



The Rep Letter

Dated November 2014

A BIRD IN THE HAND IS WORTH TWO IN THE BUSH – DON'T YOU BELIEVE IT!

In the body of our last Rep Letter we opined that a \$500,000 producer at a traditional firm being offered an upfront bonus of \$750,000 on a seven year forgivable loan basis to move to another traditional firm, would be significantly better off in year seven moving instead to many independent firms. How could this be? Well, let us examine the numbers.

This producer receives a check for \$750,000 upon moving their business. Assuming a seven-year forgiveness period, this represents a forgiveness sum of \$107,145 per annum generating an annual tax liability of \$38,575 per annum (assumed 36% combined tax rate). This is a taxation liability of \$270,000 over the seven years, and therefore a **net of \$480,000** on the original \$750,000 "signing bonus." Keep in mind that this producer is an employee, and probably has little or no means of offsetting tax on the original loan.

If instead, this producer moved his or her business to one of the many independent platforms available the situation is far different and somewhat more complicated.

Making some assumptions, a \$500,000 producer nets \$200,000 per annum before taxes (assuming a 40% payout). At an independent firm, this producer will gross \$475,000 before taxes and expenses (assuming 95% payout). This independent producer should set aside say \$75,000 for business expenses (office, secretarial expenses, licensing and so forth), and perhaps up to an additional \$40,000 for clearing expenses). This leaves a net before taxes of \$360,000 or a net payout increase of about 80%! This represents a before tax payout increase of \$160,000 x 7 or \$1,120,000 or \$370,000 more than the "signing bonus" paid by the traditional firm.

This could not get any better, right? Well, it does. The newly minted independent producer incorporates and establishes a defined benefit plan, or series of retirement plans into which he or she deposits say \$100,000 annually (tax deductible to the corporation). This plan accumulates \$700,000 in tax deferred dollars over the seven years placed into a plan with far more flexibility than the traditional firm's 401K plan.

The future is very bright for those with the vision and ability to take advantage of it. Please call us concerning your particular situation.

Michael C. Jordan
President

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Polar Investment Counsel Inc. is an independent broker dealer.

The firm's senior principal, Michael Jordan has over forty years of industry experience.

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