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Inside this issue:

The Good News
Keeps on Coming 2

Now Accepting
Parsec Prize
Applications 2

Planning Ahead for
RMDs and Charitable
Donations 3

Put Out to Pasture 5

Rethinking the Tax
Code in Light of
Revenue Ruling
2013-17 6

Useful Apps 7

Parsec Spotlight:
Michael Ziemer 8

Fourth Quarter 2013

The Good News Keeps on Coming



by Dr. James F. Smith
Chief Economist

Periodically since 1947 the Bureau of Economic Analysis (BEA) has released “Comprehensive Revisions” of the National Income and Product Accounts (NIPA). These are large revisions, frequently carried back to the beginning of our GDP data in 1929.

These big revisions usually incorporate three major types of improvements:

1. Changes in definitions and classifications that update accounts to more accurately portray the evolving US economy.
2. Statistical changes that update the accounts to reflect the introduction of new and improved methodology and the incorporation of newly available source data.
3. Changes in presentation that update the NIPA tables to reflect the changes in definitions and the statistical changes and to make the tables more informative.

The 14th such revision was released on July 31. The previous one came out in July 2009.

The single biggest change this time was to treat research and development (R&D) expenditures as fixed investment rather than as intermediate inputs to goods and services produced for final demand. Another change was to treat expenditures by private enterprises for the creation of entertainment, literary and artistic originals (think books, movies, plays and TV shows that live on in reruns). A third significant change was to treat transactions of defined benefit pension plans on an accrual accounting basis, which recognizes the costs of unfunded liabilities.

The base year for calculating price indices and the chained-dollar estimates reported as real GDP was updated to 2009 from 2005. The results of all these changes raised nominal (current dollar) GDP for every year.

The average annual change in real GDP is now 3.3 percent from 1929 through 2012, up from 3.2 percent previously. That’s the demonstrated long run growth rate of the US economy through booms, busts, war and peace.

continued on page two

The Good News Keeps on Coming

continued from page one

For the 2002 through 2012 period, the average annual growth rate of real GDP was revised up from 1.6 to 1.8 percent. For 2012, it was revised up to 2.8 percent from 2.2 percent.

The savings rate was revised up for every year from 1929 through 2012 except 2008. It is now 5.6 percent in 2012, up significantly from the previously reported level of 3.9 percent. The revision contains much evidence that those people who worry that consumers in the US don't save enough should just wait for the next comprehensive revision.

Current dollar GDP was revised upward by \$559.8 billion or 3.6 percent for 2012. The R&D change accounted for \$396.7 billion of that and the other capitalization changes for intellectual property another \$74.3 billion.

On August 29, the BEA told us that real GDP grew at a seasonally adjusted annual rate of 2.5 percent in the second quarter of 2013. That was well above the 1.7 percent rate previously reported.

The Bloomberg consensus forecast of 79 economists (including me) released on September 13 shows an expectation of 1.6 percent for real GDP growth this year, 2.7 percent in 2014 and 3.0 percent in 2015, all on a year-over-year average basis. My forecasts are 1.7 percent for 2013, 3.6 percent for 2014 and 3.8 percent for 2015.

The economic news for the US is literally getting better every day. We haven't had real GDP growth above 3.0 percent since 2005 (3.4 percent) so we are long overdue.

Now Accepting Parsec Prize Applications

Parsec has long maintained a commitment to charitable giving in the communities we serve, which include Western North Carolina and the Charlotte metropolitan area. We are committed to supporting non-profit organizations by dedicating two percent of our revenue, half of which forms the Parsec Prize.

This year's recipients of the Parsec Prize were **Arts for Life, Asheville Design Center, Care Partners, and WNC Junior Golf Association**. Each recipient received \$20,000.

Do you know a great organization that could benefit from the Parsec Prize? The deadline for applications for the 2014 Parsec Prize is **November 29, 2013**.

Our website contains full details about the application process. Visit us at **www.parsecfinancial.com** and click on the **Parsec Prize** button at the top.

We will post updates on the Parsec Prize process on Facebook and Twitter. In fact, we would love it if you would "like" us on Facebook or follow us on Twitter for this and other exciting news.

Planning Ahead for RMDs and Charitable Donations



by Ashley Woodring
Portfolio Administrator

What are you thinking of around the holidays? Are you thinking of required minimum distributions (RMD) and 2013 charitable donations? Probably not! I would imagine that, like the rest of us, you are occupied with food, shopping, and family coming to visit.

While this is all good, it's easy to forget those end-of-the-year items that are important to your financial situation and goals. This can lead to frantically trying to process IRA distributions and charitable donations on December 31, when your custodian may have critical deadlines. It is important to take care of these items early.

Required Minimum Distributions (RMDs)

Required Minimum Distributions (RMDs) are complicated. Here is some important information:

- If you turned 70 ½ this year, you must begin your required minimum distributions from your IRA. RMDs apply to your traditional, SEP, SARSEP, and SIMPLE IRAs as well as employer-sponsored plans such as profit sharing plans, 401(k) plans, and 457(b) plans. Roth 401(k)s are also subject to RMD rules, but Roth IRAs are excluded.
- You can delay your first RMD until April 1 following the year you turn 70 ½, but all subsequent years you must take your RMD by December 31. If you delay your RMD to April 1, 2014, you will be required to take two RMDs in that year.
- If you do not take your RMD by the deadline or if you do not take the full amount, you will be penalized 50% of the amount not taken.
- You are allowed to take all of your RMD from one account if you have multiple retirement accounts.
- If you have an IRA outside of our management, it is your responsibility to meet your RMD requirements for that account. If you would like for us to calculate the RMD amount for you, please call us with the December 31, 2012 value.
- You are allowed to take an amount in excess of your RMD without being penalized, but that amount cannot be used for future RMDs.
- Your custodian will calculate your RMD, and we will mail you paperwork to receive a distribution. If you believe that you have been missed or have additional questions, please contact your investment advisor for more information.

It is important to discuss RMDs with your investment advisor if you are confused or are new to the process.

continued on page four

Planning Ahead for RMDs and Charitable Donations

continued from page three

Charitable Donations

Do you want to make a 2013 gift to a family member or your favorite, qualified organization? This is what you need to know:

- The deadline to make 2013 cash charitable contributions or gifts is December 31, 2013.
- Gifts to your spouse are still unlimited. To avoid gifts put toward your lifetime gift exclusion amount, they should be limited to \$14,000 (\$28,000 if married filing a joint tax return, and you elect gift splitting).
- In order to deduct your charitable contribution, you must itemize your deductions on your tax return.
- If you want to sell a stock at a loss and gift the cash, you must allow time for trades to settle. This means trades should be placed on or before December 26.
- Want to gift appreciated stock? Transfers going outside of the custodian you use (Schwab, Fidelity, etc.) can take several days depending on the destination. Submit these requests early!
- Your custodian receives thousands of requests for charitable donations at the end of the year, plus other last-minute requests such as RMD distributions. After December 26, requests are completed on a “best effort” basis. If you wait to December 31, it is not guaranteed that your request will be processed before the cut-off time.

If you are you 70 ½ or over, you might consider another option for charitable gifts. You could take a qualified charitable distribution (QCD) from your IRA.

The American Taxable Relief Act extended the QCD provision until the end of 2013. You can use up to \$100,000 of your RMD for charitable distributions and exclude that amount from your gross income that year.

After reading this article, you may realize you have several items to take care of before year end. Please do not wait until you're up to your elbows in gift-wrapping paper and gravy. Call us now for a plan to make sure that your 2013 goals are met.

We hope you and your family have a safe, happy holiday season.

Put Out to Pasture



After over fifteen years at Parsec, Barbara Gray will be retiring in December.

Barbara's career at Parsec began in 1999. She originally worked with our chairman, Bart Boyer, as his assistant. Barbara worked hard and became an advisor and partner at Parsec. She added Chief Compliance Officer to her list of responsibilities as well.

She has three wonderful boys - Mike, Chip, and Todd - and one equally wonderful daughter-in-law, Megan.

Mike lives in

Charlotte. Chip and Megan live in Florida. Todd lives in Asheville.

Her lifelong passion has been horses. The love affair started at an early age. The photo to the right shows Barbara at eleven with her first horse, April.

Barbara loves to spend time with her horse Charlie (shown above). They have competed in dressage the past eight years. She has earned bronze and silver medals and is working on her gold medal. Now that she is retiring, she looks forward to spending more time with him.

Of course, she will not ignore her cute rescue Yorkie, Brianna. Fortunately, Brianna loves hanging out at the barn while Barbara rides.



Barbara also looks forward to the pitter-patter of little feet. She hopes her son Chip and his wife Megan will soon give her the one thing she does not have: a grand-baby! *(No pressure, guys.)*

Barbara will miss her clients and the wonderful Parsec team!

We have enjoyed spending the last fifteen years with Barbara and wish her the very best in her retirement. Good luck!

Editor's note: Barbara thinks the title of this article is hilarious.



Rethinking the Tax Code in Light of Revenue Ruling 2013-17



by Neal Nolan, CFP®
Director of ERISA,
Financial Advisor

Seems like a pretty boring title to a newsletter article. However, I assert that this ruling is the start of what will probably be one of the most significant changes to the Internal Revenue Code in decades. The recent Supreme Court ruling in favor of Windsor (Windsor v. United States) effectively strikes down Section 3 of DOMA (the Defense of Marriage Act). As a result, the IRS is scrambling to redefine what encompasses a legal marriage union in the Code. The ruling has far reaching ramifications, the surface of which has only been scratched. It essentially provides same-sex, legally married couples with certain benefits and rights as taxpayers.

Our initial impression of the Ruling is that any benefit that is afforded to a traditionally married couple would also extend to same-sex married couple, assuming the union was legal. One might think this is easy to implement. It is important to remember that the Code was built around the notion of traditionally married couples and individuals. Now the Code is attempting to redefine certain benefits between partners in same-sex marriages.

Interestingly, and probably most problematic, these benefits only transfer between partners who are legally married. That is, married in a jurisdiction that recognizes marriage of same-sex couples. And it goes one step further. These benefits apply even if the couple no longer resides in said district, meaning the couple would enjoy the benefits of traditionally married couples even though they live in a jurisdiction that does not currently recognize same-sex marriages. In my opinion, this last part is probably the most challenging issue for the Code.

What will happen to Required Minimum Distribution (RMD) rules? It has been my experience that these rules are very confusing to non-spousal beneficiaries of IRAs. While most people know about or are aware of the age 70½ RMD rule, the rule is a little different for beneficiaries of Inherited IRAs.

Imagine for just a moment a few years ago when a beneficiary was a person from a same-sex marriage. No matter their age, they would have been required to start taking a minimum distribution the year following death of their partner. Conversely, a beneficiary from a traditional marriage had the choice of treating the IRA as their own or keeping the character (more simply, the age of the account owner) of their spouse for purposes of RMDs. This is a significant distinction because if the beneficiary was below the RBD (Required Beginning Date for RMDs), treating the IRA as their own means they can defer the taxation on the account until they start their RMDs. In other words, a relatively young beneficiary could let the account continue to grow tax free until they reached age 70½, a benefit not available to the person in a same-sex marriage.

The inequity between these two couples is astounding. The same-sex partner would have had to take money out of the IRA (Roth or Regular), whether or not they needed the money, and pay taxes (on the Regular IRA). What's more, the life-expectancy table in which they need to calculate the RMD is different than that of a traditionally married person.

continued on page seven

Rethinking the Tax Code in Light of Revenue Ruling 2013-17

continued from page six

There are more details in this ruling, such as the ability for same-sex couples to file amended returns (up to three years back) and claim Married Filing Jointly instead of Single. This might be beneficial to the couple because it could produce greater tax refunds not previously available to them. Also, the couple can seek to treat the premiums for same-sex partner health insurance as a pre-tax deduction and excludable from income. Previously, it was an after-tax item.

Yet another challenge is how the IRS will track couples if they move in and out of jurisdictions

that recognize their union. They will also have to address couples who live and work in different states. Likewise, this will cause great challenges for Human Resource personnel who will also have to track employees across jurisdictions and ensure they have appropriate documentation of the marriage. One can see the potential of this ruling and how it will extend to employee benefit plans (Cafeteria, HSA, 401(k)/403(b), etc.).

The challenges of this ruling will continue to unfold. Given the complexity of the matter, it will take some bit of time to unravel.

Useful Apps



*by Tracy Allen, CFP®
Financial Advisor*

If you are looking for an app to manage your budget and finances, you have a wide range of options. This is a quick review of two of the more popular, free apps on the market today.

With more than 10 million users, [Mint.com](#) is one of the leading personal finance applications. From the same folks that gave us TurboTax, Mint allows you to keep track of your checking and savings accounts and credit cards in one storage area. This free app is available in both web and mobile app versions and is compatible with both the Android and iOS systems. The app is capable of tracking your spending and generating a budget for you as well. To ease your fears over security risks, Mint uses the same 128-bit encryption and physical security that banks use, and it is monitored and verified by TRUSTe and VeriSign.

If you travel for business and dread the process of creating your expense reports, you may want

to check out [Expensify](#). Consistently listed in the top 5 apps for business travelers, you can use [Expensify](#) on your Android or iOS device to log expenses and manage expense reports. The smart receipt feature allows you to take a snapshot of your receipt, and the app uploads into the system. You can track mileage expenses via GPS or odometer entry. The app can even create IRS Guaranteed eReceipts for most bank/card purchases under \$75 to help with filing taxes. For your security, the company complies with the Payment Card Industry Data Security Standard – the same level of security used by banks.

These are just a couple of the many apps that have been created to help you manage your finances. Before downloading any app, do your homework. Read reviews. Download only from a trustworthy source (Amazon, iTunes). Most importantly, think twice before you grant the app permission access to your contacts, camera function, and location information, et cetera. *This article is not intended as an endorsement of these products.*

Define your goals. Get on track to achieve them.



Parsec Spotlight: Michael Ziemer

Michael joined Parsec in 2004. He works in our Charlotte office.

Prior to joining us at Parsec, Michael worked as an investment representative for Charles Schwab & Co., Inc. He is a CERTIFIED FINANCIAL PLANNER™ practitioner. He also serves on the advisory board for Easter Seals UCP and is on the finance committee for Susan G. Komen Charlotte.

Michael and his wife Kristen are the proud parents of three young children- Miles, Oliver, and Violet. He keeps up with his kids by drinking copious amounts of Starbucks coffee. If you live in the Charlotte metro area, you are likely to bump into him there. For your safety, wait until he has had a sip of coffee before approaching him.

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