Negotiating Alimony "Buy Out" Payments

This screen tells you the "buyout" (present value) amount in today's dollars that would be equivalent to the alimony payments Michael is planning to make.

These are the alimony buyout amounts:

$ 26,045 Buyout equivalent amount (present value) for Lisa.
$ 26,722 Buyout equivalent amount (present value) for Michael.

Click here if Lisa's numbers are different from Michael's (they often will be different).
Click here if you know the current value (e.g., a "property settlement" amount) and want to find the alimony amount.

The calculation of buyout amounts is based on the following inputs:

1. Alimony payments per month (*):

	Tier 1	Tier 2	Tier 3
Alimony per month ($):	500	0	0
Until year:	2008	0	0

(*) **Note:** These alimony numbers are actual amounts. Any changes you make here will be reflected throughout the program.

2. Pre-tax rates of return on investment. (We suggest a rate. Feel free to enter a different rate.)

5.00 Pre-tax rate of return for Lisa.
5.00 Pre-tax rate of return for Michael.

3. Marginal tax rates. (This is the current marginal federal tax rate and the state's highest marginal rate. Feel free to enter different rates.)

Marginal federal 15.00 and state 0.00 tax rates for Lisa.
Marginal federal 33.00 and state 0.00 tax rates for Michael.

The buyout amount is calculated as follows:

1. Calculate Discount Rate = Rate of Return on Investment * (1 - (Federal Tax Rate + State Tax Rate)).

4.25 Discount Rate for Lisa.
3.35 Discount Rate for Michael.

2. Calculate Discount Factor = 1/(1+Discount Rate).

0.9592 Discount Factor for Lisa.
0.9676 Discount Factor for Michael.

3. Apply discount factors to the payment stream. Present Value of 2nd year payment = Payment * (Discount Factor squared). For third year, present value is Payment * (Discount Factor cubed). And so on. Cumulative present value is simply the sum of the present values from each year.

	Lisa			Michael	
Year	Annual Payment	Present Value	Cumulative Pres. Val.	Present Value	Cumulative Pres. Val.
2004	5,500	5,276	5,276	5,322	5,322
2005	6,000	5,521	10,797	5,617	10,939
2006	6,000	5,296	16,092	5,435	16,374
2007	6,000	5,080	21,172	5,259	21,633
2008	6,000	4,873	26,045	5,089	26,722
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