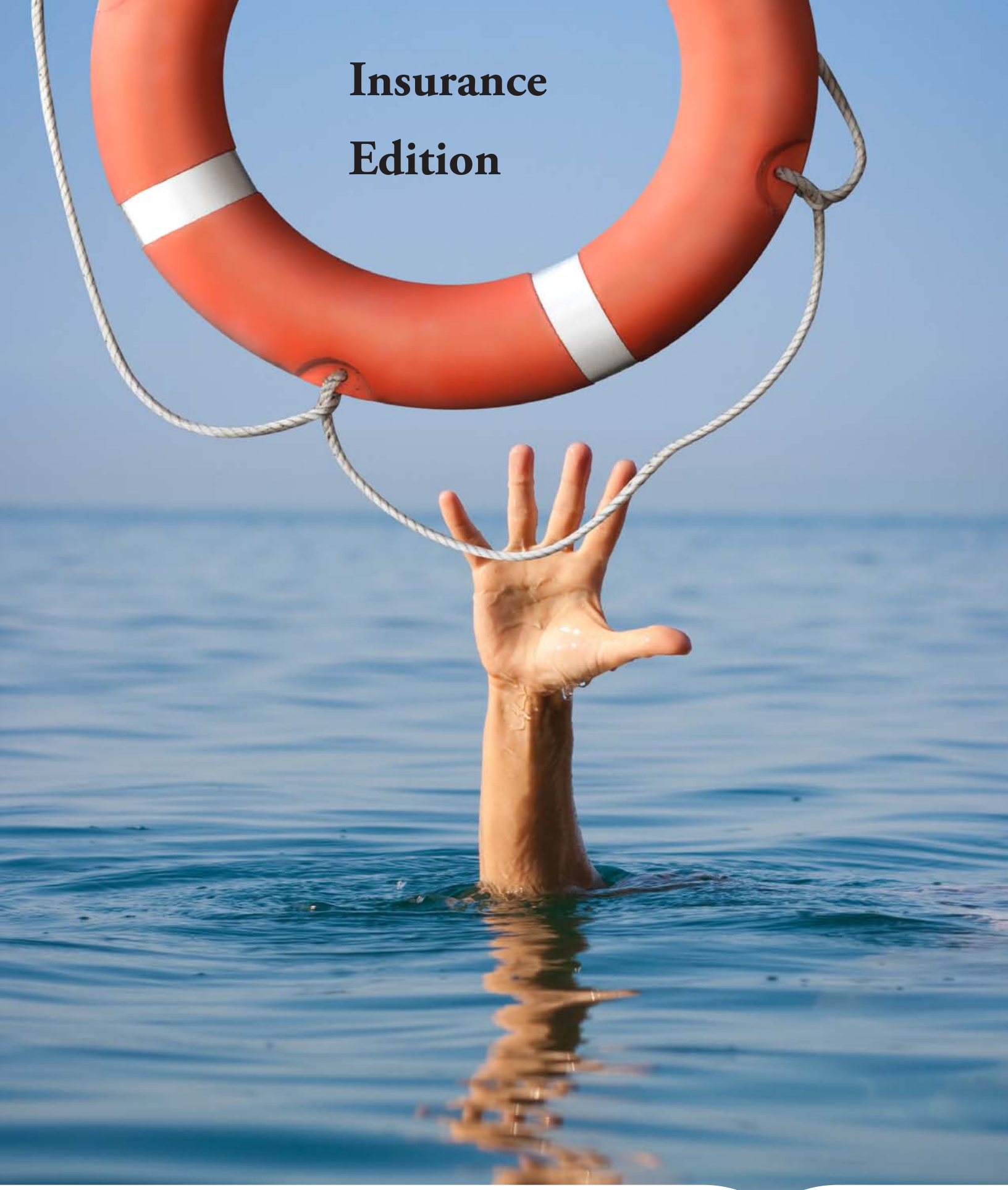
Insurance Edition



ParsecFinancial
WEALTH MANAGEMENT

Note from the CEO

Richard Manske, CFP®
Chief Executive Officer

The world is full of uncertainties. As we take stock of risks that we all face, it is important to have a strategy in place to protect ourselves. The financial risks associated with a premature death can be largely offset by appropriate amounts of life insurance for the years of life where one is most financially vulnerable to the death of a provider. We cannot make the risk of dying go away, but we can alleviate the financial burden.

For financial risks that a net worth can shoulder, self-insurance is an option. If a couple has grown children, mortgages paid off, and a significant net worth accumulated, they may elect to forgo life insurance. After all, the death of a spouse is an emotional loss, but, if two people were planning to live on their accumulated net worth, most often the surviving spouse can financially manage the retirement alone.

Often, the need for insurance is best exposed when looking at the financial plan. The financial plan can easily be modified to show different scenarios. What happens to the financial plan's chance of success if there is a death, health event, loss of house, disability, long-term care, liability, et cetera? Calculating the financial exposure is an important part of determining whether or not self-insurance is an option. Insurance needs analysis also helps to determine what an appropriate amount of insurance is.

Having a thoughtful discussion of life's various risks is an important part of securing your financial future. Oftentimes, discussions with those that sell insurance are influenced by the conflict of interest that is natural to commission-based products. A discussion with your Parsec advisor will focus more on the financial consequence and how the rest of your net worth and cash flow would have to change to best compensate for the risk. In my experience, this results in buying protection where you cannot or desire not to modify the situation to endure the exposure and does not assume that the only risk management strategy is to buy insurance.

I hope you enjoy this newsletter's edition which touches on life's uncertainties and the insurance contracts that play such an important part in mitigating the risks that we cannot afford.

Insurance Edition

Columns

Features

Jim's Crystal Ball

Employment News Keeps Getting Better and Better

On June 6, the Bureau of Labor Statistics released the "Job Openings and Labor Turnover" report with data for April 2017. This report showed that on April 28 employers were looking to fill 6,044,000 non-farm payroll jobs on a seasonally-adjusted basis.

As Chart 1 shows, this is the first time in the history of this series (it started in December 2000) to record openings for over six million jobs. Given that there were only 6,861,000 unemployed people looking for work in May on a seasonally adjusted basis, it is obvious that the labor market is extremely favorable to people who want a job. In fact, it has rarely been easier to find work than it is today.

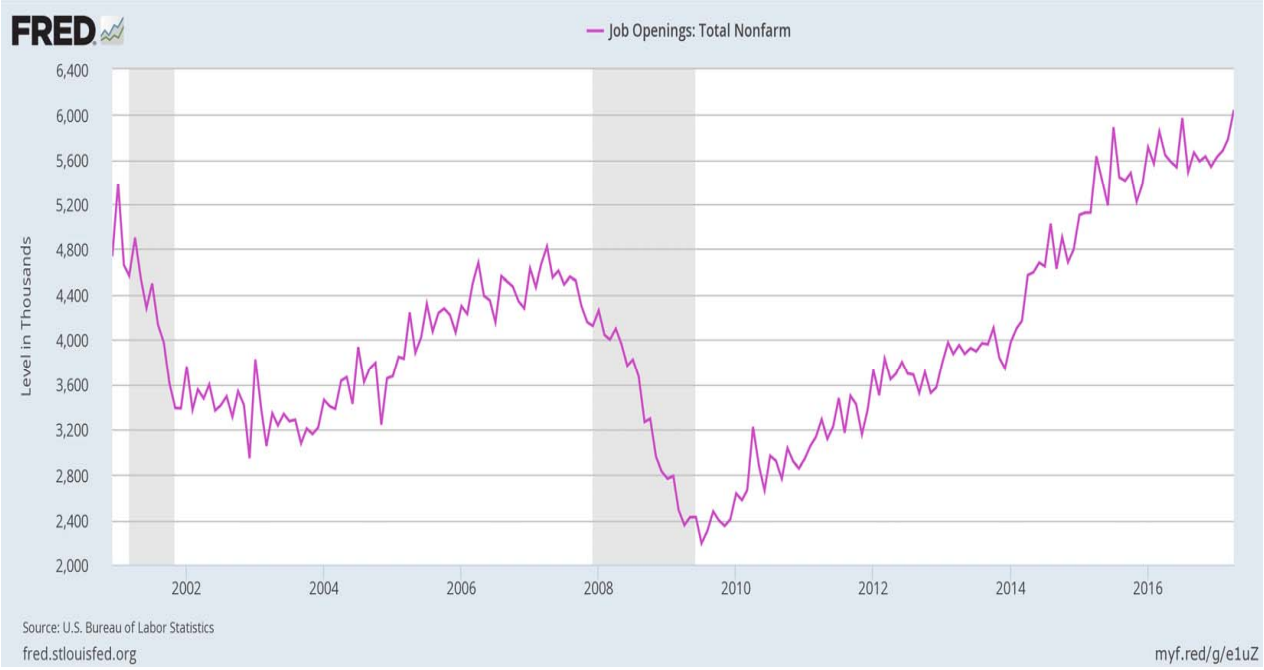


Chart 1

Chart 2 shows what is known as the "U-6" measure of the unemployment rate. It includes not just the 4.3 percent of people in the labor force who are unemployed and actively looking for work, but also discouraged workers, those marginally attached to the labor force, and people employed part-time for economic reasons. You can see that in May, this measure was 8.4 percent, the lowest since November 2007, the last full month of expansion before the last recession began.

These record levels of employment and abundant opportunities for new jobs are wonderful news. They mean that we should keep seeing new record levels of disposable personal income, real GDP, retail sales, and total personal consumption expenditures.

We should also see record levels of revenue flowing into all levels of government. That always makes politicians happy and frequently leads to both opportunities for tax cuts and spending increases, especially at state and local levels.

This keeps economic growth rolling along, which leads to further gains in employment and disposable personal incomes. We are indeed in a virtuous cycle in the U.S. economy now.

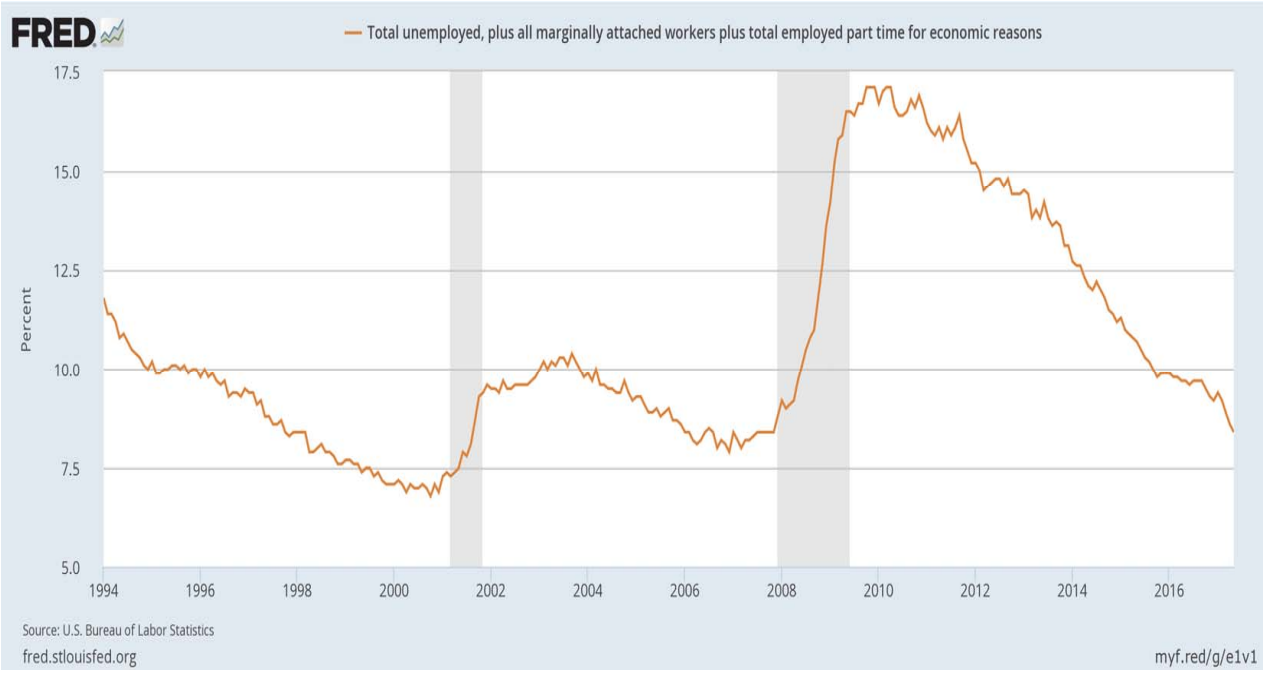


Chart 2

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, **CFP**®

Most of us have bucket lists that we'd like to see realized in this lifetime. If you're like me, your "must-do's" might include a mix of low-cost local adventures sprinkled with some costly and further-afield experiences. Your "must-have's" might include some high-priced items like a new convertible or a second home at the beach. Regardless of what sings to your heart, checking in with your head can help you navigate the financial repercussions of realizing your dreams.

As an early 40-something year old, I am very much in retirement savings mode. I maintain a budget, save regularly, and for the most part, consider myself frugal. For example, I've driven the same car for the last sixteen years. However, there are some things – when the opportunity presents itself – on which I will spend a significant amount of money. In these instances, my heart leads, but my head also has a role to play.

One such opportunity presented itself in early 2016 when I learned that my yoga retreat group was planning a three-week trip to India! In addition to needing my supervisor to sign-off on the extra vacation time, I knew this trip – if I decided to go – would be expensive. Airfare alone was over $1,500, not to mention a few thousand dollars for the program itself!

I'll be honest, even though I advocate checking in with both your heart and head before spending on a big trip or buying that longed-for luxury item; in this instance, money did not even cross my mind. I said "yes" to India immediately and reviewed the expense situation after the fact. While my reaction seems contrary to checking-in with both heart (yes!) and head (?), it wasn't exactly. Having a healthy emergency fund in place, living below my means, and saving on a regular basis cleared the way for a heart-based decision. Because I had already laid the financial ground work, I was open and ready for a big opportunity like India.

As you might have guessed by now, this column is really just an excuse to share my experience in India this past January and February. So I'll stop beating around the bush and get right to it! Visiting India was hands-down the best trip I've ever taken – and a credit to the benefits of good financial planning. We arrived in New Delhi in late January to low 70-degree weather and headed to the northeastern city of Rishikesh, also known as the "Yoga Capital of the World." Rishikesh is located in the foothills of the Himalayas from which the Ganges River (known as the sacred "Ganga" in India) flows with its aqua-blue mineral-laden waters. The river runs through Rishikesh and is banked by lush foothills that serve as habitat for monkeys, elephants, and other wild animals.

On the trip we visited many beautiful and ancient Hindu temples as well as several yoga ashrams. We also ate extremely well as local restaurants source food from nearby villages (because there's no other way to do it) and use only the freshest ingredients and spices. Although getting to India was expensive, hotels and dining costs were well below U.S. levels. For example, going out to dinner and ordering an appetizer, main entrée, dessert, and India's beloved chai tea usually cost about

$1.95 in U.S. dollars.

After Rishikesh, my group traveled about ten hours northwest to Himachal Pradesh, just west of Tibet. On the second leg of the car drive – a harrowing and exhilarating experience in and of itself - the Himalayas came into view. The mountains were stunning and literally took my breath away. Once in Himachal Predesh, we visited more Hindu temples and frequented eateries where our guide knew many locals. We were also invited into a couple of Indian homes where we experienced first-hand the locals' warmth, hospitality, and incredible cooking.

While the trip had its challenges, including air and noise pollution in New Delhi and Rishikesh (to a lesser degree), extreme poverty, child beggars, and thieving monkeys, it was also rich in community, culture, and history. The market and temple colors and sounds were vibrant and penetrating. All the contrasts seemed to scramble my brain and usual orientation to life, such that the richness of India found its way into my heart. So yes, my heart knew what it was doing all along.

Carrie Tallman is the Director of Research. She is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER practitioner.

Continuing Care Retirement Community (CCRC): A High Level Overview

Betsy Cunagin

Over the past few decades, the concept of active living within a retirement community was introduced. No longer are all retirement facilitates considered only for the aging, inactive population.

Enter the CCRC. Today, as Americans are living longer, healthier lives, the CCRC offers retirees the ability to age in place, in one community. Continuing Care Retirement Communities are full service, offering a variety of amenities and activities that appeal to active residents as well as a continuum of medical care as needed in the same community.

CCRCs are not all alike. Distinguishing characteristics of a CCRC, other than the ability to age in place, can vary dramatically. Services range from basic groundskeeping, shuttle, and laundry services to more high-end recreational options, such as fitness and aquatic centers; multiple dining options; arts; crafts; pottery studios; and continuing education classes. Volunteer opportunities and community outreach are also often a part of a CCRC's offerings.

CCRCs offer three main levels of care – independent living, assisted living and skilled nursing care. Memory care may also be included.

Independent Living is the most common entry point. Residents can choose from a variety of homes – from smaller apartments and cottages to cluster homes and villas ranging in square footage.

As residents need assistance with bathing, dressing, monitoring of daily medications. or other basic needs, **assisted living** is the next level of care. Most CCRCs have a dedicated assisted living community within the broader community.

Residents who need 24/7, more intensive medical care, may choose **nursing or skilled care**. A stay in the skilled care area may be for a short period of time as a resident needs physical therapy or additional monitoring of conditions during recovery from an illness or fall. Once recovered, a resident may move out of skilled care. Alternatively, some residents suffering from chronic medical conditions needing around-the-clock care may stay in the community's skilled care for an extended time.

All gradations of care are offered through one continuing care contract. Residents enter a CCRC under three main contract types, or a fourth, less common rental agreement.

Life care (Type A) Contract: Also referred to as an extensive contract, it offers unlimited access to all three levels with no increase in monthly fee as higher levels of care are needed. Life care contracts carry a higher entrance fee but come with the security of knowing monthly costs will not increase (other than inflationary increases) if more expensive medical care is needed.

Modified (Type B) Contract: This contract typically includes a lower entrance fee than an extensive contract with limits to the higher levels of assisted living and skilled nursing care. Residents requiring care that exceeds the limits built into the modified contract will incur higher fees as their care needs increase.

Fee-for-service (Type C) Contract: It offers an entrance fee lower than type A or B; however, residents pay market rate for medical care as needed. In other words, there is no pre-payment for any future required medical care.

Rental (Type D) Agreement: This option is less common. Rental agreements do not require an entry fee. Like the fee-for-service arrangement, there is no pre-payment of medical care. Instead, monthly fees increase when additional care is required.

The portion of a resident's entry fee that covers pre-paid medical expenses is generally tax deductible. This is the case as well with ongoing monthly fees. In addition, depending on the contract, entrance fees may be refundable over a certain period of time.

CCRC contracts can be complex. It's important to consult with your tax advisor to understand the available medical tax deductions from both the entrance and monthly fees and how these deductions can best be utilized.

The appeal of a CCRC vs. a standalone assisted living or skilled nursing home is the continuum of care within one community. Residents enter with the safety that they'll have access to unlimited long-term medical care. The difference is in the payment of that access to the medical care. An extensive contract is essentially pre-payment for future long-term medical expenses, whether needed or not. This is similar to long-term care insurance; however, the protection for available services is backed by the financial strength of the facility, not by the insurer.

This raises the question – do you need long-term care (LTC) insurance as a resident of a CCRC? It depends on the type of contract. A fee-for-service contract increases a resident's monthly bill as increased medical care is needed and at market rates. An extensive contract provides for all levels of care without the market rate increases. It is important to understand the trade-offs between contract offerings when LTC insurance coverage is being considered.

With approximately 2,000 CCRCs in the United States and 58 in North Carolina, how do you make the right choice? This decision requires due diligence and a detailed evaluation of both the subjective lifestyle components as well as the objective hard numbers that determine the facility's financial stability. Request a copy of the facility's audited financial statements and consult with an accountant familiar with the operations of a CCRC. Questions to consider:

- Is the facility operating at full capacity with a wait list? It's very expensive to run a CCRC. As a result, it must operate under maximum capacity. Industry standards view a 95% occupancy rate of independent living accommodations as full.
- What's the facility's history of monthly payment increases for operations?
- What are the important key financial ratios? Cash Margin, Net Operating Margin (NOM), Cash to Debt Ratio, Net Assets, to name a few.

Subjective criteria are also important. Request a tour, and spend time speaking with residents. Speak with staff members. Eat a meal or two in the different dining areas. Inquire about staying a few nights to get a real feel for the facility's culture. Other questions to consider are:

- Do residents seem happy and engaged?
- Is the staff friendly?
- Do you like the "look and feel" of the facility?
- Does it look like a place you could call home?
- Does the facility have all of the amenities that are most important to you?
- Evaluate the culture. Does it reflect your personal tastes?

Here is a link to a very helpful guide that provides basic information on several CCRCs in North Carolina:

http://www.ncdoi.com/SE/Documents/CCRC/CCRC_Guide_2016.pdf

The guide is available through the NC Department of Insurance. The 2017 version has not been published as of this article. Fees may have changed.

As always, we are happy to answer any questions or speak further with you if you're considering a CCRC.

Betsy Cunagin is a senior investment advisor and CERTIFIED FINANCIAL PLANNER practitioner. She works in our Asheville office.

Parsec Acquires Mimosa Investment Management

We are proud to announce the acquisition of Mimosa Investment Management LLC. Based in Winston-Salem, North Carolina, the firm was founded in 1997 by Bob Kluttz and Chuck Patton. They wanted to establish a long-term relationship with their clients - a goal we share here at Parsec.

Parsec will retain Mimosa's office in Winston-Salem. Bob and Chuck will continue to work with their clients. We are excited that Mimosa's current office manager, Judi Staton, will join Parsec as a client service specialist. Please allow us to introduce you to the newest members of Parsec's team:

Robert H. Kluttz (Bob) graduated from UNC-Chapel Hill with a bachelor's degree in English. He also is a graduate of the MBA School at Emory University. Bob worked for twenty years at AON Corporation before his career at Mimosa Investment Management.

He has served on the Board of Trustees of Virginia Episcopal School and as its chairman for three years. Currently, Bob serves on the Board of Advisors of the Lineberger Comprehensive Cancer Center at Chapel Hill and is a member of the Episcopal Diocese of North Carolina. For the last three years, he has been an active member of the

North Carolina Civil War History Center.

Bob and his wife have raised three grown children, all of whom live in North Carolina, and proudly have seven grandchildren.

Charles C. Patton (Chuck) is a graduate of UNC-Chapel Hill with a bachelor's degree in psychology and master's degree in business administration.

He worked for eight years in retirement planning with AON Consulting, before beginning his career in investments. He spent another eight years with Cornercap Investment Counsel in Winston-Salem, prior to starting Mimosa Investment Management with Bob in the spring of 1997.

Chuck has been involved with Samaritan Ministries, a local homeless shelter and soup kitchen. He assisted in fundraising for Samaritan's recent capital campaign and served on the Board of Directors for an additional three-year stint.

Chuck and his wife have two boys who recently graduated from UNC-Chapel Hill. Their sons have relocated to Charlotte and Austin, Texas. Chuck enjoys playing golf, fitness workouts, and walks with his dog.

Judi Staton is a native of Jacksonville, FL who has called Winston-Salem home for the past 15 years. Her career in the financial service industry began at Barnett Bank in Jacksonville in 1997. Two mergers later, she left Bank of America to join Mimosa Investment Management in 2002.

She has successfully raised two wonderful children who call Winston-Salem their home as well. In her free time, she enjoys the many activities available in the Triad, as well as spending time with family, friends, and the grand-dogs.

We are happy to welcome Bob, Chuck, Judi, and Mimosa's clients to Parsec's family.

Do You Need Life Insurance?

G. Michael Baughman

Life insurance exists to transfer a catastrophic risk of premature death to a life insurance company for a nominal fee (premium). There are many different types of life insurance, ranging from term to whole to variable, each with its own advantages and disadvantages. A simple rule to guide your decision-making is: insurance is insurance. It is not an investment.

Here is a quick overview of the different types of insurance and when they may or may not apply:

Term Life Insurance: Term life is usually the most efficient type of life insurance to purchase. It's the most inexpensive form of life insurance with a fixed premium for a specified term. The term or period is a fixed amount of time, such as 10, 20, or 30 years. In most cases, when the term expires, so does the insurance. This type is best for specific defined risks that do not last your entire life. Think mortgage or college expenses. When the mortgage is paid-off and your kids are out of college, the liability is gone and so is the need for life insurance. Congratulations!

Whole (Permanent) Life Insurance: Whole life exists to cover a risk that lasts for your whole life. Hence the name. It is hard to identify many situations where whole life insurance makes sense. There is at least one exception: pre-funding an estate tax liability. This risk exists for individuals and couples with taxable estates worth more than $5.49 million or $11 million respectively. However, we know the government can and will change the rules. Depending upon where you live, local estate taxes may still apply. If you have a large taxable estate, and your beneficiaries have a large estate tax liability, a whole or permanent life insurance policy may not be a bad way to cover/transfer that risk. For most situations, there is very little need for whole life insurance.

Variable Life Insurance: Variable life is a type of whole life insurance, which adds in the ability to invest the cash value of the policy into mutual funds. Note that these investment options are typically paying the insurance company as well so it's an expensive way to invest. However, if you have an insurance need where the risk lasts for your entire life, and you want the ability to invest the cash value, this type of coverage is worth consideration.

As a financial planner, one of my first obligations to my client is to cover the risk. I did not say, "buy life insurance." Not all risks need to be insured by insurance companies. If your death doesn't leave a gaping hole in your family's financial plan, then you may not need life insurance. However, when there is a life insurance need, I recommend keeping it simple and efficient. Don't feel obligated to purchase expensive insurance from that distant relative or friend of yours because you like him. Insurance exists to transfer catastrophic risks in the most efficient way possible, period.

Please feel free to contact your Parsec Advisory Team to help you with this important decision.

G. Michael Baughman is a senior investment advisor and CERTIFIED FINANCIAL PLANNER practitioner. He works in our Tryon office.

What You Need to Know Before You Are 65

Lori King, RP®

Medicare is a broad topic that can become overwhelming very quickly. Making the correct choices about your health insurance can have a significant impact on your financial future. It is important to know all of your options before you get started. This article will give you some easy steps to help you make the best decision for you and your family. First, let's take a look at what Medicare is.

Medicare is health insurance for people 65 or older and people under 65 with certain disabilities. Original Medicare (Parts A & B) pays for about 80% of your health care costs. You are responsible for the other 20%. You can choose to pay the additional costs as they happen or buy a Medicare Supplement policy to cover the possible 20%. Medicare Advantage (C) is a plan you would choose to have instead of original Medicare (it will typically cover 80% of costs). You will hear references to Medicare Parts A, B, C, & D. Here is what each of them mean.

Part A - Hospital Insurance

This coverage is free if the person is 65 and qualifies based on work history (or a spouse's work history). The requirement is 40 quarters of work (approximately 10 years). There is a late enrollment penalty for Part A, if you do not sign up when you become eligible.

Part B - Medical Insurance

This coverage has a monthly premium based on income. The standard premium is $134/month but can be as high as $428.60/month (visit Medicare.gov for Part B premiums based on income). It will debit automatically from your Social Security benefits each month, or you will pay the premium out-of-pocket if you are not yet taking benefits.

There is also a yearly deductible for Part B that you must meet. This year (2017), it is $183; you pay this first, before the Part B coverage pays. There is a late enrollment penalty for Part B, if you do not sign up when you become eligible.

Part C - Medicare Advantage

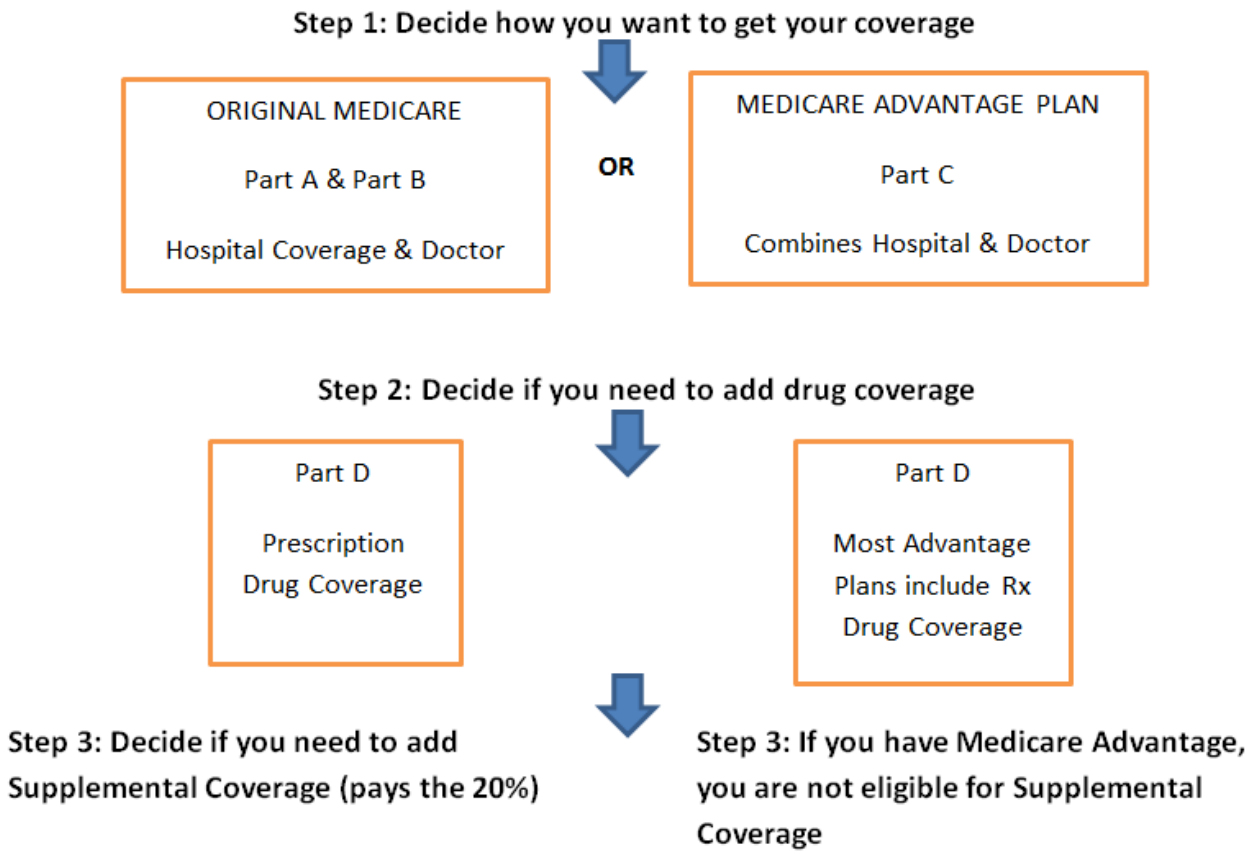
This coverage is not part of original Medicare. Medicare Advantage plans are offered by private insurance companies and include benefits similar to those of original Medicare Parts A & B and usually include prescription coverage.

These plans vary in cost depending on benefits and services. Important: If you choose a Medicare Advantage plan, you may still have to pay the Part B monthly premium that is a part of original Medicare.

Part D - Prescription Drug

This coverage helps with the cost of outpatient prescriptions. The drug plans are offered by private insurance companies. This coverage is optional and carries an additional monthly premium. There is also a late enrollment penalty for Part D, if you do not sign up when you become eligible.

Now that we know what Medicare is, let's look at some steps to help you determine which Medicare coverage will be most beneficial to you. There are 2 main ways to get your Medicare coverage. Follow the steps in the chart shown below to help you determine which coverage you would prefer:



You have a multitude of choices when it comes to companies that can provide your prescription drug coverage, your supplemental coverage, and Medicare Advantage programs. Do your research and make sure you shop around. Medicare.gov is a wonderful resource to compare plans, benefits, and prices.

Now that you know what Medicare is and what your options for coverage are, you can start digging further into it. Here are some steps to make sure you get everything done in a timely manner, don't miss any important opportunities or deadlines, and don't have to pay any late enrollment fees or penalties.

Step 1: Talk to your current employer about your health benefits.

If you or your spouse is currently working and is covered by an employer or union group health plan, you may be able to enroll in Medicare Part A and retain your current health insurance coverage. This option requires a great deal of research, since supplemental coverage could be less expensive than your current premium for health insurance coverage.

If you or your spouse is not currently employed or is not covered by an employer or union group health plan, skip to Step 2.

Step 2: Sign up for Medicare when the time comes.

Your open enrollment period is a 7-month window around your 65th birthday: 3 months prior to the birth

month, the birth month, and 3 months after your birth month. During this period, you have guaranteed approval on any Medicare supplement, Medicare Advantage, or prescription drug plan. If you are not covered by an employer health plan, you need to sign up during this 7-month time frame to avoid late enrollment fees/penalties.

If you or your spouse is still employed, covered under an employer or union group health plan, and intend to remain on that plan, sign up for Part A now. When you retire, you will sign up for Part B & D by applying online at Medicare.gov or going to the local Social Security Administration's office. You will be in what is called a 'Special Enrollment Period' based on the previous employer coverage. The special enrollment period will allow you to sign up for Parts B & D with no penalties and grants you guaranteed approval for any plan.

Step 3: Consider the need for a supplement plan.

You have the option to purchase a supplement plan, to cover the 20% gap in original Medicare. These plans carry an additional premium and are underwritten by private insurance companies.

Depending on each person's financial situation, some people will choose to pay the 20% out-of-pocket and will not carry supplemental coverage. Keep in mind that you would pay all deductibles and co-pays that are a part of original Medicare, and there is currently no cap on the out-of-pocket amount you could have to pay. You can purchase a supplement plan at any time, even outside of open enrollment; there are no penalties for not having this coverage or for waiting to get it.

Reminder: If you wait to buy a plan later, you must go through medical underwriting to get approved for the plan/company that you want; as your age increases, so do premiums for this type of coverage.

Step 4: Consider the need for a Drug Plan (Part D).

You have the option to purchase a plan to cover some or all of your out-of-pocket prescription drug costs. These plans carry a monthly premium and are underwritten by private insurance companies. Coverage varies depending upon the type of plan selected.

There is a late enrollment penalty involved for Part D if you sign up after open enrollment. Currently, the penalty is 1% for each month you wait to obtain a Part D drug plan. Example: If you wait 5 years before gaining coverage, you would pay a 60% penalty amount that is added to your monthly drug plan premium. It may also be difficult to get a policy for additional coverage later because you must go through the medical underwriting process. The only time you are guaranteed any policy with any company is during "open enrollment." Visit Medicare.gov to shop plans and prices.

Medicare is an important tool for financial planning during your retirement. It is a benefit that you have paid for and earned while working during your lifetime. Make sure that you complete the necessary steps to take advantage of it. If you have questions about which Medicare path is best for your financial future, feel free to contact your advisor to discuss your options.

Lori King is a client service specialist in the Asheville office and is a former Marine. She is a REGISTERED PARAPLANNER® designee.

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