

Giving While Living – The Buffett Way

Who hasn't wanted to be in Warren Buffett's shoes? He's already one of the smartest investors on the planet – now he looks like one of the smartest givers as well.

Buffett's decision to donate the bulk of his \$40 billion Berkshire Hathaway fortune to five foundations is unusual not only for its size, but for its thought process. Buffett, 76, said he planned to give the lion's share to the Bill and Melinda Gates Foundation starting immediately because it offered a critical mass of assets, infrastructure and strategy to solve problems faster. It's also significant for another reason – Buffett chose to start giving while he was alive. What's the advantage? Not only will you realize potential tax advantages, but something more important – you can set an example for family members and see the good you can do while you're alive.

You don't have to be a billionaire to benefit from Buffett's "giving while living" strategy. "Thousandaires" can benefit too. Here are a few ideas to pull from Buffett's playbook on making charitable giving as a lifetime strategy.

Talk it over first: A visit to a qualified financial and tax adviser is a good first step in the giving process no matter what your age or assets. No matter how much money you have to give away, it makes sense to examine giving as part of your lifetime asset management and estate planning strategy.

Do your research: Warren Buffett probably had no trouble getting financial statements from his buddy Bill Gates. Yet any charity of quality should have detailed financial records available to potential donors. You'll want to see its audited financial statements and federal Form 990, which shows the charity's tax status, programs and how it spends its funds. Before you donate, always see how efficiently they're giving money away – for instance, if the charity is spending more than 35 cents of every dollar donated on operating expenses, be wary. There are also Web sites that can help you check out various charities: www.Guidestar.org, www.Give.org, www.Charitynavigator.org, www.Charitywatch.org and are among the leaders.

Figure out if you'll need income from your gift: It is possible to give **and** receive. Yet while Warren Buffett doesn't necessarily need to draw income from his donations, you might need income and there are ways to do that with tax advantages besides. The following solutions are complicated, and you might want to start talking with a financial planner first to evaluate your entire financial picture, then involve an attorney or tax professional:

- *Charitable gift annuities* allow a donor and a charity to enter into an annuity agreement that will allow payments back to the donor that may be partially or all tax free;
- *Charitable remainder trusts* allow someone to donate cash or appreciated property to a trust that can sell the property and distribute proceeds to the donor on a tax-advantaged basis;
- *Life estate agreements* let someone with a home or farm keep living there while they receive a tax deduction for the gift. When they die, there may be savings in probate costs and estate taxes;
- *Pooled income funds* are offered by many established mutual fund companies and allow you to deposit money now for distribution to charity in the future while allowing you to receive tax-advantaged income.

Making a gift to a foundation or a charity: To get more bang for his buck, Buffett donated his money to existing foundations. If you know of a foundation doing what you want to do, see first if it checks out on a financial and performance standpoint, and then see what its policies are toward accepting donations. Not all foundations accept donations from the general public (the Gates foundation actually doesn't).

Consider that charity is not all about money: A giving strategy can be about time and expertise, not just money. Charitable giving should involve an exploration of values first and how the giver – and possibly the giver's family – should be involved in the process over time.

-30-

August 2006 - This column is provided by the Financial Planning Association® (FPA®) of San Diego, the membership organization that connects those who need, support and deliver financial planning. We believe that everyone is entitled to objective advice from a competent, ethical financial planner to make smart financial decisions. Please credit FPA of San Diego if you use this column in whole or in part.

The Financial Planning Association is the owner of trademark, service mark and collective membership mark rights in: FPA, FPA/Logo and FINANCIAL PLANNING ASSOCIATION. The marks may not be used without written permission from the Financial Planning Association.

Financial Planning for a May-December Relationship

Whether it's about the younger woman marrying the older man or the younger man marrying the older woman (Ashton/Demi anyone?) the financial planning issues in May-December relationships require much more detail work.

It's not a simple issue of playing the odds on longevity. If the couple has kids, the death of a spouse can be cataclysmic - and despite the probabilities, the older parent doesn't always die first. Even without kids, the effect of poor financial planning can be devastating to the surviving spouse.

Marriage between contemporaries is tough, but a 20-to-30-year age difference can make it a whole new ballgame. For couples far apart in age considering a trip to the altar, here are some issues to consider:

Consider a prenup: Yes, a prenuptial agreement will protect you to varying degrees in case of divorce. But it has an important secondary benefit – it will force both of you to think about all the financial issues not only if you split, but if one of you becomes incapacitated or dies. Good financial advisers in the prenup process should take you through all possible worst-case scenarios you might face during your married life. You'll have to disclose your assets, liabilities and money goals and how you'll provide for kids you want as well as kids from previous marriages. You'll also be forced to think about what could happen if one of you becomes sick or permanently disabled and how you'll feel if you're still working 10 years after your spouse retires. Even if you agree not to do a formal prenup, treat the process as a necessary first step in planning well for the future.

Life insurance, life insurance and life insurance: Yes, older spouses will pay more for it, but life insurance is critical for both spouses. It's not just about the older spouse dying first. If the younger spouse dies, what happens to the kids if the older spouse passes away before they're on their own? A financial planner can help couples work through these scenarios and find the right insurance options.

Consider long-term care insurance: You both may stay healthy as horses well into your 90s, but end-of-life care is always expensive. Most nursing home stays last two years and cost well over \$100,000 per person. Can you cover that cost out-of-pocket? If not, talk about long-term care insurance options.

Women need to become more aggressive investors: According to the U.S. Census Bureau, the average age of widowhood is 55. Though the longevity gap between men and women will probably narrow in the future, women still need to plan for a longer retirement than men. Add the cost of raising kids as a single parent and other household expenses and retirement can become a distant dream for surviving spouses. Make sure both of your retirement strategies are reviewed for all possibilities before you say "I do."

Inventory survivor's benefits now: It's not a terribly romantic subject, but it makes sense to see what you might get from public and private sources if your spouse dies. For instance, you are eligible to receive survivor benefits from the Social Security Administration if your spouse dies and your children are minors. If you are both working, it's definitely worth a trip to your company's human resources department to talk through survivor's benefits offered by your respective employers.

Get your wills, health directives and beneficiary information in order: Young couples often wait a few years until talking about wills, right-to-die and other issues tied to mortality. Couples with big age differences can't afford to wait. Plan it now, and when your marriage is official, make sure you execute new wills, healthcare powers of attorney, medical directives and up-to-date beneficiary information on all your joint and separate assets.

Same-sex couples need to devise specific plans: Same-sex couples – particularly those with wide gaps in age - need to pay particularly special attention to financial planning and their legal status. That's even more important if they are starting families. Longevity issues for same-sex couples (men dying sooner/women living longer) need to be taken into account for all areas of financial planning as well as estate and child custody issues that are generally challenging for gay and lesbian parents.

-30-

August 2006 - This column is provided by the Financial Planning Association® (FPA®) of San Diego, the membership organization that connects those who need, support and deliver financial planning. We believe that everyone is entitled to objective advice from a competent, ethical financial planner to make smart financial decisions. Please credit FPA of San Diego if you use this column in whole or in part.

The Financial Planning Association is the owner of trademark, service mark and collective membership mark rights in: FPA, FPA/Logo and FINANCIAL PLANNING ASSOCIATION. The marks may not be used without written permission from the Financial Planning Association.

Packing Your Kid Up for College? Teach Them Money 101 Before They Go

A generation ago, the only grave concern most parents had about their college-bound kids and numbers was how much they'd spend on pizza and beer. Today, it's the fear that their kid could be headed to bankruptcy court by the time they're ready to graduate.

As the new school year approaches, it's a good time for parents to conduct a money class for their kids, even if they've made their best effort to teach money lessons before. Why? Because money savvy for the average 18-year-old can evaporate against all that freedom.

Consider new student week on most campuses. Tables set up in the student union by the nation's credit card issuers stretch as far as the eye can see. (In a 2002 study, Nellie Mae, the Braintree, Mass. student loan organization, estimated that 83 percent of all college students had at least one credit card.) Late-night pizza runs add up. And there's an ATM on virtually every corner waiting to dispense cash at warp speed – for a fee.

While your kid is making his or her list of stuff to cram into the back of the car, use this list as a last-minute money curriculum for your student:

Talk about bank accounts: Students generally should set up a checking account on campus, but talk to your kid about debit options and fees, particularly for overdrafts. Also ask your child to ask the bank about direct-deposit options if you're planning to deposit money for their tuition or agreed-to spending needs. Some universities also have their own credit unions. You may want to encourage your child to open an account and begin a relationship with their own credit union.

Help them make a budget: Help your kid develop a tentative budget for school. Use all the information you both currently have at your disposal – the amount of spending money your child has in his own accounts, any amount you supplement and any other source of funds. Work together to determine necessary realities about everyday expenses, tuition and financial aid. Buy them financial planning software if necessary (and tell them to put a password on their computer so roommates and "guests" can't access the information). Then tell your kid that when he or she comes home at Thanksgiving, you will sit down again to review those figures and make reasonable adjustments. You obviously need to trust your kids, but you might want to do this for as long as it takes them to develop solid and consistent money habits.

Co-sign that credit card: Co-sign the credit card but keep it in the kid's name. That way, you'll be alerted to financial missteps before they get too serious. Consider prepaid cards as well as lower-limit credit cards. Do whatever it takes to convince your child not to sign up for any credit cards on campus, no matter what the card company is giving away as incentives.

Discuss your kid's work plans: If your child is working part-time while going to school, you should always be on top of how that's affecting his schoolwork. If your child is planning to work during the summers only, you need to have a conversation about that at winter break so your child can start pitching for the highest-earning jobs and internships related to his field, which will help him get a leg up in the full-time working world.

Talk about identity theft: Personal financial data left on laptop computers, cell phones and other electronic devices can be readily stolen on campus or in a dorm or roommate environment. Tell your kid to keep all paper records in a safe place and introduce passwords to keep all their digital information safe.

Start summer vacation with a financial checkup: Sit down with your kid and review their budget. Let them petition for more funds for expenses they feel are necessary in the coming year. If you're not willing to foot the bill, talk about how he or she will earn their way toward those goals. And introduce a new summer tradition – the credit report check. For as long as you're supporting your child, you should ask them to request their annual free credit reports from the three agencies and the both of you should review them for possible errors. They can request those reports at www.annualcreditreport.com.

-30-

August 2006 - This column is provided by the Financial Planning Association® (FPA®) of San Diego, the membership organization that connects those who need, support and deliver financial planning. We believe that everyone is entitled to objective advice from a competent, ethical financial planner to make smart financial decisions. Please credit FPA of San Diego if you use this column in whole or in part.

The Financial Planning Association is the owner of trademark, service mark and collective membership mark rights in: FPA, FPA/Logo and FINANCIAL PLANNING ASSOCIATION. The marks may not be used without written permission from the Financial Planning Association.