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THOUGHTS ON FINANCIAL PLANNING

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We do not write financial plans at Baltimore Capital Management, but I have always had a keen interest in financial planning and am a Certified Financial Planner. There are many theories of financial planning, and they seem to be constantly changing. I thought I would share a few of current interest:

Saving for children's or grandchildren's education is a facet of financial planning that is often in transition. The traditional Uniform Gift to Minors account has become a far less attractive savings vehicle for children than it used to be. Today the so-called "529 Plan" is the preferred vehicle for such savings, and has some interesting estate-planning characteristics as well. Not only does the money put into such accounts compound tax-free, but when it is withdrawn it remains untaxed provided it is spent on education. The limits for contributions to these accounts are high and often provide a useful way to reduce an estate.

For those individuals that qualify, ROTH IRA accounts are a great way to save for retirement. The income grows tax-free and is taken from the account in the end with no tax. I have found that these accounts are also a great way to save for children. If your children or grandchildren have summer or other jobs with earned income (a paycheck is needed so cash for babysitting will not count), you can establish a ROTH IRA for them and match up to \$3000 of that income per year. This creates a tax-free benefit that could compound for over 45 years. The compounding effect of even a small amount of money for that time period is huge.



As for retirement accounts, 529 Plans are all the rage and they should be. Money goes into them pre-tax and compounds tax-free until withdrawn, at which point it is taxable. Contributions into these accounts can be as high as \$15,500 this year and are usually from a payroll check. As with most savings, the earlier in your career you start, the better.

While trusts and wills can be very powerful ways to protect one's family, if your estate is very simple with few beneficiaries a Transfer on Death Account is a good and economical alternative to setting up a trust. Most brokerage companies and banks permit these accounts. It is as simple as signing a form stating that when you die your account transfers to a particular person. In order to effect the transfer, that person presents a death certificate and the money is moved to their account. This simple process avoids probate, which is the process that a state makes you follow to settle an estate. Probate can tie the money up for months and in some cases as much as a year or more.

Clients often ask me if they have enough money to retire. It's a difficult question for which there is no simple answer, in part because multiple variables affect the response. For example, at what age do you plan to retire? Do you expect to maintain the same lifestyle or plan to be frugal and live for less than while actively working? Will you work part-time when you retire? All of these factors affect the key question, which is determining a reasonable and sufficient amount to withdraw from your account(s) on a yearly basis. There are many models to help arrive at this number, but most conclude that withdrawing 5% of a growing account per year will probably preserve principle. If you do not have beneficiaries, a larger withdrawal in the latter years may be appropriate.

Financial planning is an interesting endeavor, and may at times seem intimidating given all the options that are available and the variables that play into making the optimum choices for each individual. Nevertheless it is an undertaking that is well worth the effort, for the security and protection it may offer you and your loved ones in the future.