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BUREAU REPORT



✓ APR 23 1991
SERIALS UNIT

Midwestern State University Bureau of Business and Government Research

Volume 2 March 1991 Number 1

New and Improved, Bigger and Better...

It is often over used but it best describes the changes beginning with this issue of the *Bureau Report*. We will continue to provide the latest local economic data. We will also strive to present that information in an even more readable and understandable format, with an emphasis on practical business applications. We will strive to make the *Bureau Report* a quarterly exchange of ideas and information between the academic business community at Midwestern State University and the business community of north Texas. We hope you like our changes. If you have suggestions, or ideas, please contact us at the Bureau of Business and Government Research.

Monster Directory to Include Every Business in Wichita Falls

Expected Benefits...

- ☛ Free Information on Your Business.
- ☛ Improved Economic Forecasting
- ☛ Help Bring New Business Into Area

The Bureau of Business and Government Research is currently creating a directory of all businesses in the Wichita Falls area. It will contain a wide variety of general and economic information on each business listed. Kept as a database the directory will be updated once a year for use by both the public and private sector. The information will be used for development programs, as source of information for both buyers and sellers interested in our area, and for economic research.

The Bureau has compiled a list of businesses from a variety of sources. Over the next couple of weeks a questionnaire will be sent

to each business in Wichita Falls (Your business' questionnaire is in this issue of the Bureau Report, if not please contact us) to complete the directory.

The information on sales and number of employees will be held in the strictest confidence and will only be used for our economic research to help compare the sizes of various sectors of our economy. When the directory goes to press only broad categories will be printed, such as "between 5 and 10 employees" exact numbers will NOT be printed. The directory, once published, will provide a unique source of information on the business community of Wichita Falls.

Each business operating in Wichita Falls will have a listing in the directory. Companies who return a questionnaire will have a full listing of information printed. (Those who do not choose to participate will have only standard information printed.)

For example:

XYZ Company Inc.
1234 East South Street,
Box 987,
Wichita Falls, TX 76307

Monster see page 2

This Issue...

Your Copy of the Business Survey *Inside*

Annuities: Before You Buy *Page 2*

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Monster from page 1

(817) 696-1234

[C, 19xx, 2, 3]

John Doe pres

Jane Doe vp

James Doe mgr

Toll free: (800)696-2345

Fax: (817)696-3456

SIC Codes: 1234 9876 5555

(Parent company information)

Most of the information in each listing is fairly self-explanatory with the exception of the data in the brackets and the SIC Codes. The information in the brackets shows the type of ownership (C for corporation), year started, and the employee (2 = [5 to 10 employees]) and sales categories. Standard Industrial Classifications (SIC Codes) are used to categorize businesses. Up to four management names can be printed along with up to five SIC Codes.

Your participation will help our community grow. Return postage is guaranteed and you can help us save 7 cents of the government's money by taping your questionnaire along the bottom edge, instead of stapling. If you have any questions please contact us at 692-6611 ext. 4365.

ANNUITIES: BEFORE YOU BUY

**By Dr. Ralph Fritzsch and
Dr. Neal VanZante**

Annuities are presently one of the most widely-sold insurance products. They provide significant tax advantages and are widely used as

a retirement savings vehicle by financial planners. However, like all other types of investments, they have characteristics which make them suitable only in particular situations.

There are two types of annuities: immediate and deferred annuities. An immediate annuity is designed to provide immediate income. After an initial deposit, you begin receiving payments for a length of time you select. Each payment consists of both interest earned and part of the original principal. Conversely, a deferred annuity is an investment contract with an insurance company which allows income to accumulate for a substantial period of time before disbursements begin. There are two stages in a deferred annuity: the accumulation period, when your annuity grows on a tax-deferred basis; and the income period, when you start receiving payments. Basically, annuities offer the same tax benefit as a non-deductible IRA except individuals may invest as much as they wish.

Tax-Deferred Vs. Tax-Free
Recognize that a major advantage offered by annuities is the tax deferral of earnings. This may offer a significant advantage to individuals who will be in a lower tax bracket at the time the funds are withdrawn. It offers only a small advantage to individuals who will not be a lower tax bracket. Because of the reduction in the number of tax brackets since the 1986 tax reform, most retirees will probably be in this situation.

An alternative to investing in tax-deferred annuities is investment in tax-free municipal bonds, either directly or by purchasing shares in mutual funds or unit trusts. These investments provide income that is truly tax-free. In addition, there are no penalties for early withdrawal or earnings on tax-free securities. The offset is a significantly lower rate of return than offered by tax-deferred annuities.

Comparing Tax-Deferred and Taxable Yields
A comparison of tax-deferred versus taxable income accumulation can often produce misleading results. A recent pamphlet on deferred annuities compares the amounts which may be accumulated in a tax-deferred annuity versus a taxable investment at the end of ten years assuming an initial deposit of \$50,000 and an interest rate of 8%. The amounts are \$107,946 in the tax-deferred annuity as compared to \$87,535 in the taxable savings account (or based on the lower yields of a tax-free investment) - a significant difference seemingly favoring the deferred annuity. However, the footnotes in this same pamphlet explain that unless taxable at that time. Assuming a 28% tax bracket, this would result in taxes of \$16,225, thus reducing the value of the tax-deferred annuity to \$91,721. And, unless the recipient is over age 59 and 1/2 or is disabled or is a beneficiary upon death, there is a 10% penalty tax imposed by the IRS. If the penalty applies, this reduces the value of the tax-deferred annuity by another \$5,795 to \$85,926, which is \$1,609 less

than the amount available in the taxable savings account.

Combination Annuities Another recent pamphlet suggests that you may get the best of both kinds of annuities by purchasing a combination annuity. With a combination annuity, you actually split your initial premium between an immediate and a deferred annuity. An illustration shows how you can make an initial deposit of \$50,000, receive "income" of \$417 (of which only 16% is taxable) per month for five years, then still have \$50,000 available. A note indicates that, if you choose another combination annuity after the first annuity matures, you will be subject to the 10% IRS penalty on the interest received on the immediate annuity if you are younger than 59 and 1/2. And, unless you buy another annuity, you are subject to income tax on the growth in the deferred annuity portion.

The point is that you should recognize a combination annuity for what it really is - an immediate and a deferred annuity purchased as a "package". If you determine that there is an advantage to you of holding both an immediate annuity and a deferred annuity, then a combination annuity is also to your advantage. However, the artificial combining of these two types of annuities does not create any additional advantages.

Consider Other Factors A major advantage of an annuity contract is the promise of a secure return which does not expose the

investor to the fluctuations of the financial markets. However, most contracts offer a guaranteed rate which is significantly lower than the initial rate paid (which often is the basis for the projections used to market the investment). The investor is therefore exposed to possible future declines in yield. The only way out of this situation often involves the payment of substantial surrender charges. In the case of a fixed-rate contract, the investor should therefore consider the period for which the contract rates is guaranteed. He should also consider the surrender charges for early termination. A desirable feature found in many contracts (called a "bailout clause") allows for termination without penalty if yields decline below a specified level. (1:14)

The security of the investment should also be considered. Several insurers offering high annuity yields have been able to do so by investing heavily in junk bonds. High ratings by A.M. Best Co. are probably the best indicator of safety. (3:135) Remember, there is no federal insurance on this type of investment, although some states do have guaranty funds.

Who Should Buy Annuities ?

Deferred annuities probably offer the most advantages to individuals who have substantial lump-sum amounts to invest for retirement (2:130). Due to the substantial tax and other penalties associated with early withdrawal, the investor should also be reasonably certain that the funds will not be needed

until reaching age 59 and 1/2. During retirement, an immediate annuity with a lifetime payment option offers the significant advantage of a guaranteed amount of monthly payments for the rest of your life. You do not have to worry about using up all your principal as you would if you invested in a taxable savings account.

Summary: Annuities represent a good investment alternative under some circumstances. But, you need to be aware of what you are buying when you invest in an annuity. You should seek to learn more about investments and investment management. More information about annuities and other investment opportunities may be obtained by contacting almost any certified public accountant, attorney, financial planner or financial consultant.

Dr. Fritzsich is a professor of Accounting at M.S.U. Dr. VanZante is Chairman of the Department of Accounting at Texas A&I.

Sources

1. Pond, Jonathan D., editor. "Managing Your Money", Management Accounting. February, 1989, pp. 14-15.
2. Segal, Troy. "Old-fashioned Annuities with New-Fangled Features", Business Week. August 15, 1988, p. 130.
3. Updegrave, Walter L. "Annuities: How to cut Through The FlimFlam", Money. April, 1988, pp. 129-35.

The Bureau of Business and Government Research is...

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Selected Business Statistics Wichita Falls, Texas

	1984	1985	1986	1987	1988	1989	1990	Jan.91
Building Permits Issued¹								
Total Number	1585	2427	1446	1657	788	727	670	n/a
Total Value (\$000)	45,954	68,943	40,950	31,105	28,873	20,799	49,270	1,463
New Residences¹								
Number	428	341	141	111	70	93	77	2
Value (\$000)	14,909	18,589	9,995	7,296	4,806	7,331	6,502	138
Help Wanted Ads (Inches)²	45,088	35,877	29,179	32,085	48,439	48,737	44,387	3993
Sales Tax Allocated (\$000)³	6,493	7,057	6,515	5,912	6,509	6,909	6,790	397
Employment (Avg.)⁴								
Civilian Labor Force	57,300	56,775	56,508	57,028	57,492	56,783	56,158	
Unemployment	2,942	3,383	4,658	4,458	3,608	3,467	3,400	
Unemployment Rate %	5.13	5.90	8.24	7.79	6.28	6.11	6.03	
Natural Gas Consumed⁵								
(Millions of cubic feet)								
Residential	2,034	1,904	1,704	1,788	1,807	1,767	1,234	*
Commercial	1,197	1,076	984	1,013	1,018	1,006	723	*
Industrial	4,893	5,162	5,609	8,054	8,901	9,799	6,240	*
Natural Gas Customers (Avg.)								
Residential	24,624	24,367	24,092	23,661	23,467	23,357	23,196	*
Commercial	2,454	2,507	2,606	2,623	2,581	2,532	2,508	*
Industrial	30	31	30	29	27	27	28	*
Water Used⁶								
(Millions of gallons)	8,158	7,090	6,999	7,570	8,219	7,910	7,913	

Notes: 1 City of Wichita Falls. 2 Wichita Falls Times & Record News. 3 John Sharp, Texas Comptroller of Public Accounts (City Only).
4 Texas Employment Commission, Wichita Falls MSA. 5 Lone Star Gas Co. (WF County) * Through Oct.90. 6 City of Wichita Falls

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