CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

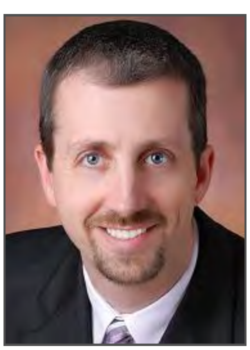
You Don't Need To Be A Billionaire To Be A Philanthropist

Courtesy of Craig Willeke, LUTCF, CLTC

We can't all be Bill Gates, but we can all be philanthropic. Here are a couple of creative and fun charitable ideas to consider.

Give to a classroom. What better way to spend your charitable dollars than to help teachers help kids? At DonorsChoose.org, you get your pick of teacher-proposed projects, from outfitting a media center with computer chairs to buying magazine subscriptions for seventh-graders. You can donate to one project or spread the wealth among several; DonorsChoose makes the purchase and sends it to the teacher. For your contribution, which is tax-deductible, you'll get pictures of the students and feedback on how the project is helping them.

Volunteer on vacation. Use your next vacation to give something back. The Sierra Club offers environmental and historical-preservation trips throughout the country starting at about $400. For example, the program fee is $545 for a weeklong habitat-restoration project in May to remove non-native plants in Point Reyes National Seashore, in California. Meals and accommodations in a rustic boathouse are included. Round-trip airfare might run another $300 to $400. Other weeklong projects include wildlife habitat work in Arizona's Altar Valley ($695) and restoration of historic homesteads in Antietam National Battlefield, in Maryland ($695).



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Higher 401(k) contributions in 2013: You can contribute $17,500 to a 401(k) retirement plan in 2013—up $500 from 2012. If you are 50 or older, you can add another $5,500 as a catch-up contribution.

Convenience checks have high costs, we hear from credit card expert Bill Hardekopf, CEO of LowCards.com, which compares and rates credit cards. Offers from card issuers to use these checks, which are linked to credit card accounts and can be used to get cash or make purchases, have proliferated. *Little noticed:* There is a fee, usually 3% to 4% of the check amount…typically you will be charged the interest rate for a cash advance, often above 20%, once any low-rate introductory offer passes…purchases using these checks normally do not earn rewards and don't include purchase protections…exceeding your credit limit will hurt your credit score and could cause the check to bounce. *Best:* Shred the checks, and ask the card issuer to stop sending them.

Social Security changes for 2013: Recipients receive a 1.7% cost-of-living adjustment, boosting the top monthly payment to $2,533. The annual cap for earnings subject to Social Security rises to $113,700.

"Creditors have better memories than debtors."

— Benjamin Franklin

Estate Planning… At Long Last

By Jill Schlesinger, Tribune Media Services

Finally, after a decade of not knowing what would happen to federal estate taxes, lawmakers settled the matter when The American Taxpayer Relief Act of 2012 became law.

With the enactment of the new law, the basic exclusion amount will permanently remain at $5.12 million and will adjust higher with inflation in the future, and the tax rate will increase to 40 percent.

Clarity on the estate tax means that there's no excuse for failing to prepare or update your estate documents now. Here are some basics to consider with your legal advisor:

WILL: A legal document that ensures your assets are passed to your designated beneficiaries, in accordance with your wishes. In the drafting of the will, you will name an executor, the person or institution that oversees the distribution of your assets.

Your will can itemize where every asset will go, or you can draft a Letter of Instruction, which details your wishes as an attachment to your will. A Letter of Instruction can make it easier to change your mind about distributions without having to re-draft the entire will.

If you have minor children, you want to name a guardian for them in your will. If you die intestate (without a will), your state of residence will determine what happens to your estate and who should raise your kids. That potential alone should prod you to get going with the process.

PROBATE: The legal process by which a state court officially appoints the executor and accounts for the deceased's property and assets, as well as debts. Probate is a public process, which can be lengthy and costly, but it usually goes fairly smoothly as long as the estate is not contested by any heirs.

POWER OF ATTORNEY: The form that allows you to appoint someone to act as your agent in a variety of circumstances; like executing a trade; withdrawing money from a bank; or responding to a tax inquiry.

TRUSTS: Like a will, a trust can be used to transfer assets and detail your wishes to your heirs. There are various types of trusts, but the one that is often used to avoid estate taxation for married couples is called a "Credit Shelter Trust." This type of trust is structured so that each spouse can utilize his or her basic exclusion amount, thereby allowing couples to pass up to $10.24 million federal-estate-tax-free to their heirs. A gross estate can add up quickly when life insurance proceeds and real estate assets are included.

Many people prefer to use trusts, even if their total estates are below the tax limit, because assets held within trusts avoid probate. A trust may also allow a maximum amount of control over disposition of those assets.

Because these are legal documents, it is worth the money to hire an estate attorney to draft them. To keep your costs down, make sure you know how you want your assets distributed before you set foot inside the lawyer's office. The whole process often takes only 5 to 10 hours, a relatively small investment of time considering the importance of the issue.

Key To Investing: Identifying Relevant Risks

By Elliot Raphaelson, Tribune Media Services

There are different types of risk. The major ones are interest rate, credit, inflation, currency and market—and any one of them may affect you differently than it affects other investors.

Interest rate risk can be understood by this inverse relationship: When interest rates increase, bond prices decrease, and vice versa. If you invest in the bond market, changes in interest rates can have a significant impact on the value of your portfolio. Long-term bonds are more volatile than short-term bonds.

Credit risk refers to the potential loss in investment value when a corporation's or government's credit rating is downgraded.

Inflation risk is an all too familiar concept to savers today. Short-term investments such as Treasury bills and money market instruments currently yield less than 1 percent. Even if inflation is 3 percent a year —a historically low rate—a portfolio of these "safe" investments will erode in value by more than 2 percent a year.

Currency risk refers to the possible loss in your portfolio based on changes in the value of currencies relative to the U.S. dollar.

Market risk refers to the possible investment loss due to fluctuation in security prices for other reasons. Fluctuations can occur within an entire asset class or for a specific security you own. The value of an investment may fall because of general market conditions, poor earnings, new tax regulations or unfavorable industry projections. If you invest in commodities such as gold and silver, you are also subject to market risk because of the price volatility of the underlying commodity.

You have to take some market risk to obtain capital growth, but you shouldn't take more risk than you can afford. You should look at the price stability of any asset class you are considering investing in to make sure that you can afford short-term fluctuations in value, and thus do not have to bail out at the wrong time. Diversification is crucial.

When developing a long-term investment plan, take a hard look at the risks and make sure you are taking the right ones and avoiding the inappropriate ones. For example, if you are in the early stages of your career and need to save for retirement, it may not make a lot of sense to have a large portion of your investment in low-yielding Treasury bills losing more than 2 percent a year to inflation. If you are near retirement, with a significant capital base, you should be more mindful of market risk—i.e., having too large a percentage in more aggressive investments.

With a good understanding of the risks, you likely will not have to make significant changes on a year-to-year basis, other than rebalancing.*

**Diversification or rebalancing does not assure a profit or prevent losses in a declining market.*

"The government is doing you a favor. If they didn't take most of your money, you'd have to find time in your busy schedule to spend it yourself."

According to Bottom Line Personal magazine, you can get rewards for "checking-in" to stores. Free smartphone check-in apps such as *ShopKick, CheckPoints, EasyShift* and *WeReward* give you points for walking into a store, scanning a bar code on a specific product and other activities. The points can be redeemed for gift cards, frequent-flier miles, gadgets or online cash. The app must be running when you enter the store to get points, but you don't have to make a purchase. However, if you do buy something, you often will receive in-store coupons or other additional promotions.

Average home prices have hit all-time highs in some US cities, according to LPS (Lender Processing Services). Even though prices in most of the US still are way below their peaks, prices in more than 100 metropolitan areas, including Pittsburgh and Anchorage, hit their peaks in June and July of 2012. Another 50 areas, including Austin, Denver, Indianapolis and Portland, Maine, are within 2% of their peaks at the end of 2012 according to LPS. For more information, search online for "LPS Home Price Index."

"The money you have gives you freedom; the money you pursue enslaves you."

— Jean Jacques Rousseau

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Can I Use Money in My 401(k) to Pay for Home Repairs?

By Kimberly Lankford, Kiplinger's Money Power

Q: *My house was damaged in a big storm, and I need to make major repairs, some of which won't be covered by homeowners insurance. Most of my savings are in my 401(k). Can I withdraw money from the account to cover the costs?*

A: You generally can't withdraw money from a 401(k) until you leave your job. But because you need the cash for home repairs caused by storm damage, you may qualify for a hardship withdrawal. The rules for hardship withdrawals vary widely from plan to plan. Some plans don't allow them at all. Others let you take up to the amount you have contributed if you need the money to satisfy a "heavy and immediate financial need," according to the IRS, for major expenses such as home repairs resulting from a casualty loss (which includes storms, fires and floods), a home purchase, or uninsured medical expenses. Your employer may require documentation of the cost.

There are disadvantages to most hardship withdrawals. Not only are you drawing down retirement savings, but unless the money comes from a Roth 401(k), it will be fully taxed in your top tax bracket and you will also owe a 10-percent early-withdrawal penalty if you are younger than 59 1/2. In most cases, you must stop making new 401(k) contributions for up to six months after taking out the money (that requirement was waived for Hurricane Sandy victims).

Instead, take a 401(k) loan. Generally, you can borrow 50 percent of your balance, up to $50,000, for any reason without taxes or penalty, and you have five years to repay the loan. The interest goes back into your account. One caveat: If you leave or lose your job, you usually have just 60 to 90 days to repay the loan or it's taxed and subject to a 10-percent penalty if you are younger than 55.