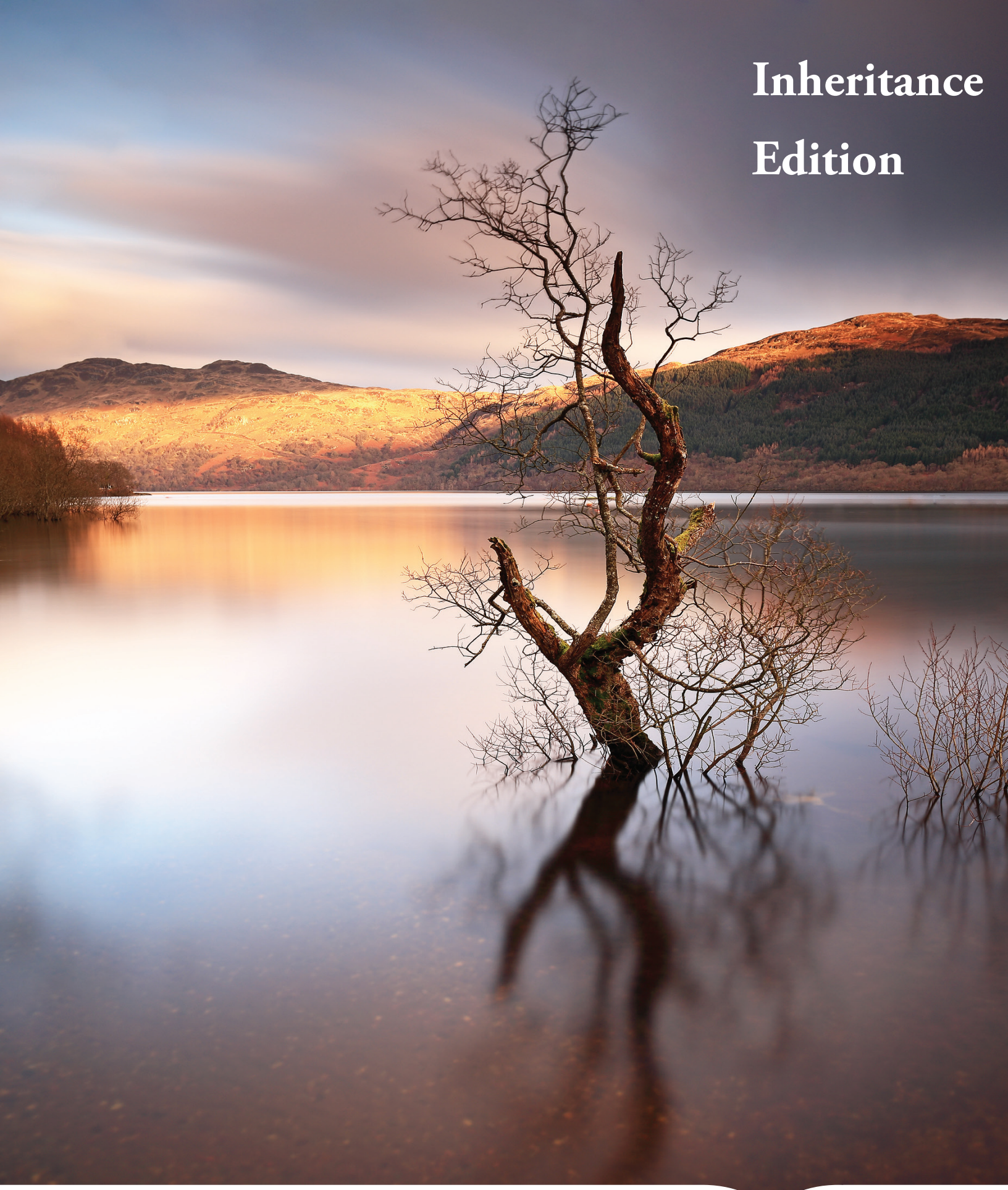
Inheritance Edition



ParsecFinancial
WEALTH MANAGEMENT

Note from the CEO

Richard Manske, CFP®
Chief Executive Officer

The loss of a loved one is a burden virtually everyone endures at some point in their lives. It is a time of tremendous grief and a heavy moment when survivors cherish memories of the departed. It is a natural part of life that reminds us how important it is not to delay joy and happiness in our own lives. Often, when we lose someone, they leave a lot of financial values behind in the form of bequests made in their will or trust and through beneficiary designations they made during life. There are personal effects, real estate, vehicles, and sometimes insurance. In some cases, it can be daunting sorting through the financial ramifications of an inheritance. In this issue, we review ideas regarding our own estate as well as others.

Over our 36-year history at Parsec Financial, we have counseled many individuals and families who received an inheritance and have worked closely with our clients about their own estate plans. This experience places us in a unique position to gain perspective about the generational transfer of wealth. There is much that all of us can do to organize our financial affairs in a manner that makes our leaving them behind much easier for loved ones to administer. Many times there are financial advantages that can be gained or lost as the result of proper planning, so it should be of paramount importance to us all. Whether it is much or little, it is all that we have. It is our legacy and important to our families, friends and charities. Please reflect upon your own plan and reach out to your Parsec advisor for any help or assistance we can provide. If you are on the receiving end of an inheritance, we are sorry for your loss and stand prepared to assist in any way we can.

Thank you and enjoy life!

Inheritance Edition

Columns

Features

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Jim's Crystal Ball

The Net Worth of Consumers Keeps Setting Records

Every three months the Board of Governors of the Federal Reserve System releases "Financial Accounts of the United States," the Z.1 release. On December 8, 2016, that release showed that the net worth of households and nonprofit organizations (that is how they report it) was a record $90.2 trillion on September 30, 2016.

The chart shows the incredible rise in this highly important economic variable over the past 40 years. The $90.2 trillion total was the fourth consecutive quarterly record.

The net worth of consumers has more than doubled since the second quarter of 2003, when it was $43.7 trillion. It has more than tripled since the first quarter of 1996, when it was $29.9 trillion and it has more quadrupled since the fourth quarter of 1990, when it was $22.0 trillion.

The chart shows the huge evaporation of wealth from the (then) peak of $67.7 trillion on June 30, 2007, six months before the recession started that December to the trough of $54.6 trillion on March 31, 2009, three months before the recession ended in June 2009. That was the biggest destruction of wealth in world history.

At that time, of course, the always loud members of the "gloom and doom" crowd were predicting an endless disaster. They were claiming we would never climb out from this record collapse.

The chart demonstrates clearly that these pessimists were just as wrong as they always are, at least when they are talking about the US economy and the wealth of consumers. We hit a new record of $67.9 trillion in the third quarter of 2012.

The September 30, 2016, record of $90.2 trillion is up $22.5 trillion or 33.2 percent from the June 30, 2007 level and is up a phenomenal $35.5 trillion or 65.1 percent from the recession nadir on March 31, 2009. That increase from the recession trough is more than the total net worth of consumers was on December 31, 1997, when it was $34.3 trillion.

The total assets of household and nonprofit organizations added up to $105.1 trillion on September 30, 2016. The biggest asset was real estate owned by households, which was $22.7 trillion then. The Federal Reserve is able to separate out the real estate holdings of nonprofits, which were $3.4 trillion, so the aggregate was $26.1 trillion. The

record before the December 2007-June 2009 recession was $25.0 trillion on December 31, 2006. That dropped precipitously to $17.9 trillion on June 30, 2011. It hit a new peak of $25.1 trillion on March 31, 2016. That was a very long recovery for house prices.

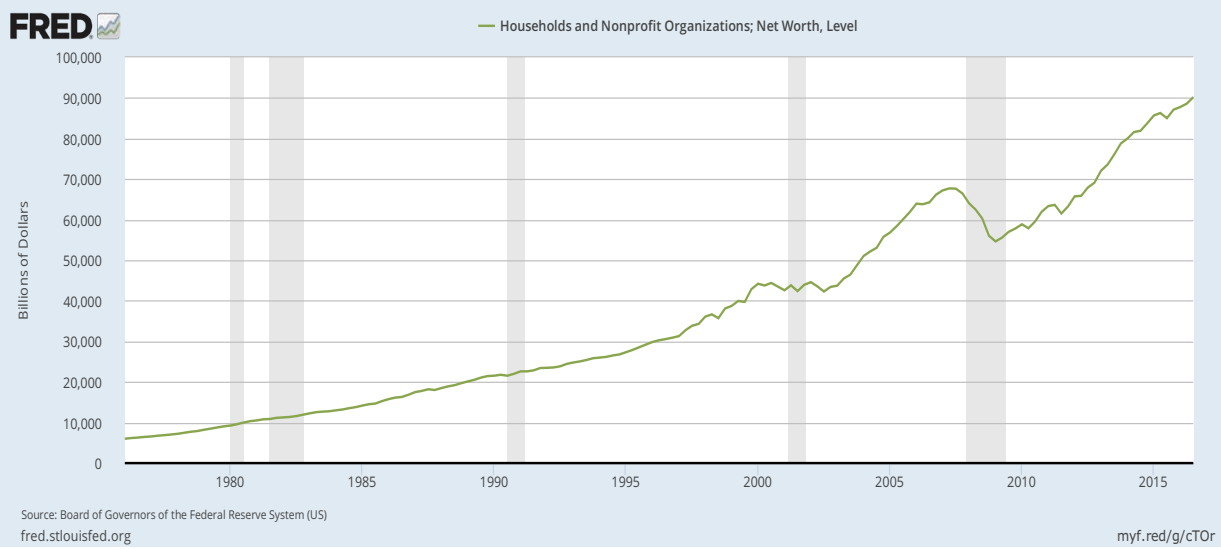
The second largest asset of households on September 30 was pension entitlements at $22.1 trillion. This includes public and private defined benefits and defined contribution plans and annuities, including those in IRAs and at life insurance companies. It is important to note this does not include Social Security because Congress could change that system at any time. Of course, no one thinks that would ever happen, but it could, so this important part of most people's retirement planning is not included.

The value of corporate equities owned by households and nonprofits was $14.7 trillion on September 30, 2016, and mutual funds added another $6.9 trillion in assets. Of course, since the astounding "Trump rally" since November 8, 2016, this amount has grown by a lot.

The next largest asset of households is the $11.2 trillion of equity in the over 8.3 million unincorporated businesses in the US. These are the ones for which the owners pay taxes on their personal income tax returns. That is a major complicating factor in the efforts by Congress and the Trump Administration to reform the tax code. That's because cutting the corporate income tax rate below the personal one would be unfair to those business owners and partnerships.

Total liabilities of household and nonprofit organizations on September 30 were $14.9 trillion. By far the biggest share of this was $9.7 trillion in home mortgages. Consumer credit debt was a distant second at $3.7 trillion.

The theme of this issue is "Inheritance." With over $90 trillion in net worth after accounting for all their debts, households have an enormous amount of money to include in their estate planning work. Good luck to all of you on this.



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, CFA

Now that 2016 is behind us, it's a great time to start thinking about charitable giving. We'll discuss how using your heart and your head can help you find the right charitable fit.

I recommend starting with your heart. Some of you may already be clear on which causes resonate with you most, while others of us struggle to select just one charity among thousands. A few questions can help you narrow down the causes and issues that matter most. To start, ask the basic question – what's important to me? Is it children, science, education, the environment, animals, et cetera? If you're not sure, look at your schedule over the last several months and see where you've spent your time. Perhaps you hung out with your dog or read books to your children. Maybe you're obsessed with good quality food or went to a church activity or two. What you're already doing can help direct you to what you value most.

Ironically, a second suggestion for getting in touch with your heart is to look at your wallet. Where are you spending your money? What is the common thread among your spending patterns in terms of your underlying values?

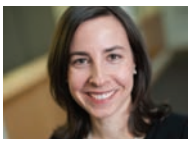
Once you have some clarity on the major themes that matter most to you, consider geography. Are you passionate about supporting your local community or do you want to cast a wider net? If you prefer local causes, consider regional conservation programs or charities.

Perhaps you're more concerned about the country as a whole? If so, check out organizations like the American Red Cross, the United Way (national & local), or the Boy Scouts, among others. Maybe you love to travel and appreciate different cultures and customs. You might consider giving to an international cause that focuses on preserving historical sites or assisting refugees.

After using your heart to vet your values, it's time to use your head to identify which nonprofits will deliver the most bang for your buck while offering attractive tax benefits. Fortunately, there are many online charitable tools that can help with such a search. Two of the most popular are GuideStar.org and CharityNavigator.org. If a charity is found on Guide Star, for example, it means that organization is recognized by the IRS as tax exempt. In addition to tax exempt status, you'll also want to know if it's a public or private charity. Public charities offer greater tax advantages than private charities.

Beyond tax-exempt status, you can use the above websites or the charity's website to find out what the organization's mission is and how closely it aligns with your own values. You'll want to identify charities that clearly define their goals and how they measure progress towards these objectives. Another consideration is how much a charity spends on overhead expenses. A good rule of thumb is to target nonprofits that spend at least 75% on programs or their mission.

Everyone's situation is unique. There are many types of charitable giving vehicles, organizations, and ways in which to give. For more complex circumstances, your financial advisor can offer advice.



Carrie Tallman is the Director of Research. She is a CFA charterholder.

Who Do I Choose as a Trustee for My Irrevocable Trust?

Roger A. James, Jr., JD, CTFA

One of the most difficult estate planning questions is deciding who will serve as trustee on an Irrevocable Trust. Will this be a family member, friend, or a corporate trustee? This decision can relate to service either during your lifetime when you are unable to serve, or after death in managing an ongoing trust for the benefit of children or other beneficiaries.

Here are just a few of the non-tax related considerations to be made when selecting a trustee for your trust:

Discernment and Decision-Making Ability: Many trusts have terms that give a Trustee the "discretion" to provide income and/or principal to the beneficiaries for certain standards. Clients commonly want to name a trustee who will use similar judgment to their own, or one who will continue to fulfill their stated goals when making these decisions. Also, one must consider whether the trustee will have the professional ability in investment and trust accounting to handle this role. If an individual is named, will they have the ability to handle these aspects of the trust personally? If not, will they have the good judgment to hire the appropriate professionals to help as needed?

Proximity /Availability: Does the trustee work or live near the beneficiary(ies)? Does the trustee have the time and resources needed to serve? It is important to have a trustee who will be available when called upon. A strong trustee will be responsive and available to interact with beneficiaries in a timely manner and not be fully consumed with other work or personal responsibilities outside the trust.

Strong Communication Skills / Impartiality: Can the trustee be a neutral third party if called upon to make decisions which impact multiple beneficiaries? This can be particularly challenging when the trustee is also one of the named beneficiaries. A strong trustee has the experience and tools to determine whether a beneficiary has true needs or is just greedily wanting more and more from the trust. A capable trustee is able to communicate in an impartial and professional way and to discern, with the proper analysis, whether spending needs are genuine or may lead to an unsustainable level.

Fees / Longevity: Does the trust, due to its longevity, need a Trustee who doesn't die? Some trusts are designed to be multi-generational and thus require an entity or a system for how to appoint successive named individuals. Whether an individual or corporate entity, how much of a fee will the Trustee be entitled to? Because there is a great deal of work involved in serving as trustee, compensation should be given whether the trustee is an individual or corporate entity. Fees should be reasonably based on the amount of work actually performed versus those delegated out. Find out what corporate trustees charge in your area, as this will give you a better idea of what an individual trustee might also charge.

Trustee selection is a challenging, but extremely important decision to be made in the estate planning process. If you have any questions about trustee selection, please contact your Parsec financial advisor or your estate planning attorney.

Roger A. James, Jr. is the Director of Trust.

What Should I Do with a Paper Stock Certificate?

Wendy S. Beaver, AAMS®

When an older family member passes away, you may discover a physical stock certificate among the loved one's personal papers. You may consider this document to be worthless, but it very well may have value. What should you do with this stock certificate?

Upon the death of your family member, the stock certificate belonged to that person's estate. The stock certificate must be delivered to the executor of the estate. The executor must then open an estate account at a brokerage firm with the required certified death certificate, letters of testamentary, affidavit of domicile and stock power.

If the family member had an account at a brokerage firm, this may already have been done. Brokerage firms have securities handling specialists who work with stock transfer agents of publicly traded companies. Stock transfer agents are large companies who are the record keepers for all the common stock in a company, issue the dividends and hold the official master shareholder listing. It is their responsibility to research the company for any past corporate actions. There is a registration number on each stock certificate which is used to trace the shares over time and determine their value. It is then up to the transfer agent to substitute the new owner's name on the company's official master shareholder listing, as dictated by the probate process. The shares can then be delivered to the new owner's brokerage account.

Your financial advisor is here to help you with the process. Please let us know if you need assistance.

Wendy S. Beaver is a financial advisor at our Southern Pines office.

Credentialed advisors
are part of our core values.

The fact that each and every Parsec Financial advisor is certified sets us apart from the competition. Getting these credentials with organizations that require rigorous continuing education encourages career-long learning of industry and investment needs. Always with a non-biased, non-commission fee structure. When you succeed, we succeed.

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Handling an Unexpected Inheritance

Travis Boyer, CFA, CFP®

If the subject of this article directly applies to you, then I am sorry for your recent loss. Dealing with the grief of losing a loved one can create even further difficult feelings if that loss of life leads to a sizable inheritance. You would rather have that person still in your life, but how do you handle the task of responsibly managing the wealth that was bestowed upon you?

First, you should not feel guilty about receiving your inheritance. Your loved one likely spent many years diligently saving and investing in order to grow his or her assets with a specific goal of being able to pass funds to heirs. Many times when we work with clients, we avoid spending from specific tax-advantaged accounts such as Roth IRAs. The sole purpose of growing that account over retirement is so that it passes on to the next generation. Your loved one's intent was to give you financial freedoms that were not afforded to him or her at a young age. It is now your job to take those funds and be a responsible steward of them to further your life and the lives of others in your loved one's memory.

With this great responsibility now in your hands, it is important to understand what strategies were in place before their death. Perhaps you should adjust those strategies so they relate to your situation. If you are an heir of a former Parsec client, please let us counsel you on the advantages and disadvantages of adjusting those strategies. For example, many times we encourage beneficiaries of a retirement account to only take out their annual required minimum distribution from these accounts. This allows the investments in this account to continue to grow in a tax-free or tax-deferred nature over the rest of your expected lifespan.

Or, perhaps your benefactor held some highly-appreciated, concentrated investments that have now been "stepped-up" in cost basis since passing into your name. This means you could potentially sell all or a portion of the investment to diversify and not pay capital gains taxes. The cost basis is updated to a more recent date instead of the original purchase date, which could be many years ago.

It would be strategic to review your personal finances to learn how to best use your inheritance to improve your financial plan. You can consider setting some cash aside to fund near-term goals like a down payment on a new home. Further funds can be designated to allow several years of potential Roth IRA funding and/or full 401(k) deferrals at work. If you have children, you can fund 529 college savings plans to push more funds into tax-favored accounts.

It is tempting to use the inheritance to pay off debt. It would likely be strategic if the debt is a high cost obligation such as a credit card or high rate student loan (anything above 7-8% annual interest). For lower rate debt such as your home mortgage, you may be better served to slowly pay that obligation down over time and leave the inherited funds invested in a broadly diversified stock portfolio for growth over long time periods.

The inheritance may also give you an opportunity to invest in yourself. If you are in a career you aren't passionate about, consider using a portion of the funds to get a graduate degree or professional certification, or to start a new business. You should take time to think carefully on these options since they will be life changing, capital intensive, and hard to reverse.

Lastly, you can invest in others by giving some funds charitably to an organization in your loved one's memory. Perhaps your loved one volunteered at a local charity. Maybe he or she was passionate about a particular cause. Donations in another's memory are a great way to honor those we have lost.

Regardless of how you choose to use the proceeds, please be sure you are making financially strategic moves that put your inheritance to good use and allow you to continue the strong financial legacy that was left to you. We at Parsec are happy to offer guidance.

Travis Boyer is a senior financial advisor. He is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner.

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