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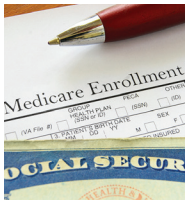

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Contributors

Tracy Allen joined Parsec in 2008 and is a financial advisor. Prior to joining us, she spent 13 years with Charles Schwab & Co., Inc., most recently as a manager of Charlotte's South Park office. She is a CERTIFIED FINANCIAL PLANNER™ practitioner and a member of the Financial Planning Association. A Texas native, Tracy has lived in Charlotte since 1992. She received her BA in English from Southern Methodist University and a MA in English from University of Toledo.

Travis Boyer returned home to join Parsec in 2012 and is a senior financial advisor. He is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner. Travis is a member of the CFA Institute and the CFA North Carolina Society. Previously, he had worked as an Analyst with Wells Fargo Advisors and as a Client Service Associate with Edelman Financial Services.

Cristy Freeman has been with Parsec since 1992 and acts as the firm's unofficial historian. She is an Accredited Asset Management Specialist™ designee. A native of Western North Carolina, she holds an Associate of Science degree from Asheville-Buncombe Technical Community College. She manages special projects, calculates the firm's performance data, coordinates IT activities, and produces the firm's newsletter, including the "Parsec News" column.

Daniel Johnson, III joined Parsec in 2013 and is a financial advisor. Daniel is a CERTIFIED FINANCIAL PLANNER™ practitioner, as well as a member of the Financial Planning Association (FPA) and a Registered Financial Advisor of the National Association of Personal Financial Advisors (NAPFA). He is an active member of the South Asheville Rotary Club and serves on the board of Asheville GreenWorks.

Harli Palme joined Parsec in 2003. She is a CFA charterholder as well as a CERTIFIED FINANCIAL PLANNER™ practitioner. In addition to her duties as an advisor, she is the firm's Chief Compliance Officer and the Director of Wealth Management. Harli is a member of the CFA Institute, the CFA North Carolina Society, and the Financial Planning Association. Currently, she serves on the board of OnTrack. She has a B.A. in English from Wake Forest University.

Jim Smith joined the firm in 2006 as Parsec's first chief economist. He has had an outstanding 30-year career as an economist in business, government, academic, and trade association settings. He has been an Adjunct Professor at Kenan-Flagler Business School at UNC Chapel Hill since 1988.

Jim's Crystal Ball

What's Up with the U.S. Economy?

The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce threw a curve ball at economic forecasters and business analysts on May 29 in their release, "Gross Domestic Product: First Quarter 2015 (Second Estimate)." They told us that real GDP had been revised from a paltry increase of 0.2 percent at a seasonally adjusted annual rate to a decline of 0.7 percent at a seasonally adjusted annual rate.

This was an unprecedented development. We only have quarterly GDP data for the U.S. back to 1947, but this decline marked the first time in the history of business cycles in the U.S. (data for which goes back to December 1854) that we had seen three separate quarters of declines in GDP during an expansion. The other two were the first quarter of 2011 (-1.5 percent at a seasonally adjusted annual rate) and the first quarter of 2014 (-2.1 percent at a seasonally adjusted annual rate).

Those two quarters of falling GDP put this expansion, which began in June 2009, in a tie with the 37-month expansion that ran from October 1945 to November 1948 as the only expansion with two quarters in which GDP fell. Those were the second and third quarters of 1947.

The economic forecasting community is abuzz with speculation and theories as to what is going on with the GDP data. Since the declines keep occurring in the first quarter, some say we have a problem with seasonal adjustment procedures. These are the statistical techniques used to smooth economic data to eliminate the impacts of weather, the number of working days, and other recurring events like the timing of Christmas, New Years Day, and Easter.

Federal Reserve officials have said they regard whatever happened in the first quarter of 2015 as being "transitory." There is plenty of evidence in support of this view.

One very powerful piece of evidence is to look at the pattern of real GDP in comparison with that of real gross domestic income (GDI). If we had perfect measurements of the components of both series, they would be exactly the same.

The National Income and Product Accounts (NIPA) can be built by either adding all the value added in producing goods and services for final demand within the borders of the U.S. or by adding up all the incomes of the various parts of the economy. Because the sources of data for each side of the NIPA are different, we get different answers for GDI and GDP.

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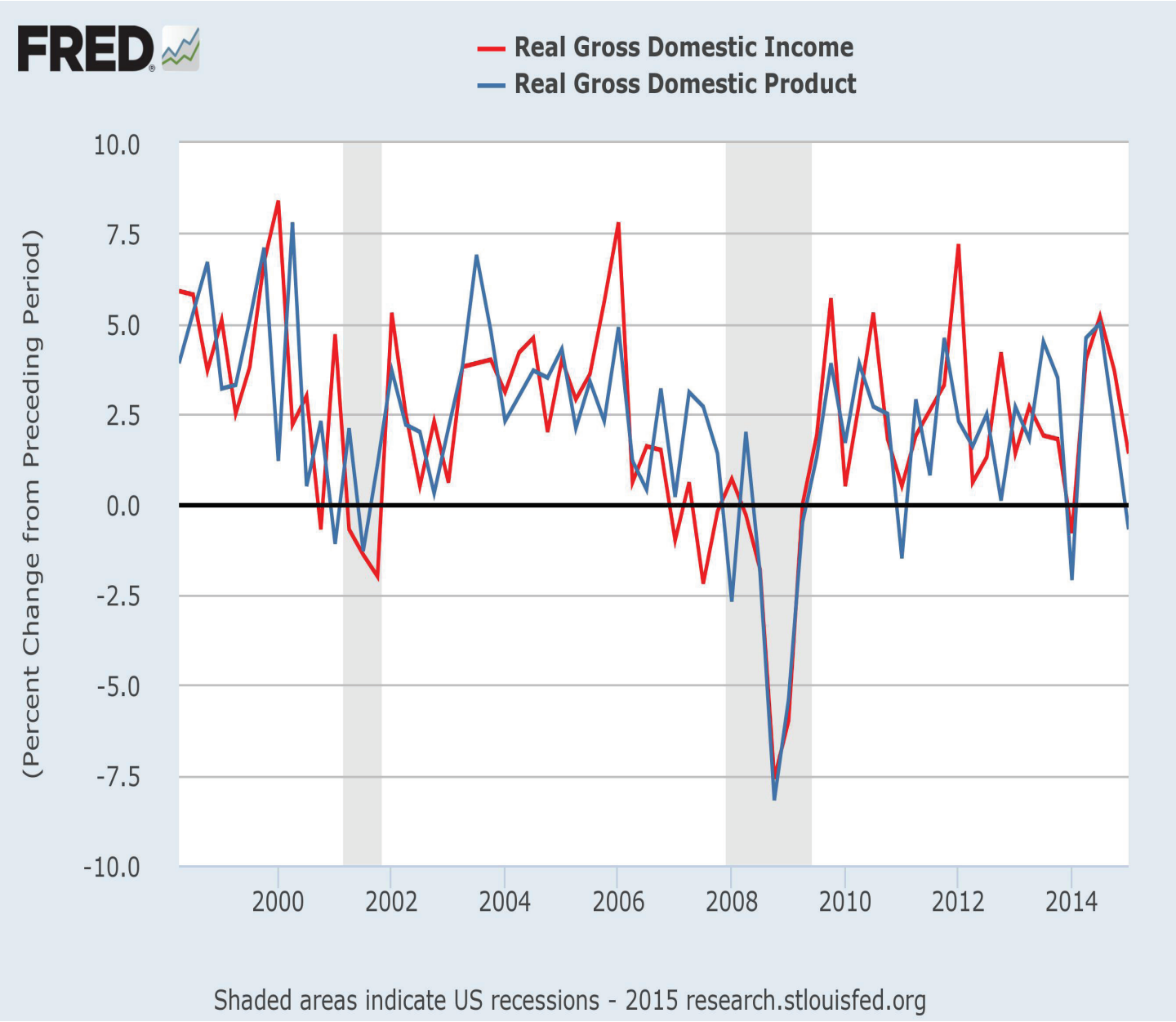
The chart below shows the quarter-to-quarter growth rates in each series from 1999 through the first quarter of 2015. It is immediately apparent that real GDI has only posted one negative quarter since the recession ended.



That was the first quarter of 2014 when real GDI fell at a seasonally adjusted annual rate of 0.8 percent, much less than the 2.1 percent decline in real GDP at a seasonally adjusted annual rate. In the first quarter of 2011, real GDI grew at a seasonally adjusted annual rate of 0.5 percent while real GDP shrank at a seasonally adjusted annual rate of 1.5 percent. Similarly, real GDI increased at a seasonally adjusted annual rate of 1.4 percent in the first quarter of 2015 while real GDP fell 0.7 percent at a seasonally adjusted annual rate.

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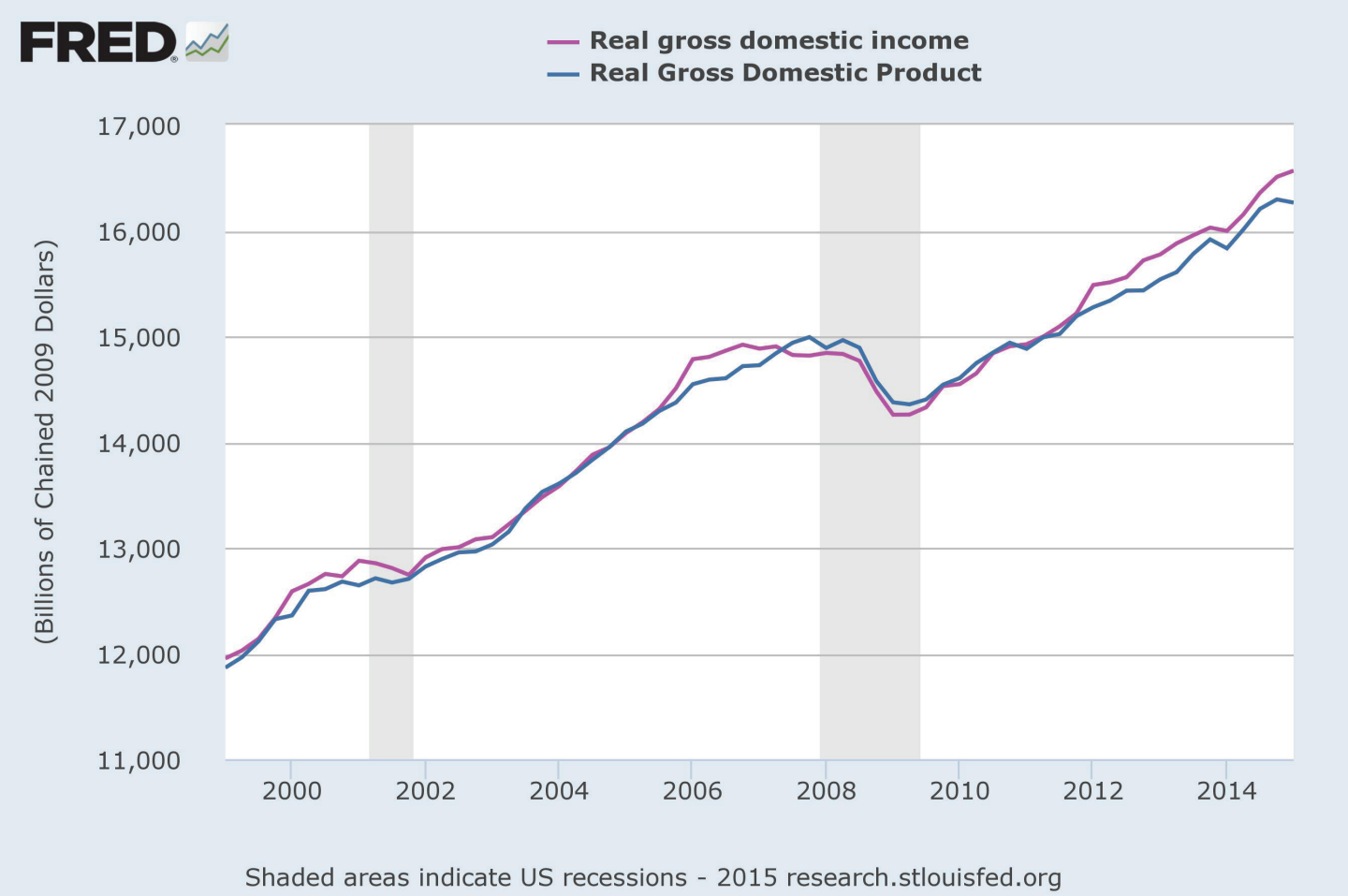
Chart 2 shows the levels of real GDI and real GDP, both measured in 2009 dollars at seasonally adjusted annual rates. While they are generally very close, as they should be, note that real GDI has been consistently above real GDP since the end of 2010.



This suggests that the annual revision of the NIPA data, which will cover the period from the beginning of 2012 through the first quarter of 2015, will show higher levels of real GDP than the current data. Those revised data will be released by BEA on July 30.

Other data, particularly the strong growth in employment over the past 15 months, also argue that the economy is doing better than the real GDP data reflect. We'll all be watching the July 30 revisions from BEA and other incoming data for confirmation of this forecast.

I Quit! Oh, Wait - Can I??

by Cristy Freeman

I love StoryCorps on NPR. If you are unfamiliar with the program, ordinary people record short interviews about whatever topic they wish to discuss. The interviews are then stored at the American Folk Life Center in the Library of Congress.

Recently, Len Berk recorded an interview with a friend. He worked for 40 years as an accountant. By his own admission, he hated the work, but he had a family to feed. When he retired from his accounting career, he switched gears and became a lox slicer at a gourmet food store in New York City. He loves the job.

I always chuckle whenever someone says, "Do something you love, and you will never work a day in your life." The reality is, you have to make a living and sometimes do not have the luxury of "doing what you love." Len Berk can attest to that. For these people, retirement cannot happen soon enough.

You may have fantasies of abruptly walking out the door, never to return to your job. You are more responsible than that, though. Deciding when to retire is often a difficult decision. Let's discuss some factors to consider.

Your Health

It is a no brainer that our health impacts how much we can do every day. If you are in poor health, you might consider retiring early so that you can take better care of yourself, get time-intensive treatment, or avoid the strain of work. Keep in mind that, with some exceptions, you will not qualify for Medicare until you are age 65. If you find yourself in this situation, you should consider how you will fill the insurance gap between an earlier retirement age and age 65.

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If you are fortunate to have good health, you may be tempted to retire early and enjoy your life. Again, you should consider the insurance gap. Health insurance coverage is costly. Even though you are in good health now, you should not forego coverage. Also, you may live longer than you expect which leads to the next factor.

Family History

Has your family lived into their 80s, 90s, or beyond? According to data compiled by the Social Security Administration, men aged 65 today can expect to live, on average, until they are 84.3. For women aged 65 today, they can expect to live to age 86.6.

Depending upon your age at retirement and life expectancy, your retirement could last 20 years or more. We will discuss the financial impact of that in a moment. What about the emotional impact? Do you feel comfortable not working for 20 or more years? Would you seek part-time work? Would you volunteer? How would you fill your days?

Income

Replacing income lost from your job is a huge concern. Ideally, we all want to maintain a comfortable lifestyle in retirement. It can be overwhelming to envision how we could accomplish that goal without a steady paycheck.

The Social Security Administration website (www.ssa.gov) has a handy tool that allows you to estimate your retirement benefit. When you have that number, you can then look to other sources of income. Do you have a 401(k) or other retirement plan with a current or former employer? Do you have personal or other retirement savings accounts? Do you have real estate or other assets that you might want to sell?

Health Insurance

As I previously mentioned, retiring before age 65 may mean you must fill an insurance gap until you are eligible for Medicare. Even if you wait until age 65, you have all kinds of supplemental coverage to consider. Gone are the days of one medical insurance plan with your employer. Welcome to the often confusing world of insurance after 65!

I have firsthand experience with this issue. Last year, my father retired. I tried to sort through the materials and make a recommendation. How hard could it be? After all, I am involved in selecting Parsec's health plan. Well, it's hard, folks! In the end, I referred my father to an insurance agent who specializes in supplemental policies for Medicare.

What Should You Do?

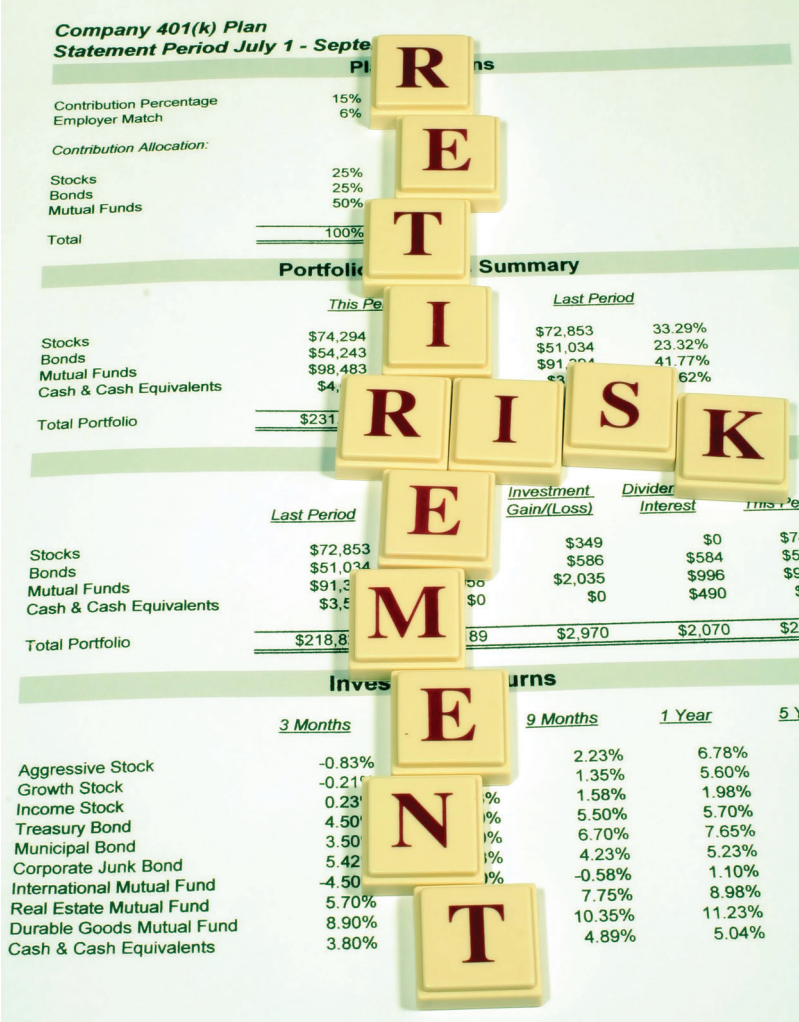
In addition to the tools available on the Social Security Administration's website, you have a valuable one at your fingertips: your advisor. We can certainly act as a sounding board for the emotional aspects of retirement. Our primary goal, though, is helping you determine when to retire from a financial viewpoint. We can project income based upon your current assets. We can look at potential scenarios with varying retirement ages. We can review all sorts of scenarios to give you the information you need to determine the best time to retire.

All major life decisions are scary. I encourage you to seek help with this one. Fortunately, you have resources available to assist you with the decision. Good luck!

Preparing Your Portfolio for Retirement

by Travis Boyer

As you start planning your transition from full time work into retirement, your portfolio will also likely need to prepare for life after work. A different investment approach in retirement may make financial sense as your goals change from accumulating wealth for retirement to replacing your paycheck with portfolio spending. You may also consider an asset allocation change to help provide a sense of comfort with your investments in retirement. Determining how much of a change to your mix of assets is warranted, and over what period of time that adjustment is made, is a critical component of the financial planning services we provide to our Wealth Management clients.



The best way to start planning for your portfolio's transition (if one is needed at all) is to take inventory of your expected income in retirement. Many of us will be eligible for some form of Social Security benefits, and some of us may also be eligible for other pension income in retirement. These recurring income streams will act like a conservative investment allocation in your overall financial plan since you will be able to rely on those checks each month, regardless of which way the stock market moves. Higher Social Security and pension benefits, alongside any part-time earned income, will lower your portfolio spending needs in retirement and thus give you a higher ability to take risk with your investments. Any employer-provided health insurance benefits in retirement or long-term care insurance coverage will also help lower spending needs in retirement. This will allow you to sustain more price volatility with your investments if you choose to accept that risk in retirement.

Assuming you want to maintain your lifestyle in retirement, the gap between your required income and your expected retirement income streams will need to be replaced with spending from your investments. Unfortunately, according to a Federal Reserve survey in 2014 , 25% of respondents over age 45 who are still working have no pension benefits and no retirement savings. This suggests that many Americans will be unable to retire, or they will have to cut their lifestyles significantly to adjust to their lower income levels.

If your portfolio income needs in retirement are expected to be minimal, then you may have the ability to continue with the same aggressive allocation in your later years. While saving for retirement, many of our clients have a 100% equity allocation. Equities as an asset class have the highest expected rate of return over long-time periods compared to more conservative investments like bonds. While the price return on a stock portfolio can be very volatile from year to year, the income component of stock investing from dividend payments provides a steadier return component. A globally-diversified stock portfolio with an emphasis on dividend-paying stocks

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can generate an approximate 1.5-2.0% dividend yield in today's market. By holding 30-40 individual companies in your portfolio, you are also less exposed to any one company significantly cutting or eliminating their dividend. Over time, as stock prices rise, dividends are also likely to rise. Depending on the size of your portfolio, your retirement income gap may be fully covered by dividend income. This would allow you to have minimal need to sell from principal to fund spending needs. In this way, your entire portfolio could remain in price volatile assets like equities if you are comfortable with the price swings.

If your dividend income won't cover your expected spending needs in retirement, then you will need to sell from your investments on an ongoing basis to generate cash. In these cases, we generally recommend that clients allocate a portion of their portfolio to more conservative, income-producing assets like bonds. Bonds help generate ongoing income with their interest payments. They also serve as a source of principal sales when equity prices are in a downturn since bond prices are much less volatile than stock prices. Ideally, you can have enough of a bond allocation in your portfolio where you can satisfy principal spending needs for 5-10 years by selling strictly from your bond allocation while stocks are significantly off their highs. For example, if your retirement income gap is $50,000 and your portfolio income is expected to be around $25,000, then you will need $25,000 in principal sales each year. An allocation of $250,000 to diversified bond mutual funds will give you 10 years of spending needs which should be more than enough fixed income to mathematically get you through the next bear market in equities. The allocation to more conservative investments will also lower overall price volatility in your portfolio, giving you more peace of mind as asset prices ebb and flow.

Once you have determined the appropriate investment allocation in retirement, you can begin to transition to your new allocation. Ideally, you will have several years or more to change to the new target mix of assets, allowing you to gradually sell investments over several tax years to spread out any tax burden. Or, you can make the needed fixed income purchases over several years with ongoing savings. A gradual shift over time in your mix of assets lowers the risk that you would need to sell a significant amount of your equities right at retirement when stock prices may be depressed.

As your trusted Advisor, we find great pleasure in helping you determine the appropriate mix of assets in retirement as well as the timeline to implement the new approach. You will just need to keep us updated with changes in your expected retirement date and expected spending levels in retirement. We'll take care of it from there!

Downsizing for Retirement

by Tracy Allen

Let's say you took Cristy Freeman's advice on page seven, and you met with your financial advisor to determine when you can retire. In this scenario, let's assume the answer was five years from now. You and your advisor, Travis Boyer, decide to reduce your exposure to equities in order to lessen risk since you will need to rely on your investments to supplement your other retirement income. You are also going to focus on building up cash in your emergency reserves to give you greater peace of mind in those first years of retirement.

You and your spouse have always dreamed of downsizing your home so that you can spend more time doing the things you love rather than doing house work. You have yet to decide what type of home you want, but you hope to sell your current home once you retire.

If you are planning to downsize in a few years, there are some important steps to take now to make the process

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go more smoothly.

One of the first things you should do is contact a home inspector to see if there are any major issues that need to be addressed before you sell your home. You should also contact a real estate agent to get suggestions on improvements you can make that might help your home sell faster. Taking care of these items while you still have an income makes economic good sense.

"If, like me, you've lived in your house a long time, you have likely built up years of stuff."

Take a hard look at your current home and how you use it. Many people today rarely use the formal living room and while others never use their dining room. Maybe you don't need to down size as much as you need a home with a different layout. Moving to a home with a master bedroom on the main level is a very practical consideration. My dream home would be styled after a vacation rental we enjoyed several years ago with two bedrooms, two bathrooms, a large open kitchen, and living area between – with spectacular views of the Provençal countryside of course!

Next up: purging. If, like me, you've lived in your house a long time, you've likely built up years of stuff. Just today, my husband cleaned out our storage shed. We found my son's lacrosse gear from when he was 11 years old (he's almost 24), old roller blades, helmets, decayed tents, ancient scuba gear and tons of insecticides I haven't used since going organic 10 years ago. Some of this stuff will be donated and the rest will be recycled or hauled away.

The hard part of downsizing is deciding what to do with the furniture you can't use in your smaller home. Maybe you would like to give your china and crystal to your kids. You may be surprised to learn they aren't really interested in your stuff.

I recently attended a luncheon and shared a table with two women who had just downsized. They both bemoaned the fact that their kids didn't want their furniture and other items. It broke their hearts to have to donate or sell things they have cherished. The reality is today, many young people are too mobile to be weighed down by a lot of things or they don't have the space in their small urban apartments. My dear mother-in-law would love for us to take some of her things, and she tries to give stuff to us every time we visit. We were very fortunate that my in-laws gave us some wonderful pieces over the years, but our days of accumulating more things are over.

Lastly, if you are thinking of moving to another city when you retire, make sure you spend a lot of time visiting ahead of time. Try to spend a few weeks and make sure to visit when the weather isn't great.

Realize that if you are moving to be nearer your children, they have lives too. They may be busier than you expected and won't have as much time to spend with you as you would like. If your kids are the only people you will know in town, you may end up being very lonely.

My parents moved from the Texas coast to Hot Springs, Arkansas to be nearer to my sister. They wanted to get away from hurricanes and evacuations. Little did they realize that they gave up the occasional hurricane for much more frequent tornadoes. My mother said she never would have moved if she had thought harder about it.

As with deciding when to retire, you have much to do and think about before downsizing. However, if you do your homework and take steps ahead of time, your transition will be much easier.

Don't Miss Your Medicare Enrollment Period

by Harli Palme

There are a few important deadlines for signing up for Medicare. Be sure not to miss them, or you may end up paying a penalty.

When do you need to sign up for Medicare?

If you are receiving Social Security benefits during the month of your 65th birthday, you will automatically be enrolled in Medicare Part A and Part B. Part A is free and available to most people, and the Part B premiums will be deducted from your Social Security benefits.

If you are not receiving Social Security at age 65, you will need to contact the Social Security Administration (SSA) to enroll in Medicare. You have a period of seven months surrounding your 65th birthday to enroll. The enrollment period is three months before the month you turn 65, the month you turn 65, and then the three months following the month you turn 65.

The downside to waiting until a later open enrollment period is an increase in Medicare Part B premiums - a 10% increase in premiums for each year that you are eligible but neglect to enroll. If you do not sign up when you turn 65, open enrollment then occurs annually from January 1 through March 31st of each year. Coverage would begin the following July.

Why Would Someone Not Want to Enroll in Medicare Part B and D?

Medicare Part A is free for most people, so there is little reason not to enroll. However, Parts B and D require a premium to be paid monthly.

If you are eligible for medical insurance through an employer, you may want to delay enrolling in Part B. The Part B insurance would be considered a secondary coverage after the employer's insurance and may not be worth the cost. If this is the case, you will not be charged the premium penalty for delaying enrollment in Part B, but be sure to let the SSA know.

Similarly, if you don't sign up for Medicare Part D when you are first eligible, there is a penalty of 1% per month for every month you delay enrollment, unless you have other credible drug coverage. A private insurance plan would likely have credible drug coverage.

Need a refresher on the various parts of Medicare?

The chart on the next page offers a quick reference guide for Medicare. An important note about this article: the information here is not exhaustive. It is kept general for brevity and clarity. The Social Security Administration (SSA) or your advisor will be able to better address your specific situation.

Lastly, if you are unclear how, when or why you should sign up for Medicare, take this away – call the SSA and your advisor three months prior to turning 65.

Medicare Refresher

	What It Covers	Cost	Comments
Part A	Hospitalization, skilled nursing, hospice, medically necessary home healthcare	Free for most citizens age 65 and older	Automatically enrolled if receiving Social Security benefits
Part B	Medical expenses, labs, outpatient services, preventative care	Premiums for 2015 start at $104.90/month; increases in higher income brackets; adjusts for inflation	Subject to deductibles ($147/year), coinsurance, and other costs; automatically enrolled in receiving Social Security benefits
Part D	Prescription drug plan	Varies by plan, with an average around $32/month; increases with higher income	Delayed enrollment causes increases in premiums unless you have other credible coverage
Medigap Insurance	Covers Part B deductibles, coinsurance and other non-covered costs	Varies by plan	Plans sold by insurance companies must be standardized policies with certain requirements and coverages; six-month open enrollment period beginning when you sign up for Part B.

Parsec News

Parsec continues to grow. In the last several months, we have added three new employees. In the Asheville office, we are pleased that Jessie Boyle and Heidi Kiesel joined the firm. Nancy Blackman brought her talents to the Charlotte office.

Heidi (left) and Jessie (right)

Heidi is a financial advisor. Her professional experience includes asset management and personal banking. She recently moved to the Asheville area and enjoys her mountain retreat. Her passions are photography, snow skiing, and gardening.

Nancy

Jessie is also a financial advisor, the same role she held at Edward Jones Investments before she joined our team. She is originally from Michigan and has enjoyed living in the Asheville area since 2001. She likes spending time outdoors and staying active in her free time.

As a Certified Master Gardener, Nancy shares one of Heidi's passions. Prior to joining our team as a financial advisor, she worked in public accounting and as a financial consultant for Bank of America and Wells Fargo. She has lived in the Charlotte community since 1996.

Communication and Organization Critical in Long Distance Care Giving

by Tracy Allen

My husband and I are very fortunate that both sets of parents are still living. However, both of our fathers are in failing health. This sad situation is made more difficult by the fact that we live far away. Trying to help care for elderly parents from a distance is difficult but doable.

If, like my husband and I, you have siblings, it is a good idea to have a family meeting either in person or by phone to discuss how you can coordinate care. Discuss goals and concerns, and determine what is reasonable to expect from everyone. We are the nearest to my in-laws, but they are still four hours away by car. But we do make the more frequent visits and my sisters-in-law help coordinate in-home care and provide wonderful emotional support to their mom.

Make sure someone has organized all the information pertaining to your parent's condition and treatment. Have a list of medications and how frequent they must be taken. Write down the names of your parent's doctors and how to contact them. Get organized. Get permission to communicate with their doctors directly. Be informed.

Often times, one sibling lives near the parents and ends up becoming the primary caregiver. This is a very stressful job. Offer to visit for a long weekend or longer if possible to allow him or her some much needed respite. Help out by researching caregiver options and other resources to help.

Talk to your parents about their estate planning documents. It is critical that they have created advanced directives such as living wills and health care powers of attorney. A durable power of attorney is important as well. Know who they have named as their attorney-in-fact and where to find the documents in an emergency.

Offer to help with managing their finances. Folks of my parent's generation tended to be old school. The husband managed the money and the wife managed the house. My father took care of the bills and finances on the computer until he had his stroke. My mother has never used a computer and so she had no idea what needed to be paid or when.

Think about getting a medical alert system. My neighbor recently used hers when she had a bad reaction to new medications. Her usual caregiver, her son, was out of town on business. At the touch of a button, she had EMTs on their way.

Add additional travel as a budget expense when planning your finances. You may have to make a trip at the last minute which can be very expensive.

On your next visit, do an audit of their home to make sure they are as safe as can be. Think about removing area rugs, installing hand rails and a seat in the shower and make sure the smoke and carbon monoxide detectors are in working order.

Communicate often with your loved ones and your siblings. Send gifts or cards. Phone home! My sister-in-law Carrie bought her mom an iPod Nano and taught her how to text. Now Sally can chat with us all day without feeling as if she's intruding.

Caring for loved ones from a distance can be emotionally and physically stressful, but by being organized and prepared, it can be rewarding as well.

What Are Qualified Charitable Distributions (QCD)?

by Daniel Johnson, III

The financial services industry is notorious for utilizing acronyms. We want to help clarify some of those acronyms for you. Since we want to look at the QCD, we need to first start with the IRA and the RMD. An IRA is also known as an Individual Retirement Account. Most all retirees are familiar with this since it was the recipient account of their 401(k) or pension lump sum distribution. I hope that this is also a familiar account to everyone that is not yet retired, because it is a great tax-deferred savings vehicle for workers. Notice that this investment account is a great tax-deferred savings vehicle. The tax savings associated with IRAs are not permanent savings, the tax payments are delayed to a future date.

Now, let us talk a little more about our second acronym. The RMD, which is short for a Required Minimum Distribution, or as the IRS prefers, the MRD (Minimum Required Distribution), is an IRS mandate. I say that it is a mandate because as we previously discussed, the government gives us a tax-deferred savings vehicle, but they eventually want to harvest those saved taxes. At the age of 70 ½, everyone who owns a traditional IRA is required to begin withdrawing a percentage of the account, which begins at around 3.65% of the account. If you don't withdraw this amount, the IRS levies a 50% tax penalty on the amount of the RMD.

These two common terms in financial planning lead us to a third acronym to discuss. The QCD, also known as the Qualified Charitable Distribution, has been around since 2006. The QCD allows an individual to donate up to $100,000 of their RMD to a qualifying charity. You may say, "what is so special about that, I can also do that with my appreciated stock!" Appreciated stock is also a great asset to give away to charity, because it allows you to receive a deduction of the full value of the stock, while not realizing any of the capital gain associated with the stock. The QCD is actually very similar, only it applies to IRA income. The QCD allows an individual to give to charity a portion or all of their RMD and exclude it from their income tax return. Although the donor does not receive a tax deduction for the gift, the income never makes it to the tax return. This means that the donor might avoid anywhere from 15% to 43.4% of income tax, depending on their AGI (adjusted gross income). This has the potential to be much more valuable than a tax deduction ever would be.

You may think, this sounds great, where do I sign up? As indicated earlier, the QCD has been around since 2006. However, the provision has not been made a permanent piece of legislation. The opportunity to use the QCD has been active in every year since 2006, however, in many years there has been uncertainty as to whether it would be renewed or not. For now, the provision has again lapsed. No one knows for sure whether the provision will be renewed again, but looking at the history of the QCD, it seems more likely than not.

We will continue providing updates on the status of the QCD to all IRA owners that currently have RMDs. If this idea interests you, do not hesitate to start a conversation with your advisor on whether or not this might be advantageous for your situation.

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