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## AICPA News & Views, January 2, 1996

American Institute of Certified Public Accountants (AICPA)

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# NEWS & views

JANUARY 2, 1996 • For the Employees of the American Institute of Certified Public Accountants

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## TEAM IN THE SPOTLIGHT

### Tax Information Phone Service (TIPS) Picks Up January 17



Wednesday, January 17, the AICPA will begin a new service for Tax Section members and professionals in Private Company Practice Section firms. This is a pilot program that, initially, will only be open to these two membership sections, but the program is intended to expand to include all members within the next two years. Starting on January 17, with the assistance of the Tax Information Phone Service (TIPS) Team, Tax Section and PCPS members will be able to access expert, up-to-date tax information for a fee.

"The AICPA will have a new member service available to these sections to satisfy the existing need for tax technical information services. The service is like having a complete tax research facility down the hall." Says TIPS team leader Anat Kendal.

Kendal explains that TIPS will offer both general and specialized assistance. General assistance will include help from TIPS team members using state-of-the-art research tools, including three CD-ROM towers

### Brown Bag 5 in Harborside This Friday

The fifth brown bag luncheon will be held this week at Harborside on Friday, January 5, in Conference Room 1, starting at 11:30 A.M. The brown bag luncheon series was initiated by Barry Melancon so that Team AICPA members would have a forum where he could directly address their concerns and hear their ideas directly from them. Below is the guest list for this Friday's luncheon. Anyone who would like to have a particular issue addressed by the President this Friday should contact one of these people.

- |                   |                                   |
|-------------------|-----------------------------------|
| Celeste Booth     | Software Development              |
| Teresa Dillon     | Meetings & Travel                 |
| Denise Graham     | Credit and Collections            |
| Cynthia Hiris     | Library Services                  |
| Doug Kadow        | Telecommunications                |
| Ed Lanigan        | Direct Sales                      |
| Palma Mongello    | Production Services               |
| Michael Montez    | Materials Assembly & Distribution |
| Gary Morales      | Facilities Management             |
| Rita Novick       | Membership Administration         |
| Josh Perlett      | Communications/Public Relations   |
| Katherine Rangoon | Production—Periodicals            |
| Ben Shubov        | Information Services              |
| Yvonne Steele     | Examinations                      |
| Joseph Todd       | CPE Production                    |
| Irving Valentine  | Distribution Services             |
| Anne Wagenbrenner | Magazines and Newsletters         |

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## List of Day Care Centers Near the AICPA

In response to staff members' inquiries, the Human Resources division has compiled the following list of day care centers reasonably close to the offices of the AICPA. The AICPA has in no way investigated the quality of these establishments, nor do they vouch for the standards of care that they provide. However, each of them holds itself out as a licensed child care center. Two of these centers, Buckle My Shoe and Children's Discovery Center, provide some part-time and/or emergency services for parents who may not want to sign their children up for full-time day care. Interested parties should call the establishments directly.

### Near Harborside

#### BABY BOOMERS DAY CARE

Children 2½-6 yrs old  
7:30 am-6:00 pm  
15 Brinkerhoff, Jersey City  
(201) 432-8663

#### BABY WORLD

Children 6 wks-5 yrs old  
7:00 am-5:30 pm  
485 Ocean Avenue, Jersey City  
(201) 433-4838

#### FRANCISCAN SISTERS OF SAINT ELIZABETH

Children 6 wks-5 yrs old  
7:00 am-6:00 pm  
129 Garrison Avenue, Jersey City  
(201) 795-1443 / 432-4877

#### KIDDIE KORNER INFANT CENTER\*

Children 6 wks-6 yrs old  
7:30 am-6:00 pm  
136 Garfield Avenue, Jersey City  
(201) 435-1899

#### KIDDIE KORNER LEARNING CENTER\*

Children 2½-4 yrs old  
7:30 am-5:30 pm  
513 Bramhall Avenue, Jersey City  
(201) 332-1423

#### THE CENTER OF ATTENTION

Children 2 months-8 years  
6:30 am-6:00 pm  
50 Baldwin Avenue, 3rd Floor, Jersey City  
(201) 915-2217

\*Member of Hudson County Chamber of Commerce

## Training for Team AICPA—January 1996

Below is a training calendar for the month of January. Please contact Gabi Ulloa at extension 6180 if you are interested attending any of the classes it mentions. Look for a special edition next week of News & Views focusing on new opportunities to receive training.

15	16	17	18	19
Office Closed		Calendar 9 a.m.-12 noon or 1:30-4:30 p.m.	Internet	Powerpoint
22	23	24	25	26
Transition to WP6.1 9 a.m.-4:30 p.m.	Time Management— Organizer (NJ) 9 a.m.-1 p.m.	Time Management— Planner (NJ) 9 a.m.-1 p.m.		Lan Windows 9 a.m.-12 noon or 1:30-4:30 p.m.
	Advanced Lotus for Windows 9 a.m.-4:30 p.m.			
29	30	31		
Beginning Lotus for Windows 9 a.m.-4:30 p.m.	Beginning WP6.1 9 a.m.-4:30 p.m.	CaLANdar 9 a.m.-12 noon or 1:30 p.m.-4:30 p.m.		

# Understanding Sales Charges When Buying Mutual Funds

By Phyllis Bernstein, Personal Financial Planning Team

The sales practices of “investment professionals” have received increasing attention lately from regulatory agencies, news media, and investment product providers themselves. The glossary that follows will assist you in understanding sales charges.

- 1 Sales Charge:** Any charge or fee used to finance sales or sales promotion expenses, including front-end, deferred and asset-based payments made by the fund under a 12b-1 plan. Expenses incurred for administrative or record-keeping activities and management fees are not considered sales charges.
- 2 Front-end Sales Charge:** A charge included in the public offering price of the shares of an investment company.
- 3 12b-1 Plan:** A plan adopted [pursuant to an SEC rule under the Investment Company Act of 1940. This rule permits mutual funds to pay distribution expenses out of fund assets under specified conditions.
- 4 Asset-based Sales Charge:** A sales charge deducted from the net assets of mutual funds under the terms of a 12b-1 plan.

**5 Contingent-deferred Sales Charge:** A sales charge that is deducted from the proceeds of the redemption of shares by an investor. The charge decreases in amount over time (as the amount of time the shares have been held increases) and eventually disappears.

**6 Redemption Fee:** A nominal charge to cover administrative services in connection with a redemption—discourages short-term trading. These charges are (1) typically credited to the net assets of the fund, (2) not used to finance sales-related expenses, (3) not considered deferred sales charges.

**7 Service Fee:** A payment by a fund for personal service to shareholders or for maintenance of shareholder account. Transfer agent, custodian and similar fees are not considered Service Fees.

As you look at the costs of particular investment product you need to consider that some mutual funds have a front-end sales charge that you incur and pay for at the time of sale. For funds with an asset-based charge (12b-1 fee) or a contingent-deferred sales charge, which may

also incur sales related expenses at the time of the sale, some of the revenue stream is delayed to defray expenses. The subject of investment product sales charges has served as a popular topic of ongoing discussion. The controversy is certain to continue. Since 1989, mutual fund expenses, charges and fees are displayed in a standardized format in the prospectus. The format illustrates how the charges would affect a hypothetical \$1,000 investment. This makes comparison of portfolio costs possible. I encourage you to look at the “big picture”—sales charges and other investor costs such as management and 12b-1 fees.

Buying a load mutual fund means in essence you are “hiring” a professional financial advisor who not only provides advice and direction regarding the investment portfolio design—but also services the account over time. The key to a successful client-advisor relationship is that your advisor is “up-front” and honest by displaying integrity and professionalism in explaining the structure of costs associated with the investment product, you will not be surprised by unknown expenses.

*Editor's Note: This is the first in a series of articles contributed by the Personal Financial Planning Team that will appear periodically in News & views.*

## Class Confusion?

These are the most common classes of mutual funds.

**Class A:**

Ante Up—

Invest \$1,000 in Class A fund that carries a 5% front-end load. The \$50 load is a 5.3% commission on your \$950 net investment. Negotiate a discount off of the front end load if you invest over \$25,000 and escape it if you have over \$1 million to invest. If you plan a long-term holding, invest through A shares.

**Class B:**

Back End Loads—

No up-front sales charge. Known as Contingent Deferred Sales Charge (CDSC). Fee depends on how long you hold the shares. Declines 1% annually: longer shares are held, the smaller the load. Charge usually vanishes after 6 to 8 years.

**Class C:**

Continuous Loads—

No front-end loads. Annual load and may also levy a back-end load. Level loads in the form of 12b-1 and administrative fees. Appealing to short-term investors.

**Class D:**

Loads from Every Direction—

Front-end load, and back-end load, and annual load.

**An Example of How Classes Relate:**

Invest \$10,000 for 25 years, which class is best?

**Class A** carries a 5 percent front-end load.

**Class B** features an annual 12b-1 fee of 0.75 percent plus a back-end load that starts at 4 percent and declines 1 percent each year until it is gone.

**Class C** has a 1 percent annual 12b-1 fee.

**Class D** hits you with a 1% front-end load and annual 12b-1 of 0.50 percent. Assume an average annual return of 10% before loads and 12b-1 fees, which class represents your best option?

If you selected **class A**, congratulations! Your \$10,000 investment would grow to \$102,930 versus \$95,717 for class D, \$91,314 for class B; and \$86,231 for class C. Here's the bad news: if you held your investment for only 5 years, class A would be your worst option and class D your best.

**What's An Investor to Do?**

Understand Class Differences because confusion can be costly.

**Rule of Thumb**

Add up loads based on the number of years you expect to own the fund. In the 25 year example: class A adds to 5 percent (lowest and best), class B is 18.75 percent (2nd worst), class C is 25 percent (worst) and class D is 13.5 percent (second best).

**No-load Advantage: An Example**

You pay \$10,000 to buy shares of a load fund with an 8.5% sales charge, you are paying \$850 in commissions to a salesperson and only \$9,150 of your investment purchases fund shares. With a no-load fund, all \$10,000 goes toward the purchase of shares. The difference in growth can be significant: No-load grows to \$25,937 vs \$23,732 for load.

**Load vs. No-load Funds**

If you buy a mutual fund from a broker, it will probably be a load fund. No-load funds, which you buy directly from the mutual fund company, have no commissions but may charge fees to cover sales and marketing costs.

**MILE SQUARE DAY CARE CENTER/NUESTRO NINO DAY CARE CENTER**

Children 3 mo.-4 yrs old—Bi-lingual; 7:30 am-5:30 pm  
3rd & Garden, Hoboken (201) 659-6086/ 656-8317

**PATRIOT LEARNING CENTER\***

Children 3 mo.-5 yrs; 7:30 am -5:30 pm  
30 Newport Parkway, Jersey City 201-926-8888

**Emergency/Part-Time Child Care Centers**

**BUCKLE MY SHOE LEARNING CENTER**

For Children 1 yr-5 yrs; 8:00 am-6:00 pm  
230 W. 13th Street, New York (212) 807-0518  
Requirements: Parent must meet with director Linda Ensko, pre-register child, provide records of immunization for child, and pre-pay on monthly or annual basis the amount of time child will be attending day care.

**CHILDREN'S DISCOVERY CENTERS**

For Children 3 yrs-12yrs; 7:30 am -7 :00 pm  
5 World Trade Center, New York (212) 432-6806  
Regular part-time child care, but not emergency child care for individuals.

**Near the New York Office**

**CHILDREN'S ALL DAY SCHOOL & PRE NURSERY**

Children 6 mo.-6 yrs.  
8:00 am-6:00 pm  
109 E. 60th St., New York (212)752-4566

**LYCEUM KENNEDY FRENCH SCHOOL**

Children 3yrs-6 yrs; Bi-lingual French-English  
20 W. 44th Street, New York  
For hours and other enrollment information  
(212) 730-0868

**STEPHEN WISE FREE SYNAGOGUE**

**EARLY CHILDHOOD CENTER**

Children 1<sup>1</sup>/<sub>2</sub> yrs-5 yrs  
8:30 am-3:00 pm/3 days a week after-school programs  
30 W. 68th Street, New York (212) 877-4050

**Near Washington Office**

**KIDS FIRST ON K STREET**

Children 6 weeks-5 years  
7:00 am-6:30 pm  
1441 K Street, NW, Washington (202) 289-5437

**OWL SCHOOLS & DAY CARE CENTERS**

1317 G Street, NW, Washington  
For registration information, call (202) 783-3582

**Spotlight,** *continued*

with 21 disk drives containing comprehensive tax research materials from top tax publishers. These team members will also have access, of course, to the AICPA's library and on-line tax databases. For questions that involve highly complex facts, tax rules of a specialized industry, or a written opinion, callers will receive the names of up to three Tax Section or PCPS firm members with specific knowledge in their area of inquiry. It will be the responsibility of the caller to arrange a compensated engagement between himself or herself and the referred CPA.

TIPS will be operational from 9:00 am to 5:00 pm (ET) Monday through Friday. Tax Section and PCPS firm members may reach TIPS by calling a "900" number, which will be publicized to those members upon an initial mailing and news releases. The standard charges will be \$2 per minute, with \$1 per minute surcharge during the peak period of January 15 through April 15. During this tax season, however, the surcharge will be waived until February 15.

TIPS asks that Team AICPA refer Tax Section and PCPS members to the 900 number, which will be published just prior to commencement of the service. If members need additional assistance, they should be referred to Michelle Carroll at extension 3982.

**TIPS is inviting Team AICPA members to an open house in their offices on the 2nd Floor of Harborside from 9:00 am to 5:00 pm on Friday, January 12.** This event will give team members an overview of the new service and answer any questions they may have. TIPS will also share a cake with Team AICPA that day in the Harborside cafeteria to celebrate the debut of the new service. TIPS invites Team AICPA members in the New York and Washington offices who will not be able to come to Harborside for the TIPS open house, or anyone else seeking additional information, to stop by their offices another time or to contact Anat Kendal at extension 3555.

**Check Your Pay Envelope Next Week**

Team AICPA members will find attached to their January 11th pay envelopes some information regarding changes in how their checks will be calculated, effective January 1, 1996. Among the differences people will notice, those who made changes in their 401(k) plan contribution amounts and those who opted to participate in the flexible spending account program will see this reflected in their pay checks. Also, as it was announced last month, there will be a slight increase in the gross pay for all full-time employees due to Payroll's switching to a 260 work-day year and there will be some changes in the amounts people contribute to healthcare plans.

