Parsec Financial
WEALTH MANAGEMENT

Visit us on the web:

parsecfinancial.com

Read our blog, see copies of previous newsletters, view your quarterly reports, and more!

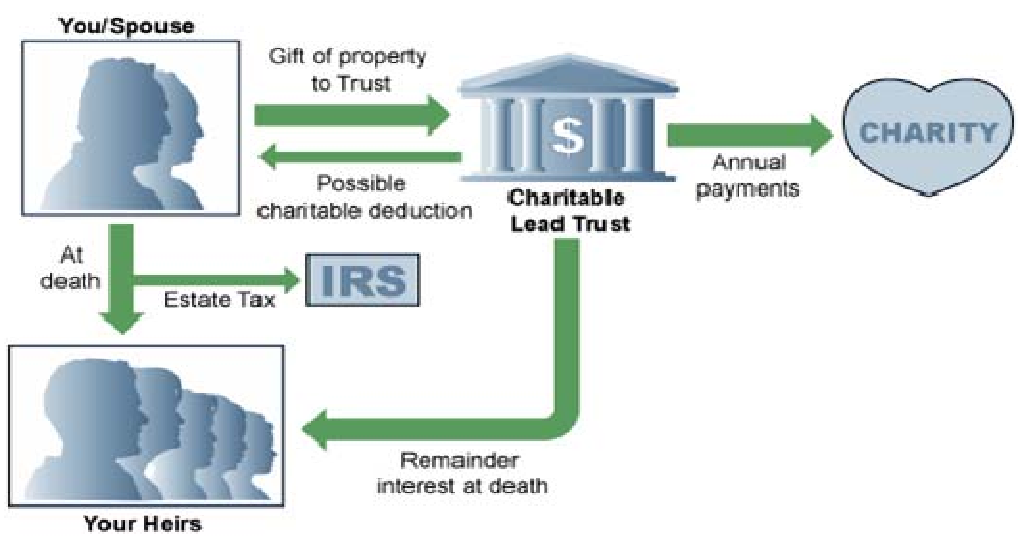
Inside this issue:

Third Quarter 2013

What's Hot in Charitable Trust Planning?

Interest rates remain at historical lows. If you are interested in making charitable gifts, here are some viable options. Be sure to contact your financial advisor for more information on the type of charitable plan that fits your goals.

Charitable Lead Trusts
A Charitable Lead Trust (CLT) allows you to gift assets to heirs at a discounted gift value and provide a consistent annual gift to charity. A CLT can be set up for a term of years or your lifetime. During its term, it pays an income stream to the charitable organization and upon termination, your chosen heirs receive the remaining trust assets.



Example
Bob has $1 million worth of assets he expects to appreciate considerably in the future and he would like his children to inherit them. Bob estimates that if he holds onto the assets, they could be worth $4 million in 15 years, increasing his total estate value and creating about $1.6 million in estate taxes. He decides to gift the assets to his children now and avoid the increased estate tax bill.

continued on page two

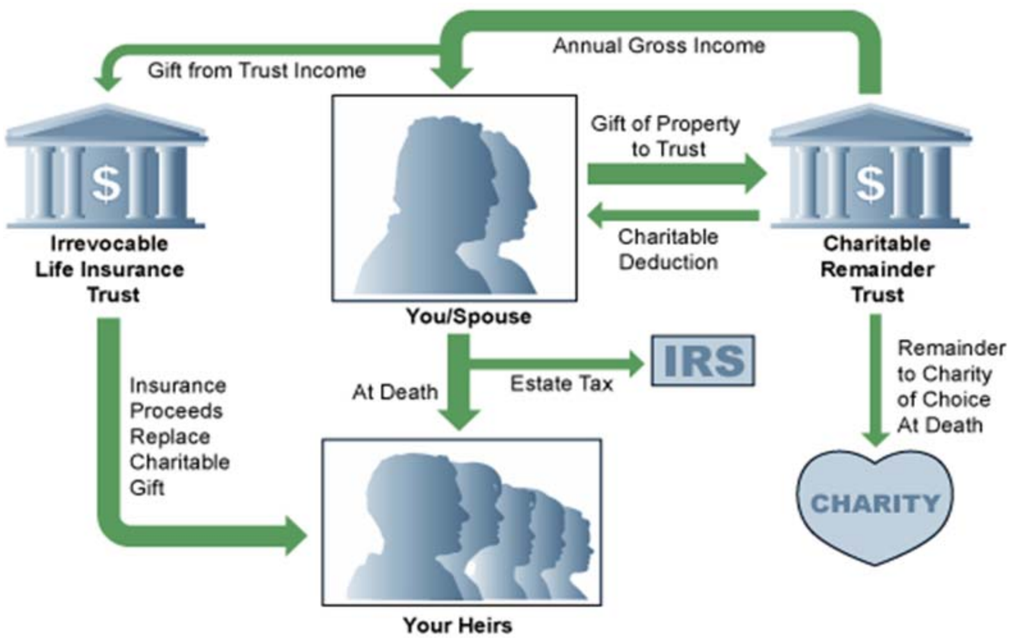
What's Hot in Charitable Trust Planning?

continued from page one

To save even more on taxes, Bob decides to use a CLT. He gifts the $1 million of assets into the CLT with a $70,000 annual payout for 15 years to his favorite charity (actual valuation depends on the current IRS discount rate). Let's assume that the IRS rate results in the gift being valued at $400,000. Bob's unified credit covers the gift tax on $400,000. If the assets grow by more than 7 percent, Bob's children could receive much more than $1 million in 15 years even though the gift only cost Bob tax (or the use of his exemption) on $400,000.

The result: The charity received a significant gift, Bob's children ultimately receive the assets and Bob used a small portion of his estate and gift tax exemption on the current, discounted value instead of $4 million.

Charitable Lead Trusts and Low Interest Rates
The tax efficiency of many types of charitable planning suffers in a low interest rate environment. But Charitable Lead Annuity Trusts (CLATs) are **more** tax efficient with a low interest rate. Your tax deduction (estate/gift and income with a certain type of trust) is higher and the use of your gift and estate tax deduction is lower.



Example
Barbara purchased stock 10 years ago for $200,000, which now has a value of $500,000, but the stock dividends have shrunk. One option is to sell the stock and invest the money in a fund that would pay a larger income. However, if Barbara decided to sell the stock, she would owe $45,000 in capital gains tax.

continued on page three

What's Hot in Charitable Trust Planning?

continued from page two

Another option is to set up a charitable trust. She can donate the stock to the trust, which would allow for the stock to be sold without capital gains tax because of its tax exempt status. In addition, Barbara would be able to claim a charitable income tax deduction.

In this case, the trust is set up to pay Barbara 7 percent of the value of the trust annually for the remainder of her life. During the first year, Barbara receives $35,000, and thereafter she receives a payout based upon 7 percent of the value of the principal each year. The amount will vary depending upon how well the investment and money management of the trust succeeds.

CRUTs and Low Interest Rates
The federal "discount rate" has a negligible effect on a CRUT. Contact your financial advisor for assistance with making your charitable gift work for you in a tax efficient way.

Conclusion
As you can see, there are multiple options for charitable donations. If donating to charity is important to you, your financial advisor will be able to explain all of your options so you can make a decision that is right for you and your family.

Parsec Financial is a Trust Representative Office (TRO) of National Advisors Trust (NATCO). Content for this article was provided by NATCO.

We have a team of advisors here at Parsec with trust experience who are available to assist with any trust-related questions. Please contact your advisor so we can assist you with any questions or concerns.

Parsec Prize 5K Returns This Fall

by Cristy Freeman, AAMS
Senior Operations Associate

The Parsec Prize 5K is a big event for us. For the third year in a row, we plan to hold the race in the fall. It will be held, rain or shine, on Saturday, October 12.

Each year, Parsec donates the "Parsec Prize" to charities in the Asheville and Charlotte areas that support economic development, educate the community, help the environment, and provide assistance to those in need. Since the Prize began in 2005, over $530,000 has been distributed via the Parsec Prize award.

The race gives that year's award winners an opportunity to raise more money. Each participant selects which of the Prize recipients receives his or her entry fee.

The race begins and ends in front of our building on Wall Street. Runners enjoy the sights of the historic Montford area through which the race passes.

We hope you will consider joining us. Please check our website in August for registration information.

Medicare and Medigap: What Does It All Mean?

by Barbara Gray, CFP®
Partner

There are a lot of decisions to make when you become eligible for Medicare. If you are approaching age 65, you should have received a wealth of information via the U.S. Mail. You can also find abundant information at http://www.medicare.gov.

The Medicare system is divided into parts—Part A, Part B, and Medigap plans. What does it all mean?

Part A is for hospital care. It covers inpatient, skilled nursing, home health, hospice, and other areas detailed on http://www.medicare.gov.

Part B is for physician services, outpatient hospital services, home health, medical equipment, laboratory work, and X-rays.

If you are still working and participating in a work-related healthcare plan, you can decline Medicare Part B. You must enroll in Medicare Part A, even though you are enrolled in a plan at your office. Please remember to report to your local Social Security office that you will remain enrolled in your employer's health care plan. Otherwise, there is a 10% penalty added to your Medicare Part B premium for each year that passes by.

If you are not participating in a work-related healthcare plan, you have some work to do. You will enroll in Medicare Part B as well as Part A. There is no premium for Medicare Part A if you have worked more than 40 quarters. (If your work record does not satisfy this requirement, then you can purchase Part A at full or reduced cost, depending upon your work record.) Part A also has a deductible.

For Part B coverage, you will pay a premium, via deduction from your Social Security payment. The premium is based upon the income shown on your previous year's tax return. Medicare Part B pays 80% of the approved amount of each service, and the beneficiary pays 20%.

Some people obtain a supplemental policy to help with the costs Medicare Parts A and B do not cover. A Medicare Supplement Policy, commonly known as a Medigap plan, is sold by private insurance companies. Such plans cover expenses for hospice care, skilled nursing facility coinsurance, the Medicare Part B deductible, et cetera.

Medigap plans are standardized – the benefits are identical, regardless of price. The website I mentioned offers more information about Medigap plans. It is always important to read the fine print.

Confused? A Seniors Health Insurance Information Program (SHIIP) is available. Medicare counselors can assist in selecting a Medigap plan. The North Carolina website is: www.ncdoi.com\shiip.

On North Carolina SHIIP site, you will find a spreadsheet that lists insurance companies' offering each plan and the prices. For example, the prices listed for Plan F range from $336.79 to $1,134 annual premiums, so it pays to shop around.

The Council on Aging of Buncombe County also offers free assistance. They can be reached at 828-277-8288. If you do not live in this area, you may have similar agencies in your community.

Medicare is a confusing system. Fortunately, resources are available to assist you.

Housing Demand is Helping the Economy Grow

by Dr. James F. Smith
Chief Economist

Few things are more important to the health of the US economy than a vibrant housing sector. While housing has always been one of the most cyclical parts of the economy because of its reliance on mortgage financing, it has usually been a leading factor in lifting the economy out of recessions. This time around, it took quite a while for housing to move into its traditional role.

Real spending on residential investment subtracted from real GDP growth from the first quarter of 2006 (well before the most recent recession began in December 2007) through the second quarter of 2009, which coincided with the end of the recession that June. Then it bounced around between small additions and small subtractions from real GDP growth through the first quarter of 2011.

For the past two years, residential investment has made positive contributions to real GDP growth every quarter. The overwhelming majority of economic forecasters expect this to continue for many years to come.

There are many reasons to expect the demand for housing to keep growing. The most basic is the simple demographic truth that the number of households in the US grows steadily. There are about 1,250,000 new household formations every year. Most people prefer that their adult children move out of the house as soon as possible. They also prefer that their parents don't move in to replace the children leaving.

Of course, to turn potential demand for housing into effective demand requires two things. The potential homeowner needs to have both enough savings for a down payment and enough income to pay the principal, interest, taxes and insurance on the house. Also, some entity has to be willing to provide a mortgage.

Housing affordability has rarely been better than it is now. While mortgage rates have risen lately, they are still near 90-year lows. A family earning the median income (about $62,000 a year) has around twice the income needed to buy a median-priced home (around $193,000 today) with a 30-year, fixed-rate mortgage and 20.0 percent down. The National Association of REALTORS® publishes these data every month on their website (realtor.org).

While existing home sales dominate the total number of housing transactions by about five to one, it is the million or so new single-family houses that make the biggest contribution to GDP. That's because a single-family home requires more labor, wood and other construction materials as well as household furnishings like appliances, carpeting and window treatments than does purchasing an existing home and fixing it to meet your preferences.

After declining from 2006 through 2011, house prices have finally begun to rise again. The latest report from the Federal Housing Finance Agency (fhfa.gov) showed that the prices of the same house rose 7.2 percent in the year ended in March 2013 from a year earlier. That was the largest increase since May 2006.

Rising prices for existing homes push people who are thinking about buying a house into the market before prices rise further. They also help bail out the 25.4 percent of all homeowners

continued on page six

Housing Demand is Helping the Economy Grow

continued from page five

with a mortgage whose equity was negative in the first quarter according to Zillow research (zillow.com).

All this activity in buying homes should see the national homeownership rate finally rise again. According to the April 30 Census Bureau report (census.gov), that rate was 65.2 percent on a seasonally adjusted basis in the first quarter of 2013. That was the lowest since the 65.3 percent rate in the first quarter of 1996. The peak was 69.2 percent in both the second and fourth quarters of 2004.

Rising housing demand is very good news for the US economy. It should last for a long time.

Understanding Your Portfolio's Performance

by Travis Boyer, CFA
Financial Advisor

In the days of 24/7 financial news networks, it is easy to feel bombarded with market data and confused when it comes to knowing what data is related to your investments. Our "Market Update" posts in Parsec's blog summarize the most widely quoted market index returns and those we believe are most applicable when it comes to comparing your portfolio's performance to the overall market.

However, you cannot just take your portfolio's performance and bump it up next to one of the major index returns to judge how well your accounts are doing (and how well we are doing in managing your assets). This is because our client portfolios hold multiple asset classes. If you compare your overall portfolio to one index, you are potentially comparing a globally diversified portfolio to perhaps the S&P 500 (which only tracks performance of large U.S.-based companies). Or, if you have a fixed income allocation, then you are comparing a portfolio that contains a portion of bond returns to an index of all stock returns.

In your quarterly reports, we provide a listing of your net-of-fees overall portfolio performance, and then we segregate your equity performance and your fixed income performance (if your portfolio holds bonds). Surprisingly enough, we find that many firms in our industry do not readily provide this information to clients (along with a detailed fee invoice which we also provide each quarter). Beneath your portfolio's returns, we list the returns of several indices which I will explain below:

Russell 3000 Index: Tracks the returns on 3,000 of the largest publicly traded companies in the U.S.

MSCI EAFE Index: MSCI is a firm that provides market data, and this index tracks returns of 22 developed nations across the globe, namely in the Europe, Australasia, and Far East (EAFE) regions.

S&P 500 Index: Tracks the returns on 500 of the largest publicly traded companies in the U.S.

Barclays Intermediate Govt/Credit Index: Tracks the returns on intermediate-term US

continued on page seven

Understanding Your Portfolio's Performance

continued from page six

government bonds and investment grade corporate bonds.

Barclays Muni Bond Index: Tracks the returns on long term bonds issued by municipal governments in the United States.

For a client with a 100% equity allocation, we believe the most comparable indices are the Russell 3000 and the MSCI EAFE. The Russell 3000 includes the performance of medium- and small-sized companies (a blend of which we allocate to all portfolios); whereas, the S&P 500 only reflects the performance of the largest U.S. companies.

The MSCI EAFE Index is one of the most widely quoted international indices, and generally our portfolios allocate 15-25% of the equities allocation to international companies. The main goal behind this strategy is obtaining global diversification which over time should reduce portfolio risk since U.S. markets don't always perform the same as international stock markets. You will see lately that international stocks have underperformed relative to U.S. stocks, which makes comparing a globally diversified portfolio to a U.S. index look less favorable. However, we believe that, over time, the benefits of decreased portfolio volatility outweighs short-term performance gaps between U.S. and international stocks.

The performance of your overall stock portfolio is really best comparable to a blend of 2 indices, most heavily weighted to the Russell 3000 index but also including the MSCI EAFE index. For clients that hold bonds, you should also account for that allocation in your overall return, so your portfolio might really be best compared to a blend of 3 or even 4 of our quoted indices.

We encourage clients to place less importance on watching performance each quarter and to focus more on whether or not their portfolio is structured to meet their financial goals over the next 20, 30, or even 50+ years. But, we also believe it is important to fully disclose this information on a regular basis. If you have any questions about your portfolio performance, please feel free to give us a call.

Find Us on Facebook and Twitter

Parsec now has a Facebook page and Twitter account. We will post comments about the market, happenings at Parsec, and anything else we think you might find interesting.

Also, please remember to check out our blog on Parsec's website. We post articles on a weekly basis there. Our web address is www.parsecfinancial.com.

Define your goals. Get on track to achieve them.

Parsec Spotlight: Tracy Allen

Tracy joined Parsec's Charlotte office in 2008. She is a CERTIFIED FINANCIAL PLANNER™ practitioner and a member of the Financial Planning Association. Since January 2011, she has been a member of Mecklenburg County's Stewardship Advisory Committee.

A Texas native, Tracy has lived in Charlotte since 1992. Tracy and her husband Jim just celebrated their 29th wedding anniversary. They have two adult children, Kate and Will. Tracy loves to garden and is addicted to crossword puzzles.

Asheville Headquarters:
6 Wall Street
P.O. Box 2324
Asheville, NC 28802

828.255.0271
888.877.1012 (toll free)

Charlotte Office:
Carillon Building
227 West Trade Street,
Suite 1840
Charlotte, NC 28202

704.334.0894
877.727.7321 (toll free)