call.

On a personal note, my son Patrick (our T.V. celebrity) who works in the business with me, was married on October 12th. The kind regards extended by many of you to him and his new wife Christa are warmly appreciated. Thank you all for your continued trust and support. It is truly a pleasure to serve such great clients and friends.

TECHNICAL NEWS

changes that can be made to a salary reduction agreement for a 403(b) plan, a TSA. The existing rule is that only one change can be made per calendar year. Your employer can and will likely still impose limits on the number of changes. Call your business office if this pertains to you.

GIFTING A CRIME ? ☹

Maybe. Buried in the Health Insurance Portability and Accountability Act of 1996 is a provision making it a felony to transfer assets in order to qualify for Medicaid. The law goes into effect on January 1st, 1997. The liability would be for any gifts made within 3 years of applying for Medicaid. In the case of transfers to a trust, the time limit is 5 years. I have already written a letter protesting this law and am aware of a nationwide lobbying effort intended to get this overturned. I'll keep you informed. Gifting strategies can and will work, where carefully planned and implemented. I expect to see aggressive gifting by 12/31/96 to avoid this pitfall. From 1/1/97 and on, application for nursing home medicaid help will be an absolute No/No until 3 years following the last gift.

SPOUSAL IRA CHANGE ☺☺☺

For tax year 1997, $2,000.00 can now be contributed for a non-working spouse. This will make the combined limit $4,000.00 up from $2,250.00. The rules regarding deductibility remain the same. If neither spouse is covered under a qualified retirement plan, they may take the full deduction regardless of income level. If they are covered under a qualified retirement plan and adjusted gross income is under $40,000.00 for a married couple who file a joint return or $25,000.00 for an individual, the full deduction may be taken. Partial deductions may be taken for those filing jointly and earning between $40,000.00 and $50,000.00. All deductions for joint filers end once income reaches $50,000.00. For singles partial deductions may be taken when earnings are between $25,000.00 and $35,000.00. Once the $35,000.00 dollar limit is reached, deductions cease. Please call us if you need help with this. As we've said time and again, never do an IRA unless you can fully deduct it (no non-deductible IRAs are ever recommended).

***RETIREMENT FOR THE SELF EMPLOYED: THE NEW SIMPLE PLAN*.** ☺☺☺

Retirement plans for the small business have long been an area of complexity. Beginning in 1997 there will be a new SIMPLE Plan. These plans will be allowable to companies of up to 100 (the old limit was 25). There are relaxed participation and discrimination regulations and greater flexibility of contribution. These are great changes that are long overdue and will make life much easier for small business. For more information please give us a call.

what's happening

I DO!

I can't believe that it came and went so fast! Pat and his long time love Christa tied the knot on October 12th. Betsy and I are so proud of them both. Please join me in wishing them all the best. Good Luck Guys!!

WELCOME ABOARD

We want to welcome our three newest employees, Anne Cooper, Peggy Crissy and Pam Sikorski. They have just recently joined our service team and are already doing a great job!

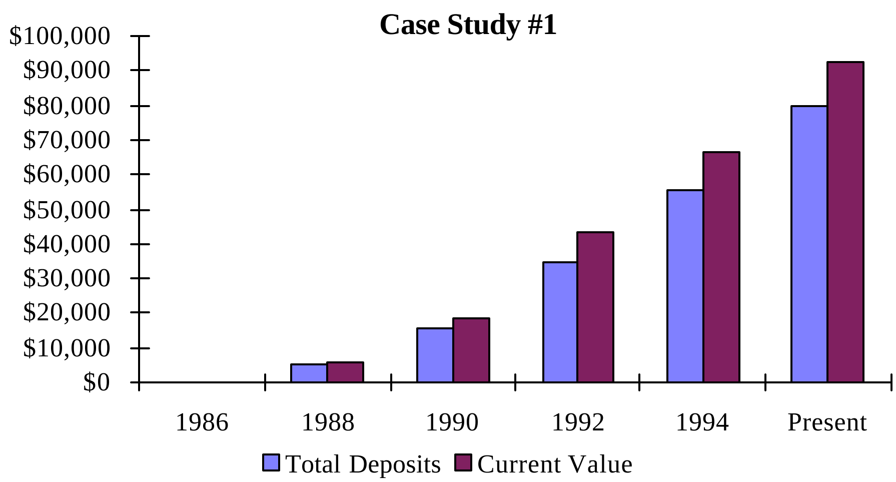
CONGRATULATIONS

To my good friend Pete Cummings who is West Seneca's newest business owner. He has just opened a wonderful work-out facility in the Southgate Plaza called **ONE-ON-ONE**. It's a very innovative, full-service gym including aerobic's, massage therapy, chiropractic, dry sauna and, of course, a full range of state of the art work out equipment. Another great feature is the playroom for kids - so you can't use baby-sitting as an excuse not to work-out anymore!☺ Give him a call at **674-1661**. And don't forget to tell him who sent you!☺☺☺☺☺☺☺☺☺☺☺☺

Case Study: ***Annuity Investors***

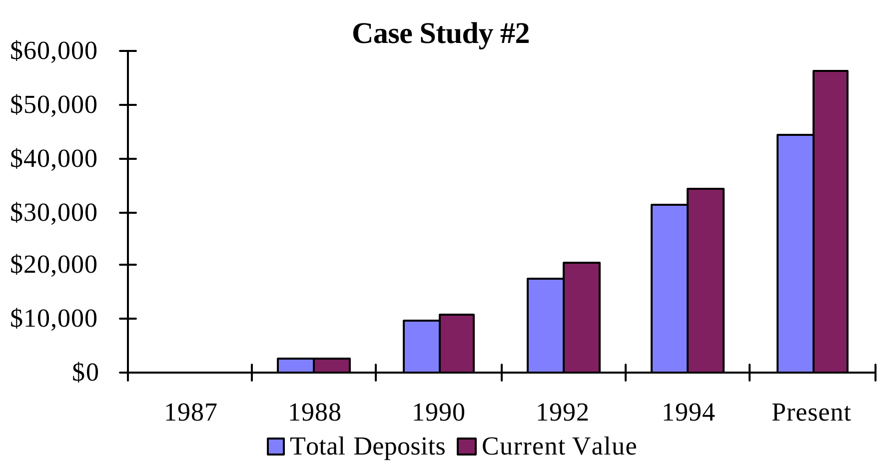
Case Study #1

Ms. Administrative Assistant works for a local school board and is eligible to invest in TSAs. She started investing in the spring of 1986. She was in her mid forties and her risk level was and remains total safety of principal. The appropriate investment was a fixed rate, flexible premium, qualified annuity (TSA). We started her TSA contributing $100.00 dollars per pay, 26 times per year. The plan was paying interest of 8.25%. After 2 years the $5,200.00 in contributions had grown to $5,760.00. In July 88 the contribution was increased to $200.00 per pay. By July 1990 the balance had grown to $18,546.00 and the contribution was raised to $250.00/pay. In 1991, with contributions continuing, $2,870.58 was transferred to the account from another TSA. By the end of 1992 the balance was $43,240.00. In August 1993 the contribution was again increased, this time to $325.00. In 1994, because she had 15 years of service, she took advantage of the "catch-up" provision, which allows for contributions of up to $12,500.00 per year for 5 years. Contributions were increased to $480.00/ pay. By years end her account had grown to $66,497.28. With the new school year starting and her contributions continuing, her TSA is now valued at $92,245.90. Ms. Assistant has invested wisely and consistently, increasing her contributions as she as her income rose and paying herself first. With her other investments and a good pension she looks forward to a very nice retirement when she decides the time is right.



Case Study #2

In 1987, 27 year old Mr. Coach started his first teaching job. He began investing in a fixed TSA starting at $100.00 per pay. By 1991 his balance had reached $10,991.50 and contributions were increased to $150.00. Contributions were increased again in 1992 to $200.00 per pay and $225.00 per pay in 1993. This created balances of $20,681.23 by the start of 1993 which reached $34,211.70 at the end of 1994 with contributions at $325.00 per pay. In 1995 approximately $19,800.00 was transferred to mutual funds. Since then all subsequent contributions have been invested in high quality, well managed growth mutual funds. Contributions remain at $325.00 per pay. Today, Mr. Coach, now thirty something, a husband and a father has assets of $56,121.00 in his TSA accounts. His fixed accounts are earning competitive interest rates and his mutual funds are posting very good returns.



The Sgroi Financial

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Annuities, Tax Sheltered Annuities, Variable Annuities, Flexible Premium Annuities, Single Premium Annuities,Deferred Annuities... What are all these Annuities?

Todays financial marketplace is awash with annuities. They are available in a multitude of varieties and forms from a huge number of providers. At **H. Joseph Sgroi and Associates** we are constantly researching and reviewing what is available and what is most suitable for our clients.

With so many different products on the market though, this subject can be confusing. However, we want our clients to understand what is available to them and what they are invested in. Furthermore, we feel too many people are coming to us from other firms, invested in annuities they do not understand and which are often unsuitable.

With all this in mind, we wanted to review the subject of annuities, explain the basic terminology and clear up some common confusions.

An **annuity** is a contract between an individual and an insurance company. The individual investor contributes money to the plan in lump sums or periodic payments. The insurance company invests the funds. The capital growth that occurs in an annuity is tax deferred. This means any interest, dividends and capital gains that are earned are not taxed until they are withdrawn.

A **fixed annuity** has a guaranteed rate of return. It functions like a savings account at the bank. The investor contributes to the plan and receives a fixed interest payment on the balance in the plan from the insurance company. The insurance company invests the funds, usually in bonds, and assumes any risk that goes with the investment. With a guaranteed return and safety of principal these represent one of the lowest risk investments available and the interest rates are much higher than you'll earn from the bank.

A **variable annuity** differs from a fixed annuity in that the principal and return are not fixed. They vary. They vary because they are invested in equity securities, usually mutual funds, which vary themselves. With these products, the investor has discretion over what his contributions are invested in. He or she decides which of the offered mutual funds to invest in and how much will go into those chosen funds. There are hundreds of variable annuities, offering thousands of mutual funds, available in todays marketplace.

An annuity, either fixed or variable, can be contributed to in two different ways. The investor can make one lump sum purchase in which case he or she is said to have paid a **single premium** or periodic investments can be made which are referred to as **flexible premiums**. Because the income taxes on the interest and earnings are deferred an annuity is referred to as a **Single Premium Deferred Annuity, SPDA**, or a **Flexible Premium Deferred Annuity, FPDA.** These purchase options are available for both fixed and variable annuities.

Any investor can invest funds in an annuity just as they might invest in stocks, bonds, savings accounts, CDs or life insurance. If the funds they use come out of their bank account or other after tax investment accounts, they have established a **non-qualified annuity**. This opportunity is available to all of us.

There is another program for annuity investing that is restricted to those who work in the education, health care and not for profit fields. In these programs, established under sections **403(b)** and **501(c)3** of the Internal Revenue Code, those employees can use pre-tax income to invest in **qualified annuities.** The way this program functions is that contributions are deducted from the investors salary prior to income taxes being taken out (but not Social Security and Medicare taxes) and invested in their annuity plan. These plans are often referred to as a **Tax Sheltered Annuity (TSA)** or **Tax Deferred Annuity (TDA).** These are very popular and successful wealth building investment programs. The advantage of using pre-tax funds to invest in tax deferred investments, essentially paying yourself first, can produce fantastic long term results. There is also a part of this law that allows investment directly into mutual funds and invested funds may also be rolled into an Individual Retirement Account (IRA) under certain circumstances.

So there they are; fixed or variable, flexible premium or single premium, qualified or non-qualified. They are all annuities and there is probably a right one for you.

At **H.Joseph Sgroi and Associates** we devote extensive amounts of time and energy examining and evaluating today's annuities. We want our clients invested in the best ones of the right type. We also want our clientele to understand their investments and hope this article helps. If you do have any questions, please feel free to call our office - we'd be glad to assist you.☺

SALARY REDUCTION AMENDMENTS ☺☺☺

Effective immediately, there is no limit on the number of