

Planning Smart

Fall 2006

PLANNING SMART IS A FEATURE OF OUR *BECAUSE YOU CARE NEWS* newsletter. Our goal is to provide you with additional information on the complicated financial, tax, and estate matters that affect you every day. Each issue is prepared by attorney Conrad Teitell, a nationally recognized estate planning and charitable giving attorney.

Getting Sound Financial Advice

From time to time the financial press tell of market analysts outperformed by darts thrown at the stock market quotation pages. It's a good story, but most of us don't take such a casual approach when it comes to our investments. People without the time or expertise to make those important decisions may want to seek financial counsel—but how to choose the right adviser?

Financial planner or money manager?

That choice depends on the services you're looking for. A *financial planner* can help you set long-term investment goals such as assuring retirement income, providing for the future of loved ones, or paying for education, and determine the dollars you'll need to achieve your objectives. A financial planner also may manage your investments for you.

If you already have a road map to your financial future, you are ready for a *money manager*, a specialist in financial markets who can provide valuable advice on specific investments. Some advisers provide both financial planning and investment services; some financial advisers will select appropriate money managers for you

and monitor the performance of those managers.

How are they compensated?

Money managers receive fees for their advice or commissions on the financial products you buy on their recommendations—and sometimes both. Their fees may be based on the time spent on your account (billed at an hourly rate), a percentage of your assets under management, or a percentage of the income those assets generate.

Financial planners often charge a flat fee for an investment plan—anywhere from hundreds to thousands of dollars, depending on the complexity of your financial affairs. Some planners receive commissions when you make an investment based on their recommendations. That's not necessarily a conflict of interest, but it's an arrangement you should be informed about.

Know about business connections

Many financial advisers are affiliated with brokerage houses, insurance companies, or both and refer business to them. Some may run businesses that sell financial products. Again, these arrangements are not necessarily a conflict of interest, but it's important to know about an adviser's affiliations before hiring him or her.

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**THE HUMANE SOCIETY
OF THE UNITED STATES**

 **The Fund for Animals**
we speak for those who can't

Getting Sound Financial Advice

Control of your assets

You can give a financial adviser varying degrees of control over your assets.

- A *nondiscretionary money manager* may be the right choice if you want investment advice but plan to trade on your own. Your approval would then be required for any transaction completed by the manager.
- A *discretionary money manager* can make investments without your approval for each transaction. You then have the option of granting *limited* or full power of attorney over your funds. Limited power allows the manager to buy and sell for your account but not to remove funds.
- *Full power of attorney*—think hard before granting any adviser the ability to withdraw assets from your account.

Get recommendations

Ask for suggestions from professionals whose judgment you respect—accountants, bankers, and lawyers. Also ask friends and family. It's important to have an adviser you'll feel comfortable working with—someone who takes phone calls and is responsive to your needs.

Interview advisers

Meet with the candidates. Ask for information before the meeting—a resume summarizing education and experience, memberships in professional organizations, the amount of assets under management, the number and type of clients served. Tell the advisor about your current financial situation and investment objectives.

Ask about the adviser's investment philosophy and past investment performance. How are accounts reviewed? What type of financial products is the adviser registered to sell in your state? Has the adviser ever filed for bankruptcy, been sued by clients, or been subject to disciplinary actions?

What access will the adviser have to your assets? How is he or she compensated? What about affiliations with other investment businesses, stockbrokers, or insurance companies?

The National Association of Personal Financial Advisors provides a free "Financial Planner Interview Form" at www.napfa.org.

Don't be bashful

Reputable professionals are always willing to provide references and information about themselves and their firms. Don't do business with anyone who won't.

MAKE A GIFT AND INCREASE YOUR INCOME

Funding an HSUS charitable remainder unitrust with long-term appreciated assets is truly bread cast upon the waters.

The benefits

- You get income for life.
 - There's a sizable tax deduction (if you itemize) in the year you make the gift based on the current value of your assets, not the cost basis. The deduction is for the value of The HSUS's right to eventually receive the trust assets, taking your age into account and using Treasury tables.
 - You can add to your charitable remainder unitrust from time to time, if you choose.
- You save capital gains tax you would have paid on the sale of stock or real estate to get out of low-yielding investments or diversify. The trust can also sell and reinvest assets without paying tax.
 - You have the benefits of professional money management and no investment concerns.
 - If your estate would be subject to federal tax, there are substantial savings.
 - You have the satisfaction of making a significant lifetime gift to further The HSUS's mission.

Here's how it works

You irrevocably transfer securities, cash, or unmortgaged real estate to a trust that will pay you income for life. Your unitrust can also provide life payments for a survivor. Then the trust assets go to The HSUS.

Your income

Your payments are determined by multiplying the fair market value of the trust assets as valued each year by a fixed percentage that you select at the outset.

A potential hedge against inflation

The annual amount you receive reflects any increase in trust asset value. If trust income is less than the stated percentage, principal or capital gains can make up the shortfall. If the value of the assets should go down, payments decrease.

Learn more

We'd like to detail, without obligation, the benefits of a charitable remainder unitrust or other life-income gift for you. Just let us know the amount of your contemplated gift and your date of birth.



Are You Covered?

If a fire or natural disaster destroyed or damaged your house, would you have enough insurance coverage to rebuild? Or would your policy protect you if your dog bit a neighbor?

The most common homeowners policy (according to the Insurance Information Institute) is known as HO-3. Here are answers—based on that policy—to some frequently asked questions about homeowners insurance.

Am I covered for loss due to fire, lightning, windstorms, hail, explosions, smoke, vandalism, and theft?

HO-3 provides broad coverage for those and other “perils.” But check the dollar limits and ask about certain storm deductibles.

Are jewelry and other valuables covered?

A standard policy provides only \$1,000 to \$2,000 for theft of jewelry. You can add a “floater” with a higher limit to cover specific pieces and other valuable possessions.



If my house is totally destroyed, will I have the money to replace it?

That depends on the type and amount of coverage you have. The HO-3 policy pays the *replacement cost* for structural damage up to the amount specified in your policy. Determine that cost by talking to builders in your area and get sufficient coverage. If your policy

pays only the *actual cash value* of the house you would get the replacement cost less any depreciation—perhaps not enough to rebuild. If you don't rebuild, HO-3 pays the actual cash value.

Am I covered for floods or damage if a pipe bursts?

Damage caused by plumbing failure is covered by HO-3, but flood damage is not covered by standard policies. Flood insurance is available from the federal government. Call your agent or FEMA at 1-800-427-4661.

What about earthquakes?

Earthquake coverage is sold only as *additional* coverage to a standard policy.

If my dog bites a visitor or a neighbor, does my policy protect me?

You're covered if you, a family member, or your pet causes injury or damages the property of other people. Coverage includes legal costs and any court award—up to the limit of your policy. The standard amount of liability protection is \$100,000, but experts recommend at least \$300,000 in coverage.

What if a tree falls during a storm and damages my roof?

You're covered for damage to the roof and removal of the tree (generally up to \$500). If the tree does no damage to your house, you might be able to claim removal costs only if access to the house was blocked.



My golf clubs were stolen from the trunk of my car. Is that covered?

HO-3 covers personal property loss anywhere in the world. But unless you have replacement cost coverage, you'll get only the actual cash value of the clubs—probably not enough to buy a new set.

I have a small powerboat. Am I covered if the boat is stolen or there's an accident and I'm sued?

Coverage for theft or liability depends on the size of the boat, the engine's horsepower, and your insurance company and varies significantly. Ask your agent if you need a boat owners policy.

As with a will, living trust, and other important matters, your insurance coverage should be reviewed periodically.

Insurance policies differ and we've discussed only common questions; call your agent to make sure that you're adequately covered.



SAFE ELECTRONIC BANKING

ATM withdrawals and deposits, direct bank deposits, automatic withdrawals, and point-of-sale transfers

using debit cards or electronic check conversion have become a convenience of everyday life. Electronic fund transfers (EFT) use computer and electronic technology instead of checks and other paper transactions to let you (or authorized users) access your bank account.

EFT for recurring payments

Many people now arrange for monthly payments to be charged to a credit card or withdrawn from their bank accounts for such recurring expenses as phone and utility bills or mortgage payments. The big advantage—saving the time and expense of writing and mailing paper checks.

Credit card vs. bank account

Arranging to pay bills by credit card is a better way to protect your money. You share bank information with fewer vendors and credit card payments provide a safety net. And it's easier to dispute a mistaken charge before paying it instead of having the money withdrawn immediately. For both bank account and credit card EFTs, it's essential to check your statements carefully for errors.

Changed your mind about automated payments? Here's how to stop:

- Notify your financial institution at least three business days before the scheduled transfer. The notice should be in writing, but some banks allow oral notice with a written

follow-up within 14 days.

- The consumer must notify a vendor directly to stop credit card charges.
- When terminating either a bank or credit card recurring payment, don't assume transfers have stopped. Check your statements.

The Electronic Fund Transfer (EFT) Act offers these consumer protections

Unauthorized bank account withdrawals

You have 60 days from the date your periodic statement was sent to report a problem or error such as an unauthorized withdrawal from your account. Inform your financial institution by certified mail, return receipt requested, and keep a copy of your letter.

A lost or stolen ATM or debit card

Unlike a stolen credit card where liability is limited to \$50, loss of an ATM or debit card can cost you much more depending upon how promptly you report the loss (orally or with written follow-up):

- Before the card is used, you have no responsibility for any transfer
- Within two days you're not responsible for more than \$50
- Within 60 days after your statement is mailed you could lose up to \$500
- After 60 days you risk unlimited loss

No help with a problem purchase

When you pay by electronic transfer, the EFT Act doesn't give you the right to stop payment if the merchandise is defective or your order isn't delivered. It's just as if you had paid cash; you have to resolve the problem with the seller to get your money back.

Protecting the protection of all animals

THE HUMANE SOCIETY OF THE UNITED STATES



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2100 L Street, NW, Washington, DC 20037
1-800-808-7858 • www.hsus.org/gifts

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