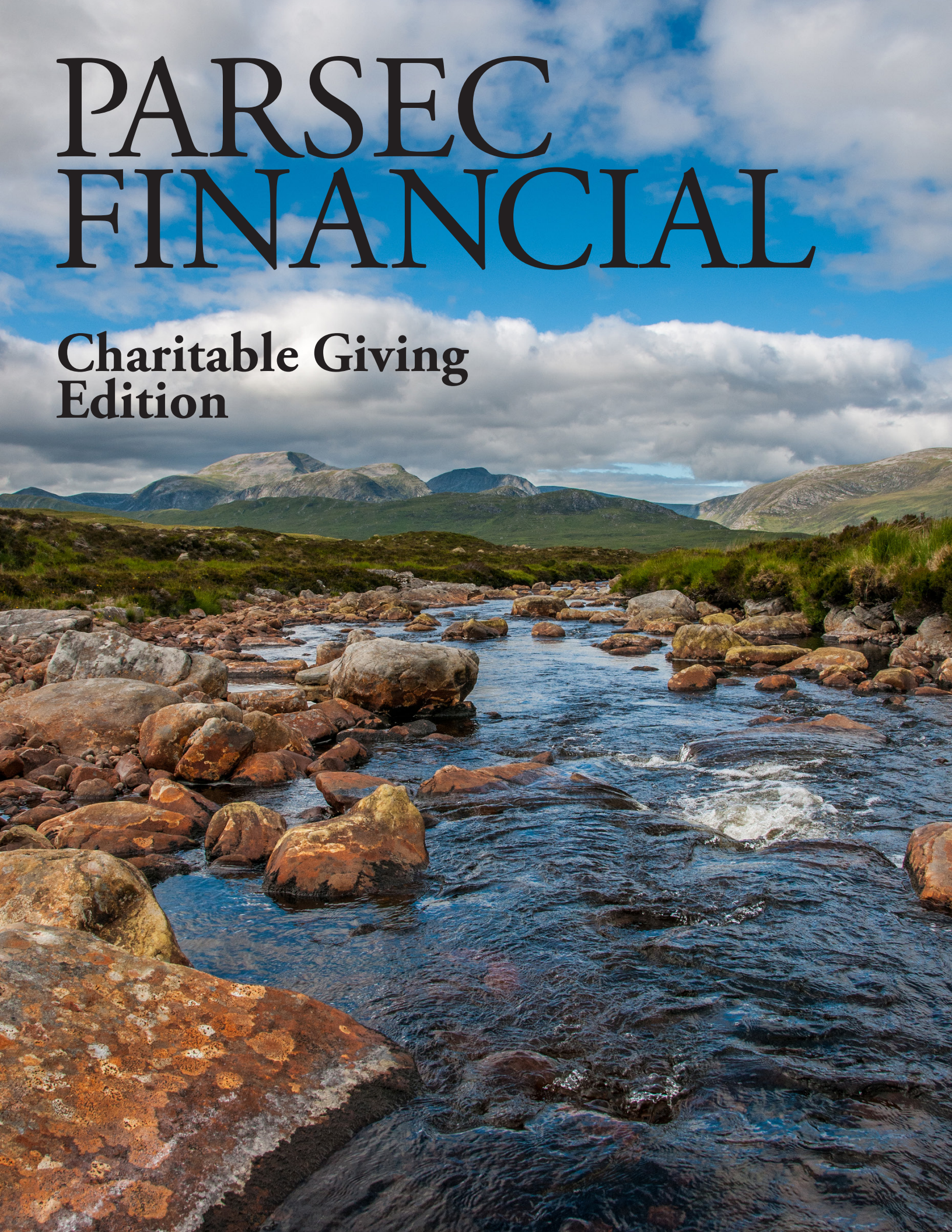
# PARSEC FINANCIAL

## Charitable Giving Edition



# Note from the CEO

**Richard Manske, CFP®**

America benefits from a philanthropic culture. According to the Charities Aid Foundation, 144 million people in the U.S. donated money to charity in the past year, and 106 million donated their time. Giving time and treasure to the things that we believe in helps to instill a great sense of belonging to a wider community. Whether you are a budding volunteer or a seasoned philanthropist, I think this edition focusses on a wide range of topics that everyone will come away with something.

This edition of our newsletter discusses many of the great aspects to charitable giving:

- In Carrie Tallman's *Mental Wealth* column, she delivers a deeply pertinent article about how cultivating the value of charity can give a person greater fulfillment and help contribute to happiness.
- Sarah DerGarabedian provides an update on our corporate giving program, called "The Parsec Prize." It eclipsed a milestone in 2017 and is set up for a great future.
- Ben Blake offers another great perspective about sharing the gift of personal time and expertise or knowledge and the wonderful outcomes for both the charity and the volunteer.
- The Tax Cut and Jobs Act materially changed some of the tax strategies surrounding charitable donations and the deductibility of such gifts. Bill Hansen explains the changes and provides strategies for consideration.

I am so happy to be a part of a great community that values all its members. The employees of Parsec Financial inspire me with their many volunteer hours and donations and the wide range of interests in which they have passion. I am proud when we take the time to slow down and help the persons and things that are getting left behind. It encourages me to see how many organizations provide the building blocks necessary for the virtuous benefits to be possible for all.

Thank you for all that you do to make our world a better place.

# Charitable Giving Edition

## Columns



## Features

# *Jim's Crystal Ball*

## The U.S. Economy is Performing Superbly

Nearly every new piece of data on the U.S. economy that comes out is either a new all-time record or in a few cases, such as housing starts and industrial production for manufacturing, a continuation of a rising trend, but not a record. The biggest, most comprehensive economic indicator is real gross domestic product (GDP). This is the value of the total output of goods and services within the borders of the U.S. produced for final demand (to eliminate double counting of both parts and complete vehicles, for example) adjusted for price changes.

**Chart 1** shows the quarterly levels of this aggregate. It is clear that the first quarter of 2018, as reported by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce on May 30 is a new record. All economic forecasters expect another new high when the first ("Advance") estimate for the second quarter is

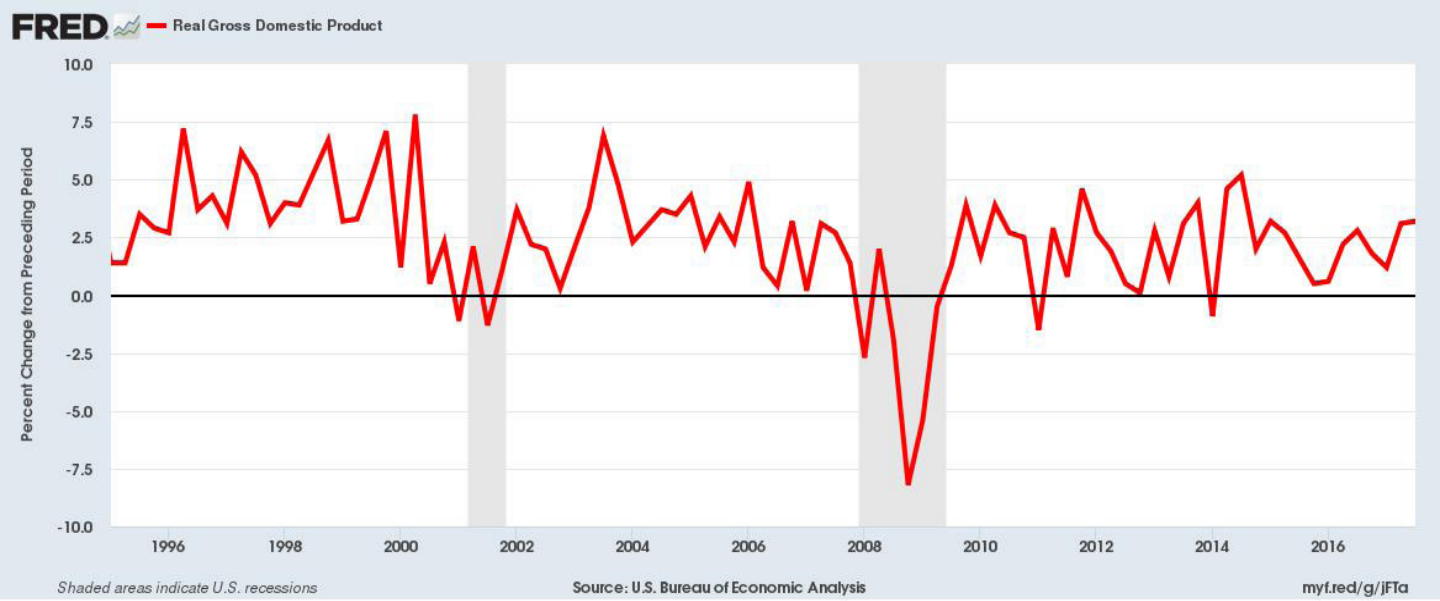



*Chart 1*

released by BEA on July 27. We are just not sure by exactly how much, not only because the future is inherently unknowable, but also because BEA is shifting to a new base for the inflation-adjusted calculations (2012 rather than the current 2009 one). This will result in revisions of all the annual GDP data back to 1929 and the quarterly data from the first quarter of 1947 through the first quarter of 2018.

This shows you a big reason why it's so hard to be a successful economic forecaster. Not only do we have to predict the future but also what new revisions will do to change the past. It's challenging, but also a lot of fun.

**Chart 2** shows the year-over-year percentage change in real GDP. An ever-increasing number of forecasters expect to see both 2018 and 2019 come in with growth of 3.0 percent or more. That has not happened since 2005 (3.3 percent), which followed a 3.8 percent rise in 2004. Those are the only two years this century with growth above 3.0 percent. The long-term average from 1929 through 2017 is 3.1 percent a year.

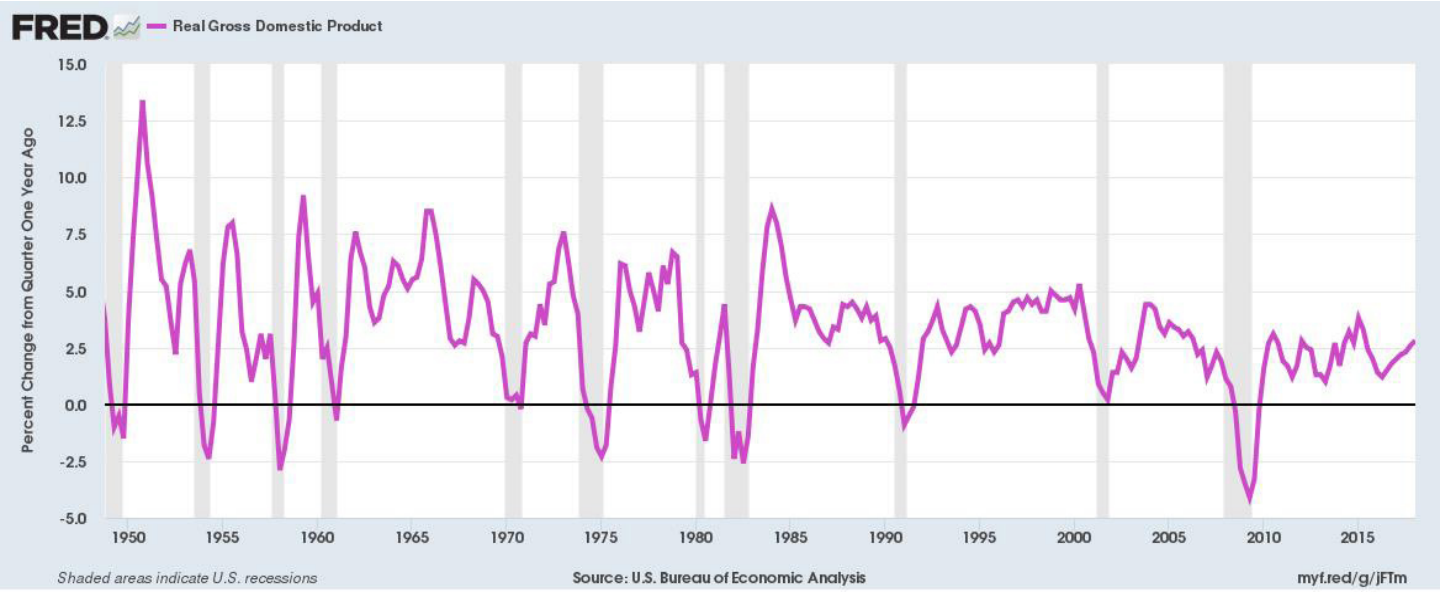



*Chart 2*

As you might expect from this strong economic growth, the number of nonfarm payroll jobs continues to rise to heights never seen before. The Bureau of Labor Statistics (BLS) of the U.S. Department of Labor told us on June 1 there were 148,662,000 such jobs in the U.S. in May. That was an increase of 2,363,000 such jobs since May 2017.

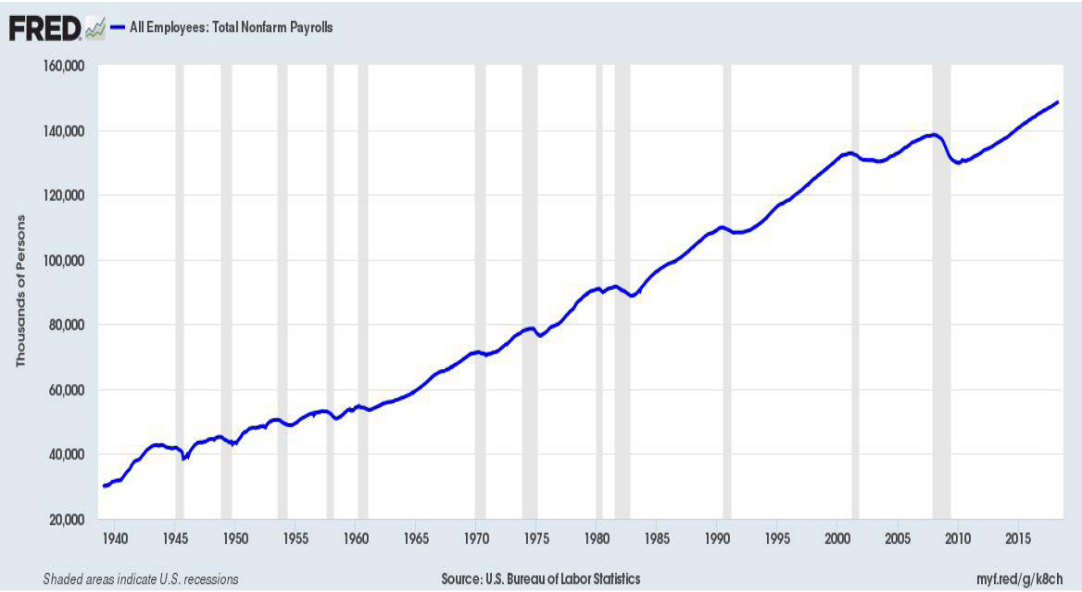



*Chart 3*

**Chart 3** shows the total number of nonfarm payroll jobs and the tremendous growth in recent years. An even more amazing report from BLS on June 5 ("Job Openings and Labor Turnover-April 2018") showed that on April 30, there were 6,698,000 job openings in the U.S.. That was more than the 6,346,000 unemployed people in April.

Obviously, if we had a good way to match people looking for jobs with job openings, we could reduce unemployment drastically.

As **Chart 4** shows, the unemployment rate was 3.8 percent in May. That is tied with April 2000 for the lowest since the 3.5 percent of December 1969. If we go lower than 3.4 percent, which is my forecast, we'll be at a level not seen since the 3.1 percent of October 1953.


*Chart 4*

With all these people employed, you would expect to see real disposable personal income setting new records regularly. The BEA report of May 31 tells the tale. **Chart 5** shows the picture.


*Chart 5*

Finally, on June 5 the Federal Reserve Board released "The Financial Accounts of the United States" for the first quarter of 2018. As **Chart 6** shows, the net worth of consumers and nonprofit organizations hit a mindboggling record $100.8 trillion then. Real estate owned by households hit a new high of $25.1 trillion, edging out pension entitlements of $23.3 trillion (which excludes Social Security) as our biggest asset. Holdings of corporate equities were $17.6 trillion, and the value of mutual fund shares was $8.7 trillion. The equity in unincorporated businesses was $11.9 trillion.

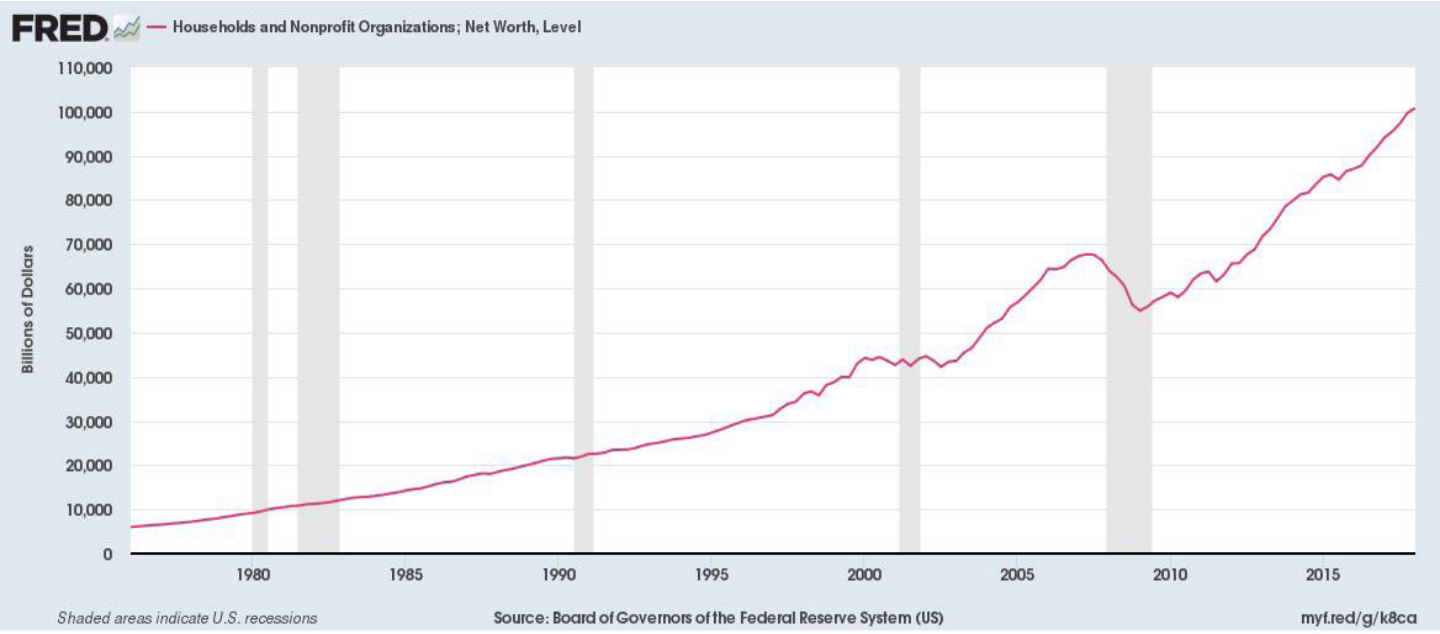



*Chart 6*

It is no surprise that consumer confidence is very high. The tax cuts and federal fiscal stimulus have put money in consumers' hands, energized businesses to hire more and invest more heavily in factories and equipment.

The federal deficit is a huge problem and getting worse. It just does not look like Congress will act to reduce them until there is a crisis. That is really the only major cloud on the economic horizon.

Otherwise, the outlook is robust. We won't need to worry about a recession for at least two years. Consumer spending will keep rising and so will the overall economy.

***Jim Smith is the Chief Economist. He has been an Adjunct Professor at Kenan-Flagler Business School at UNC Chapel Hill since 1988.***

# Mental Wealth Corner

Carrie Tallman

We all know that money can't buy happiness. Conventional wisdom tells us so, along with lots of empirical research. While social scientists have never established a direct link between wealth and well-being, new research suggests that the way in which we spend our money might actually affect our happiness levels. Specifically, a study by the University of British Columbia in Canada found that spending money on life experiences and other people has a positive influence on well-being.

The Gallup-Sharecare Well-Being Index examined income levels. The index found that, once an individual reaches an income of $75,000 per year, happiness levels did not rise significantly with increases in income. This makes sense in the context of Maslow's Hierarchy of Needs Theory. Considered a motivational theory in psychology, it attempts to explain human behavior. It suggests that our primary motivation is to meet our needs and that some needs are more important than others. For example, the need for food, shelter, and safety are basic needs that take priority over higher-level needs such as developing loving relationships and achieving one's full potential.

Maslow's theory provides a possible explanation as to why Americans don't experience more happiness above $75,000 in income per year. At this salary level, most people will have their basic needs covered. Once those needs are satisfied, a bigger house or another car – i.e. acquiring more material things – won't move the needle much on well-being. Instead, meeting "higher-level" needs will play a more significant role when it comes to boosting happiness.

This is exactly what research is now suggesting. Spending on life experiences such as travel or education can enrich a person's life in ways that material possessions cannot. These activities often lead to lasting friendships and stay with us our whole lives. Likewise, spending on others through charitable giving or volunteerism can lead to a heightened sense of joy that lasts much longer than when we spend money on ourselves. Giving with our time, money, or things to a cause greater than ourselves can enhance our sense of purpose and cultivate feelings of belonging and fulfillment.

So, while we know that money alone doesn't lead to happiness, spending our money intentionally and in a way that improves someone else's life can significantly boost our own well-being. This is pretty exciting news because it means that if you're interested in becoming happier, and using your money to do so, there are some clear-cut actions you can take. Not only will your happiness increase, but research suggests your health will too. And, you'll probably

contribute to someone else's happiness along the way. Not a bad proposition.

If you're ready to take action, here are some guidelines you might want to consider. With regards to charitable giving, first consider which groups of people your heart goes out to the most. Perhaps you were a single mother when your children were young, and you'd love to help struggling parents. Or maybe your family struggled to make ends meet when you were growing up, and you'd like to help ease a young family's financial burden. A great example of the latter was featured in a newspaper article a while back. A married couple with no children of their own but a comfortable lifestyle decided to start an annual charitable tradition. Each year shortly after Christmas the couple went to Wal-Mart and used $5,000 of their own money to pay off the layaway balances on multiple customer accounts. They focused on accounts where customers had purchased non-electronic or educational toys for their children – something the couple believed in. Customers were often very low income and frequently called the store in tears when they found out their balances had been paid.

While the couple in that story didn't receive a tax deduction for their giving, they certainly received a big dose of joy. But there's no reason not to achieve both. Giving to qualified non-profit organizations that are aligned with your values could provide the added bonus of a tax deduction, which can free up even more money for additional charitable giving. A virtuous cycle indeed!

Once you know who you want to help, consider how. Would donating your time through volunteering be more satisfying to you? Or is your schedule too busy so giving money or stock is a better option?

The goal is to choose a group, a cause, and a method that best aligns with your life and what would feel the most meaningful to you. In this way, giving doesn't add to your stress levels but helps relieve them. Donating to charity with your lifestyle and preferences in mind also increases the likelihood that you'll continue to give.

Finally, get creative. If you are not sure who or how you want to help, start by experimenting. Sign up to volunteer at a local soup kitchen for a few hours. Or contact a local charity to find out more about how they serve the community. You can wade-in and give exactly how you want to give. Start small, experiment, and make adjustments. Discover which form of giving, and to whom, brings you the most satisfaction while achieving the greatest good - with maybe a tax benefit along the way. Happy giving!

***Carrie Tallman is a CFA charterholder and a CERTIFIED FINANCIAL PLANNER™ practitioner.***

# Employee Charitable Giving

Sarah DerGarabedian


I recently watched comedian John Mulaney's newest Netflix special, Kid Gorgeous. He had a hilarious bit about alumnae giving, riffing on colleges and their annual request for donations. As Mulaney puts it, "…they were like, 'Hey, it's been awhile since you've given us money.' I was like, 'Hey, it's been awhile since you've housed and taught me.'" For many years after I graduated college, I felt the same way. Now that I'm further removed from my undergraduate experience (and further along in my career), I more fully appreciate the education I received and I want to help sustain my beloved alma mater so that others may benefit from it.

Fortunately, Parsec encourages employee altruism by matching our charitable donations 2-to-1, up to 2% of our gross salary. It is incredibly inspiring to know that our company values charitable giving so much that they will double our donations to the nonprofits of our choice! And even though I used alumni giving as an example, I think it's quite common for employees to donate to a variety of local nonprofits in our respective communities.

Parsec has a strong commitment to community support, which is primarily exemplified through the Parsec Prize (you can read more about it on our website and see a list of 2018 recipients on the next page). As employees, we know that we are indirectly giving back to our communities via the Parsec Prize, which is very rewarding. However, the double-match of employee donations has an immediate, direct impact on our lives and the causes that we value.

Our clients who are still working may want to see if their employers offer a donation matching program. More and more companies are implementing these kinds of perks to encourage community engagement and to address the desires of a more socially-conscious workforce. If they don't directly match employee donations, what is their commitment to charitable giving? What are the company's core values? How do they exemplify them? While health insurance and retirement plans are familiar and expected perks, many people are becoming more interested in some of the creative ways in which companies are incentivizing and rewarding employees.

As advisors, we know that charitable giving is important to our clients and we include donations and charitable trusts as part of the planning services we provide. As a firm, we choose to exemplify these same values by awarding the Parsec Prize and by offering a double match for employee donations. In ways both large and small, we hope to make a positive impact in our communities.

***Sarah DerGarabedian is the director of portfolio management. She is a CFA charterholder.***

# When Our Communities Succeed, We All Succeed


CONGRATULATIONS TO OUR 2018 PARSEC PRIZE WINNERS!

Giving back to the community is one of the fundamental values at Parsec Financial. Since 2005, we have awarded over $1,000,000 to local nonprofits who are making an impact in the communities we serve through the Parsec Prize.

In 2018, Parsec Financial is committing $155,000 to the Parsec Prize. We are proud to recognize these deserving organizations who create meaningful opportunities and their commitment to improving the quality of life for the people they serve.

The 2018 Parsec Prize recipients are:

- Center For Creative Economy
- Thermal Belt Outreach Ministry, Inc.
- The Good Fellows Club
- Brookstone Schools
- OnTrack Financial Education and Counseling*
- Read To Succeed
- Rotarians Against Hunger
- The Hope Chest for Women, Inc.
- Helpmate

Parsec Financial has long maintained a significant commitment to charitable giving throughout the regions we serve. If you would like learn more about the Parsec Prize please contact us at 828-255-0271.

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WEALTH MANAGEMENT

*Year 2 of a 4 year commitment.


## Volunteering: A Gift of Knowledge, Experience, and Time

Ben Blake

What do you think of when you hear the term "volunteering?" Chances are, you think of providing free labor to an organization like Habitat for Humanity, Meals on Wheels, or United Way. These projects provide fantastic opportunities for businesses, church groups, and even families to give back to their communities by improving housing projects, schools, and parks or providing the labor necessary to prepare and deliver meals.

When you thought about volunteering, did you also think about knowledge-based opportunities? Activities such as reading to young children; tutoring and mentoring students of all ages; or coaching a sports team are all volunteer activities in high demand. Museums, galleries, and theaters frequently have a need for knowledgeable volunteers, as do national, state, and local parks. Knowledge-based volunteerism can also include joining the board of directors for a local non-profit or pro-bono work to assist with activities such as fund-raising, marketing, and business development tasks.

There are many reasons to volunteer. A desire to help others who are less fortunate than yourself or to give back to a community that has given to you is a common motivation. Instilling the value of service in your children can be a motivation for family volunteerism. Children from grade school age to high school can find meaningful volunteer opportunities to promote personal development, responsibility, and pride. Regular volunteer service is also a wonderful extracurricular activity to differentiate a college application.

For working adults, volunteerism can allow them to broaden their network and experience. Active members of a

non-profit come from diverse backgrounds. The shared goal of the organization provides a commonality to get to know people you would not otherwise meet. Retirees often find joy in using the skills they developed in their career yet no longer utilize in retirement. These skills can be invaluable to a non-profit organization.

When volunteering your time, there are several things to consider. You want to maximize your benefit to the project and increase your personal satisfaction:

- Do you enjoy outdoor work and labor? Or, is teaching and mentoring a better fit?
- Do you have a specific skill set you use at work that may be helpful to a non-profit?

Finding an opportunity that will provide personal satisfaction will ensure that both you and the organization get the most out of your time and encourage continued involvement.

Be honest with yourself about the type of project you want to become involved with and the amount of time you have to give. Overcommitting yourself can lead to frustration and burnout. It could leave an organization in a difficult situation if you have to give up an ongoing project need.

Most organizations may allow you to volunteer for a single afternoon or weekend project. You can consider this a trial run to see if you would like to continue volunteering on a recurring basis.

National and local resources are available to help you find the right opportunity. The websites VolunteerMatch.org and PointsofLight.org allow you search a national data base by entering your zip code.

Also, if you are interested in teaching or coaching, you can contact your local school or YMCA directly. Don't forget to speak with friends and acquaintances about volunteering. They may lead you to opportunities you might not otherwise consider.

Regardless of your interests, abilities, or available time, a rewarding volunteer opportunity awaits. Non-profit organizations are always in need of any help you can provide.

***Ben Blake is a portfolio manager in the Asheville office.***

# Charitable Giving Techniques and the New Tax Law

Bill Hansen

Several provisions of the recent Tax Cuts and Jobs Act have implications for charitable giving. This article will focus on a few charitable giving implications from a Federal income tax perspective. State income tax rules differ from state to state and are not addressed here. Obligatory disclaimer: before taking any action you should consult with a qualified tax advisor such as Parsec Tax Services or your CPA.

One provision that will affect many people, particularly retirees, is the doubling of the standard deduction (from $12,000 in 2017 to $24,000 for a couple with Married Filing Jointly filing status). Additional limitations have been put on itemized deductions such as home mortgage interest and state and local income taxes. Home equity loan interest is now only deductible when used to acquire or improve the home. Miscellaneous itemized deductions have been eliminated. As a result of these changes, many people who used to itemize deductions will now use the larger standard deduction instead. Therefore, some or all of the benefit of their charitable contributions would be lost without proper planning. Let's examine common strategies used to make charitable contributions.

***Qualified Charitable Distributions***

The Qualified Charitable Distribution (QCD) from IRA accounts remains permanent. This allows taxpayers over age 70 ½ to make charitable gifts of up to $100,000 from their IRA accounts directly to qualifying charities. Most charities qualify as recipients. For example, we have seen clients use QCDs for their annual church giving, support of their alma mater university, or donations to other charitable organizations. There are certain recipients that are not eligible such as Donor-Advised Funds, which will be discussed separately.

There is no income tax deduction for a QCD, but this amount is not included in your income. For example, if your Required Minimum Distribution (RMD) is $20,000 and you give a $5,000 QCD to your favorite charity, only $15,000 of the IRA distribution will be reported as part of your income. Note that the total QCDs in a given tax year are limited to the amount of your RMD or $100,000, whichever is less. In other words, if your RMD is $20,000, you cannot do a QCD for $30,000.

The QCD technique is useful in a variety of circumstances, such as:

- Someone who has an IRA, is over age 70 ½ and used to itemize but will now take the standard deduction;
- Someone whose Required Minimum Distributions from their IRA are pushing up their Adjusted Gross Income (AGI) to the point where more of their Social Security benefits are taxable;
- Someone who does itemize deductions but would have a portion of their charitable deduction carried forward because his or her total charitable gifts exceed a certain portion of their Adjusted Gross Income. (This is less common.)

***Appreciated Stock, "Bunching" Charitable Contributions, and Donor-Advised Funds***

With a donation of appreciated securities (generally individual stocks, ETFs, or mutual funds), you get a deduction for the market value of the gift plus you avoid paying tax on all of the gain. We view this as a double win and a highly attractive way to give charitably. These are securities held in a taxable (non-IRA) brokerage account in which you have significant long-term gains (that is, a holding period of at least 1 year).

However, limitations apply. Donations of appreciated stock in excess of 30% of your AGI are not allowed as an itemized deduction in the year of the donation and must be carried forward for up to 5 years after which they expire. And, you must itemize deductions.

Mathematically, you are better off giving whatever stock is the most highly appreciated. However, we review client portfolios to double check that the donation will

not adversely affect their overall portfolio diversification.

Appreciated stock donations are generally better for larger donations. It doesn't make sense to do them for every $100 donation you are making. For each appreciated stock donation, please contact the receiving charity to obtain their delivery instructions (investment account number and brokerage firm's DTC number and address). Then, you would sign a letter of authorization for each charity, and your custodian will send the shares to the charity electronically. Be sure to let the charity know what the shares are and how many shares are coming so that they can prepare an appropriate receipt. If you are a Parsec client, your Client Service Specialist will assist you with this process.

The "bunching" concept is simple: group your charitable contributions into those years where you will itemize deductions and get the full benefit. For example, let's say your charitable contributions are about $15,000 annually. You would be unlikely to itemize deductions at this level of giving. This year, you would make 2 years' worth or $30,000 in charitable contributions. Then, skip next year's contributions and take the standard deduction instead. Do all of your other non-cash donations of household items in those years that you are itemizing deductions. In our household, we donate a lot of books, as well as clothes and sports equipment that the kids outgrow.

However, some people have regular annual commitments or would prefer not to give every other year. One potential solution is to open a Donor-Advised Fund (DAF) either at a custodian (such as TD Ameritrade, Fidelity, or Schwab) or at a local Community Foundation. With a DAF, you transfer appreciated stock into the account and give up ownership of the shares at that point. You also get the tax deduction upon transferring the shares, again provided that you itemize deductions and are subject to the 30% of AGI limitation detailed above. You can distribute funds to qualified charities whenever you want or let the funds accumulate.

For example, you have a pledge of $30,000 payable over multiple years; you could put this full amount in upfront and get the full deduction. Then, distribute it to the charity at $10,000 per year. Plus, a DAF can be a good way to get kids to think charitably. You could call a family meeting and let each child pick a couple of organizations to receive grants from your DAF.

There are some restrictions on what organizations are eligible to receive grants. Certain foreign charities are an example. And, you cannot fund your DAF with a QCD. Yes, it's an alphabet soup of acronyms, but that's our tax code, and the rules that we all have to navigate.

Another advantage to a DAF is that it can easily be used for smaller donations (usually there is a minimum of around $250), so you get the tax benefits of being able to use appreciated stock without having to get delivery instructions for each charity. If the DAF is at the same custodian as your brokerage account, you can even fund the account by making the transfers online.

Keep in mind that these techniques are not all or nothing. That is, you could combine any or all of the above strategies. Charitable giving is alive and well. There is just a bit more planning needed to ensure that you get the maximum possible benefit. We are here to help, so please feel free to reach out to your Parsec advisor with any questions relevant to your individual situation.

***Bill Hansen is the president and Chief Investment Officer. He is a CFA charterholder.***

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