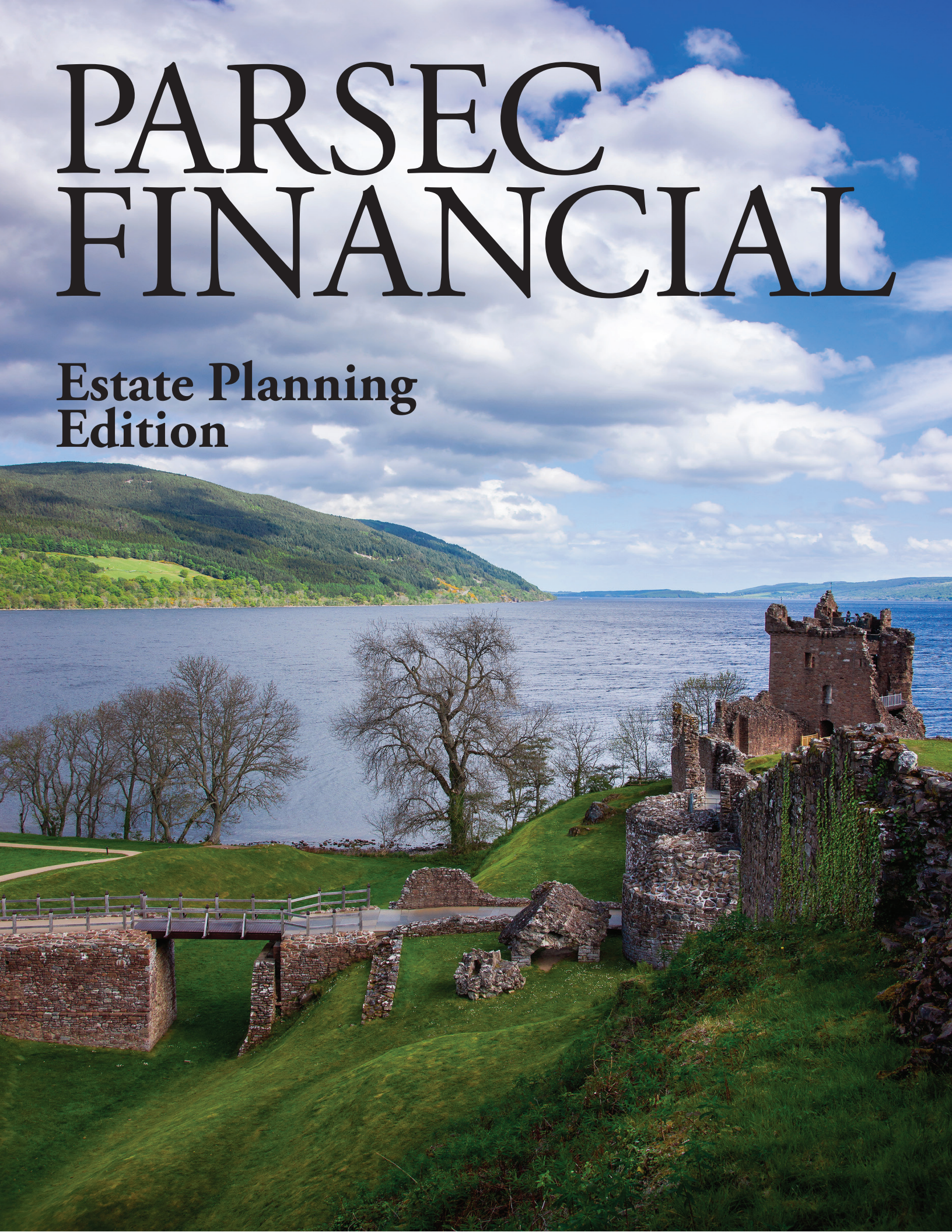
PARSEC FINANCIAL

Estate Planning Edition



Note from the CEO

Richard Manske, CFP®

Working with people has been the single greatest source of pleasure that I have experienced throughout my career. Developing relationships that are focused on the attainment of life's goals allows a close and intimate bond to form between advisor and client. Parsec Financial started in 1980, so we have developed many very long-term relationships with our clients. In many cases, we worked with professionals in their workings years, helped to transition them into retirement, and then saw them through the many stages of retirement. Naturally, we have seen a number of our clients pass away. Each time it saddens us but also inspires us. The stories and memories of our clients remain with us. These treasures inform us of the important duty we have to others and to serve as a reminder that our time is limited.

A mistake is made when estate planning is thought of as just a focus on estate taxes and a concern of the elderly. The overwhelming majority of our clients do not have a taxable estate, but they do have a host of issues to be addressed that are in the realm of estate planning. For example, it is important to plan for incapacity as well as the many practical, legal, and financial aspects associated with the end of life. Many of our clients have children and a host of issues that may revolve around their lives - special needs, addiction, creditor, and divorce. Some of our clients' children may also be from a previous marriage. The issues are wide ranging, and we are adept at finding solutions.

In addition, we have assisted both budding and experienced philanthropists in creating a legacy that they fulfills their wishes. These strategies position their financial resources in a way that transcends their life and is guided by their most enduring values. Assisting folks with this most important work reminds us all of the great kindness at the core of so many human beings. We are honored to assist our clients in this endeavor.

I hope this issue of our newsletter helps to introduce new concepts and provide important reminders that this planning should not be delayed. We are not owed another day, so we must be prepared for whatever eventuality confronts us whether we are old or young, healthy or sick. Being truthful with ourselves is important, responsible and, in many ways, liberating.

Estate Planning Edition

Columns

Features

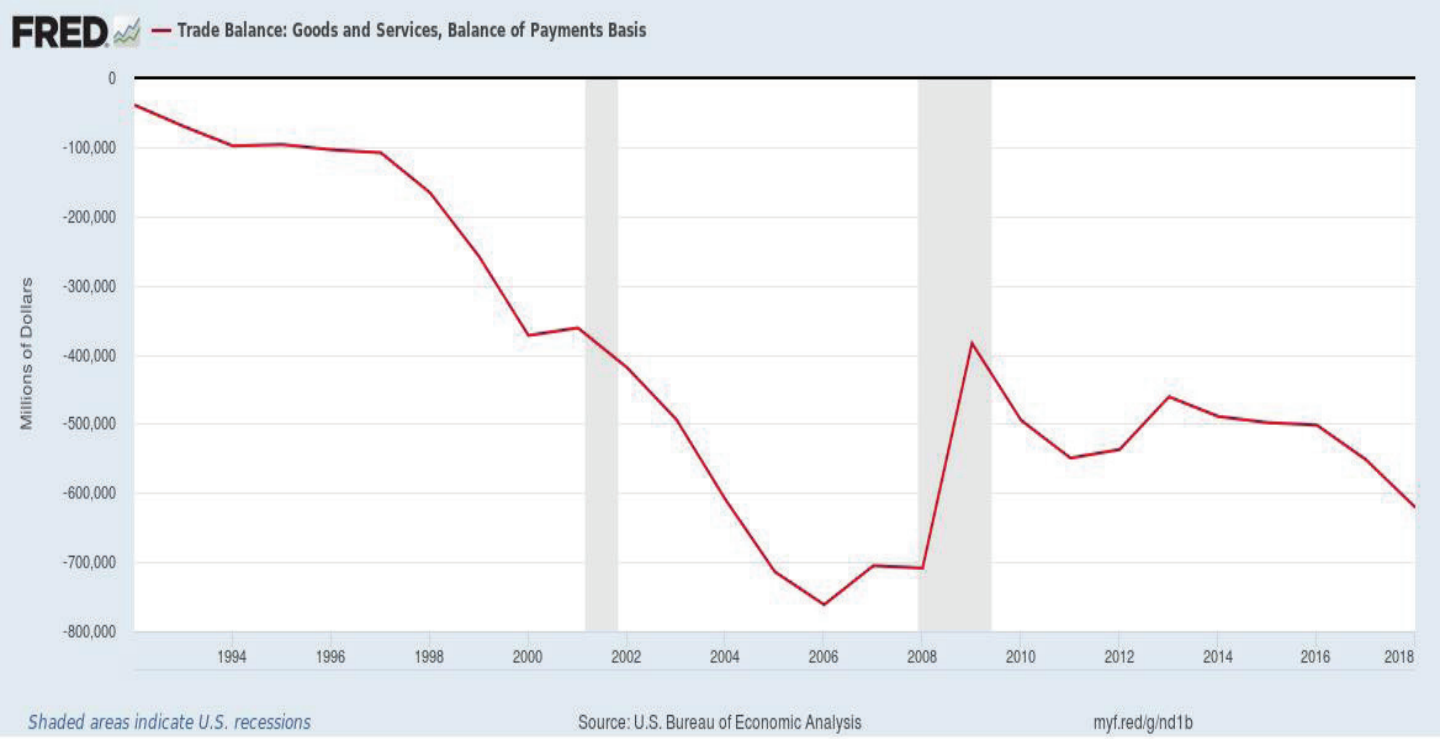
Jim's Crystal Ball

Don't Fret Over the Trade Deficit

On March 6, the Census Bureau released its FT-900 report, "U.S. International Trade in Goods and Services." It contained data for both the month of December and the full year 2018.

If you are a real "data wonk," you can delve into this 64-page report and learn all sorts of details on U.S. international trade. My recommendation would be that you ignore the whole thing and find a more useful way to spend your time.

The chart below shows the annual history of the U.S. trade deficit on goods and services since 1992. You can see that it shrank dramatically during the December 2007-June 2009 recession and has widened significantly since then.



You may have seen the front-page story in *The Wall Street Journal* on March 7 entitled, "Trade Deficit in Goods Hits Record." If so, you may be puzzled by the fact that the chart does not show that.

The reason is because the U.S. almost always runs a big deficit on goods and a partially-offsetting surplus on services, such as banking, education, entertainment, real estate, and tourism. For 2018, the goods deficit was indeed a record at $891.3 billion. The services surplus was $270.2 billion so the combined deficit added up to $621.0 billion, which was 3.0 percent of GDP.

The notion that a nation with a trade surplus is healthier than one with a deficit is an old and thoroughly debunked economic theory called mercantilism. The father of the discipline of economics is Adam Smith. He published his famous book, *The Wealth of Nations*, in 1776. He showed then that the people of a country and its production capacity were the secrets to wealth, not running trade surpluses to pile up gold and silver, which is how trade imbalances were settled back then. In modern times, Japan is the best example of a country that followed this policy from about 1971-1989. It accomplished almost nothing good for them.

The broadest measure of trade flows among countries is the balance of payments. It is exactly the same for every country in the world at zero. That is because of the iron laws of accounting based on double-entry bookkeeping.

If a country runs a deficit on its trade in goods and services, as the U.S. does and has for many years, it must run an equal surplus on its capital account to achieve that zero balance. The U.S. runs large capital inflows because we have a huge market that offers opportunities for investors to earn better returns here than in their own countries.

Thus, those people who worry incessantly about the trade deficit are implicitly saying they would prefer to see the U.S. become a less-attractive place for people from other countries to invest. That seems extremely counterproductive to me. In fact, it is very high on the list of economic things for which "you should be careful what you wish for." If our trade deficit in goods were to shrink dramatically, so would our capital inflows from other countries because there is no option. Interest rates would probably rise a lot to entice U.S. investors to save more. That doesn't seem like a very desirable outcome.

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

Another Task for Your Moving To-Do List

Chad Foster

There is already enough to think about or forget about when it comes to moving, whether it is down the street, across state lines or even to another country. This is a reminder to take the necessary time to review estate documents during the moving process.

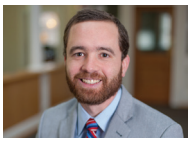
This is not something you need to do alone. Parsec recommends reaching out to a local attorney who is proficient in estate planning and the laws. When we talk with our clients about estate documents, we are generally referring to their last will of testament; living will; medical and health care powers of Attorney; and trust documents. There may be more documents involved in an estate plan but these are typically the main ones.

When reviewing your documents, the attorney will make sure the right legal language is in the documents. Here is a sample of some questions to ask yourself as you are reviewing your documents:

1. Have any new children or grandchildren been born that you would like to add to the documents?
2. Have there been any deaths or changes to current people listed in the documents?
3. Have you moved away from your attorney in fact? Moved closer to someone you wish to be your attorney in fact?
4. Are you moving because you are newly single from a divorce/death?
5. Are you moving to or from a community property state?

When people move, their documents are generally still valid between state lines. Every state/country has different laws and if something were to happen it is good to make sure they are up to date to eliminate any confusion and to ensure everything goes as smooth as it can. If you do not currently have any estate documents completed, now is a great time to get them done.

Unfortunately, we do not draft any legal documents or provide legal advice. If you need estate planning documents, or are new to the North Carolina area, We have a list of local attorneys we work with and would be happy to share the names if you want someone to review your documents.



Chad Foster is a CERTIFIED FINANCIAL PLANNER™ practitioner and is a Certified Divorce Financial Analyst® professional.

Do You Need an Estate Plan?

Michael Bruder

I'm often asked the question: With the federal estate death tax exemption amount so high, do I really need an estate plan? The answer I give is: yes, actually you do!

Your need for an estate plan might be for reasons you have not considered. Let's take a look:

Avoid Taxes. The main reason a lot of folks have an estate plan is a desire to save on taxes. In 2019, one may pass $11.4 million during their life or at death without incurring any federal estate "death" tax. If you happen to be married, your spouse has the same exemption amount, and both are portable.

Portability means, if a spouse dies without utilizing his or her full exemption, the remainder is available to be added to the surviving spouse's exemption. For most folks, you won't have a federal estate "death" tax problem. However, this doesn't give you good reasoning for neglecting to prepare an estate plan.

Choose Who Inherits Your Assets. This is a key reason! You decide and direct by a legal document how the assets of your estate will pass and to whom.

If you aren't concerned about that and don't have a will prepared, don't worry. The State of North Carolina has one written for you! I sincerely doubt, though, you'd like how it dictates where, to whom, and in what quantities your assets pass.

Lastly, please consider that your specific instructions should prevent family members from fighting over assets, which leads to discord and alienation.

Protect Your Family If You Have Young Children. It is important and necessary to have a plan in place for the unlikely tragedy of dying young with young children. Your plan will dictate not only how they are provided for financially, but more importantly who will raise them. I've found it wise to consult with the potential guardian of your children and get their blessing before naming them in your document.

Protect Your Adult Children From Themselves. None of us like to admit this possibility, yet it happens. Perhaps they or their spouse is a spendthrift. Maybe they have a gambling problem or might have become addicted to alcohol or other drugs. It could simply be that they aren't capable money managers.

No matter the issue, you can design a plan to see to it that funds are professionally managed and distributed. The plan can help keep them financially solvent.

Establish Protections For Yourself. You can arrange for representatives to be empowered to act in your stead if you become incapacitated or incompetent. When a durable power of attorney and health care power of attorney are created, you select the individual(s) to represent you in those roles, should that become necessary. This way, you've already selected who will help you when you are no longer able to make legal or health care decisions on your own.

Avoid Probate. For some, privacy is an important issue. Different types of trusts can be utilized to protect privacy by avoiding probate.

Since a will becomes a public document during probate, anyone can see your plan of asset distribution. On the other hand, a trust is a private instrument and can shield

that asset distribution from public eye. This is especially useful if a small, privately-held company and its resulting ownership and organizational structure is outlined in the estate plan.

Great - now you have an estate plan - or maybe you already had one. **There is one last item you must do: *keep your estate plan documents up to date.*** It is critical that this is done because laws and legal rules change.

Recently, a properly executed, North Carolina will written in 1997 was submitted to the Clerk of Court for probate. However, it wasn't self-proving, meaning all the signatures had not been notarized. Therefore, at least 2 of the 3 witnesses would have to personally verify to the Clerk of Court as to their signature.

Unfortunately, 2 of the 3 witnesses had died. To meet this requirement, an individual had to be found who could attest to the deceased witnesses' signature and appear before the Clerk of Court, *or* said individual could sign a notarized affidavit to that effect. Needless to say, this caused undue hardship and extra time. It could have easily been avoided with a review of the will and an update to a self-proving will.

Estate planning will always require time and effort. It is vital for the well-being of your family and your own peace of mind. Please contact your advisor to see how we can assist in this important process.

Michael Bruder is a partner. He is a CERTIFIED FINANCIAL PLANNER™ practitioner and has earned the Certified Trust and Financial Advisor (CTFA) designation from the Institute of Certified Bankers.

Estate Planning After a Divorce

Jacqueline Rogers

Divorce is never easy. There is always a laundry list full of things that you need to be dealing with or thinking about during this time. One very important item that typically isn't at the top of the list is to review your estate plan. Chances are, when you originally set up your estate plan, it gave your spouse full control and named them as the primary beneficiary of your assets.

While some states have laws that would interject and remove the spouse, other mights not. In fact, the law may not cover everything or may not turn out the way you would have wished.

So, where do you start? Take inventory of the estate planning you've already done. The main items will be a will, power of attorney, trust, and advance directives. You'll also want to review how you've listed beneficiaries on retirement accounts and insurance policies.

Let's look at each of the primary estate documents first and identify specific areas to address in each:

Will. Who is your executor? Most likely, you have named your spouse as the executor.

As mentioned above, there are laws that may remove an ex-spouse from acting as your executor. However, these laws might not go into effect until after the divorce is final. If you pass away during a divorce, it will be your soon-to-be-ex that will be handling your estate. Do you

want this person executing your final wishes?

Also, you may have changed your mind about who and what is listed within the will. While anything that goes to your ex may be removed by law, anything going to your ex-sister-in-law, for example, will remain.

Power of Attorney. Let's say you have decided to file for divorce but have not yet officially filed. Your spouse will still have the power to act on your behalf if you gave the right to do so in your POA document. Are you comfortable with your soon-to-be-ex having that authority?

Unlike the will, the law will typically remove the spouse when divorce is filed. If you have not filed yet, though, your soon-to-be-ex may still have authority. Also, laws vary by state, so it is important to discuss this matter wtih your attorney.

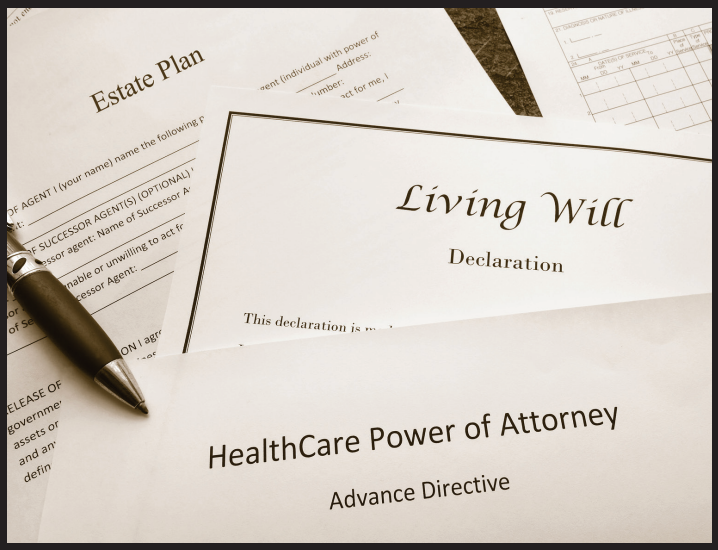
Trust. Have you named your soon-to-be-ex as a beneficiary of the trust? Some trusts may have provisions within the trust to remove your ex. What happens until the divorce is finalized?

Irrevocable trusts are different. Let's say you named your spouse as a beneficiary of an irrevocable trust. You are not able to remove your spouse if you specifically named him or her. You could have created provisions that your spouse becomes a beneficiary at the time of your death. This will protect the assets after the divorce, but not before it.

Lastly, if you have minor children, how will the trust be administered and who can make those decisions as trustee after you are gone? How will the assets be distributed? For example, does the trust dictate that a specific portion is spent on education, weddings, or home purchases? The trust language can also protect the assets if you are remarried at the time of your death.

Advance Medical Directives. A medical directive may express your wishes in a medical situation, if you are unable to communicate. It may also appoint a person to represent you and make medical decisions. Make sure you review the document and update it if needed.

Estate planning may be a hard subject to approach



when you're already going through a very difficult time, but it is necessary. You should update documents and review your final wishes, in the event you pass away prematurely. Your attorney can provide the legal advice you need to properly adjust the documents so that they meet your new wishes.

Careful review will ensure a smoother process for your loved ones. An estate planning attorney who is well versed in this area can make sure you are making crucial updates.

Also, remember that state laws can vary based on where you live and where you own property, so you may be affected differently during and after a divorce depending on these factors. Again, it is important to seek counsel from an estate planning attorney who would understand the process.

Divorce is a challenging time for everyone involved. If we can help you in any way, please contact us.

Jacqueline Rogers is a CERTIFIED FINANCIAL PLANNER™ practitioner in our Charlotte office.

I'll Tweet When I'm Dead

Judson Meinhart

The proliferation of online accounts and assets in the Digital Age makes planning for access and transfer of digital assets an essential part of any estate plan.

With all due respect to Warren Zevon's 1976 release *I'll sleep when I'm dead*, tweeting once we reach our eternal slumber probably isn't something on any of our post-bucket lists. However, it does raise a good question: What happens to my social media, email, and other online accounts when I die?

Digital estate planning is a relatively new phenomenon, having only begun to receive attention from legal and financial planning scholars in the past decade or so. Just as technology evolves with breakneck speed, the laws governing control and access to one's digital estate are also evolving, albeit at a somewhat slower, legislative pace. Nevertheless, whether you are a bitcoin millionaire or you are still using an @aol.com email address, digital estate planning is a vital component to any plan involving incapacitation or death.

For most of us, the majority of our assets with material value will be transferred via instructions left in our will or trust documents. More often than not, these documents don't address what we'd like to see done with our Facebook profile or that treasure trove of pictures we have stored in the cloud. While these "assets" may not have much material value, providing instruction to our fiduciary on how they should be handled is a vital piece of planning to ensure an orderly transition of assets and to safeguard against identity theft. While any comprehensive Digital estate

plan should be created in coordination with an attorney, following these three steps can help get you off to a solid start.

Use a password management tool. Leveraging a service like LastPass, Dashlane or Password Boss can not only provide a convenient means for inventorying all of your online accounts, but they can also help you create more secure passwords. However, while simply giving a fiduciary access to your online accounts via one of these services seems like a simple digital estate plan fix, it actually runs afoul of the Stored Communications Act. So while your executor may be able to access your online social media and email accounts using information stored with a password management tool, they may not be allowed to actually do anything with them.

Draft a Virtual Asset Instruction Letter. A Virtual Asset Instruction Letter, or VAIL, is becoming an essential component of any estate plan. A VAIL should list all of your online accounts and assets and provide instructions for how you would like the executor of your estate to handle each of them. Should the account be deleted? Should access be provided to another decedent? Given the multitude of online accounts we all have these days, this can seem like an insurmountable task, but it is a vital piece of planning.

Leverage account specific tools. When available, the best option is to use your own service provider's account tools. These items are often discussed in those Terms of Service Agreements we all often skim over when registering for a service. For instance, Google has an Inactive Account Manager, which allows you to designate a trusted person who can access your account once it's been inactive for a certain period of time. Facebook provides you with the option of naming a "legacy contact" who can manage your account after your death. It's important to note that when leveraging these tools, they will usurp all other instructions left in any estate planning documents. As of this writing, Twitter does not provide a "legacy tweeting" tool. If tweeting from the grave was in your plans, you may have to seek an alternative.

While this is by no means a comprehensive list of steps you should take to put a digital estate plan in place, it will get you on the right track. Of course, you should always consult with your attorney regarding all estate planning and legal matters.

Judson Meinhart is a CERTIFIED FINANCIAL PLANNER™ practitioner in our Winston-Salem office.

The Who, What, When, Where, Why, and How of Trusteeship

Roger James, Jr.

What is the history, role and purpose of trusteeship?

The origin of Trusteeship is believed to have started almost four thousand years ago in ancient Egypt where the first wills were discovered. These well written documents described the passage of assets upon death in such great detail that they could have been written today. The idea of the proper stewardship of assets continued into the Roman Empire when it was customary to leave directives in wills to fraternal organizations and trade unions. These wills contained instructions on the administration and use of the assets in trust. From the eighth to the twelfth century in England, the idea of trusteeship built a great deal of momentum as individuals began to describe how they wanted assets managed for beneficiaries. The British courts finally began to recognize the executor, not as the owner of the assets, but rather the trustee.

Today's revocable trusts, which become irrevocable upon the testator's death, have three primary parties: a trust maker, a trustee, and a beneficiary. This separation in interest and title make up the very core of why trusteeship is so important. The idea that a trust maker gives a set of rules and instructions for how assets are to be held by a trustee for the benefit of a beneficiary, represents the central mission of trusteeship. This mission being the idea that a fiduciary holds the legal title to the assets, but standing above him is the beneficiary who has the equitable ownership of the property. The fiduciary trustee has a duty to provide for the beneficiary in a manner that is in keeping with good stewardship and the terms of the trust.

The trustee has a large number of duties and responsibilities to the trust maker and the beneficiaries. Some of these duties and responsibilities include: duties of loyalty, prudence, impartiality, administration of the trust, protection, investment management and control of trust property, diversification of investment assets, record keeping, reporting, communication with beneficiaries, non-commingling of trust assets with outside assets, and trust accounting.

Why would someone need or want to involve a trustee in their estate plan to serve upon death today?

In today's complex world, there are many reasons why having a trustee can be important. Perhaps the primary overarching reason for involving a trustee is to maintain control and management of assets in accordance with the trust maker's terms after his or her death.

Some examples of why maintaining control can be important are in the protection of minors, disabled beneficiaries, those struggling with addiction, asset protection, marital protection, creditor protection, and in providing multi-generational tax planning. Anytime someone wishes to provide management and protection of assets for the benefit of a beneficiary in a structured way, as opposed to leaving the assets outright to the beneficiary, a trust and a trustee are warranted. A trustee can also be warranted when there is a unique type of asset to be held and maintained for the benefit of the beneficiary, such as a closely held business, mineral rights, or a unique type of real estate asset.

When should a trustee be involved?

A trustee can serve for a term that is short in duration, or a trustee can be involved over multiple generations of beneficiaries. Trustees usually step in when a trust maker becomes disabled and thus unable to manage affairs or upon the trust maker's death.

The timing of when a trustee is called to serve is controlled by the intent of the trust maker. In the case of minor children as beneficiaries, the trust may warrant that the trustee serve until the children reach a certain age, or the trustee might be called upon to serve over the lifetime of the beneficiaries. The intent of the trust maker governs how the trustee provides income and principal of the trust to the beneficiaries and for what duration.

In some instances, corporate trustees can manage assets for multiple generations of beneficiaries, supplementing lifestyles with income and principal as needed, while also preserving assets multi-generationally from estate tax.

Who should clients consider when selecting a trustee?

Individuals such as a close friend, sibling, child or spouse can serve in the role of trustee. While this may be the easy choice from a legal and personal perspective, this may not be a good choice for other reasons. The extensive nature of a trustee's duties and responsibilities make this a difficult and involved job to fulfill. Individuals who lead busy lives may not have the time or expertise to handle the complexities involved in administering a trust. Individuals serving may find that they feel a lack of expertise and are overworked and underpaid as they deal with unappreciative beneficiaries.

A professional trustee comes in the form of a corporate entity or trust company. This type of trustee can be beneficial in that it does not die, and thus can serve over longer periods of time. Also, this type of trustee has more expertise in the areas of trust administration, investment management, and accounting. Corporate trustees typically cost more in the way of fees, but this cost may be justified in the way the trust company is set up to handle the complexities of trust management.

Whether an individual or corporate entity is chosen, the trustee should be available, impartial, have strong management skills and provide good communication to the beneficiaries of the trust.

Where should a trustee be located?

The key in any trustee-to-beneficiary relationship is good communication. With this in mind, it could be helpful to have a local trustee who is closer to the named beneficiaries of the trust. In today's world, this is not only difficult, but becomes almost impossible as the next generation of beneficiaries may live all over the country or even the world. The role of trusteeship can be served from any location, as long as the impartial investment of trust property is taking place in a prudent way and is being reported to beneficiaries regularly.

National trust companies can provide expertise and quality trust services from a national location to beneficiaries in any state and even in foreign locations.

Certain trust locations can provide favorable benefits to beneficiaries in the areas of trust taxation, asset protection, and longevity. States such as Alaska, South Dakota, Nevada and Delaware provide these types of trust advantages and may be worthwhile as a preferred trust situs. The trust's situs, for tax purposes, may be shifted to a different state in order to provide a lower income tax rate. Those creating these types of trusts should consider options for state trust situs depending on what types of benefits they hope to provide.

How does one go about appointing and implementing the use of a trustee?

A trust maker formally names a successor trustee to themselves in their revocable trust document. This trust document is typically drafted by an estate planning attorney and specifies when the trust maker will be deemed disabled, as well as when and how the trustee will serve upon the trust maker's death.

The trust document spells out in writing the trustee powers, guidelines and directives as how to handle the trust administration. Trustees will begin with an inventory of trust property and an identification of how to prudently manage, invest, and care for this trust property. The trustee's name will be added in the titling of trust assets to indicate the control and management authority of the trustee over trust assets. This process can involve new real property deeds, investment management account retitling, and proper retitling of any other trust assets.

The trustee can then oversee the management of all trust assets, whether handled by the trustee directly or by delegating responsibilities to another independent party. The trustee obtains a new tax identification number for the trust, once the trust becomes irrevocable. The trustee will also need to properly handle the income and principal of the trust assets, in keeping with the directive language of the trust. In some trust accounts, this can mean communicating with beneficiaries regarding their needs for income and/or principal for their health, education, maintenance and support needs.

A trust maker can also spell out how a trustee may be removed and replaced. Some trust makers may not want to allow beneficiaries the right to remove and replace a trustee. A common reason for this is for the protection of the control of assets. Others may wish to not give all power to the trustee for fear they may be less responsive or provide less attention to detail with regard to investments. Many trust makers will only allow beneficiaries to be removed for what is defined by state statutes as just cause.

Trusteeship has grown more involved and detailed over the years, just as our lives have become equally more involved and detailed. The choice of who will serve as trustee has become almost as important as the terms of the trust and how to provide for trust beneficiaries. In estate planning today, trusteeship continues to play a vital role in the ongoing stewardship, control, and passage of assets to future generations.

Roger James is a partner. He has earned the Certified Trust and Financial Advisor (CTFA) designation from the Institute of Certified Bankers. Roger holds a Juris Doctor (JD) from the Cumberland School of Law at Samford University.

Parsec Financial Announcements

Important Dates

As the end of tax season approaches, we remind you of important tax deadlines. To ensure your needs are met and to help us manage workflow, we request that you contact us for the following transactions as soon as possible:

- 2018 Roth IRA Contributions
- 2018 Traditional IRA Contributions
- 2018 SIMPLE and SEP IRA Contributions
- Tax filing (or extension) deadline

The above items must be resolved by Monday, April 15, 2019.

Parsec Prize

Please follow us on Facebook, where we will provide a list of 2019 Parsec Prize winners later this quarter!

Office Closings

- Friday, April 19, 2019
- Monday, May 27, 2019

Kudos

At Parsec, one of our core values is to maintain our expertise. We encourage our employees to seek credentials to specifically address our clients' needs, which creates a wealth of expertise for the firm as a whole. We want to recognize **Melissa Stamatiades** for working hard to uphold this value.

Melissa has earned the designation of Certified Trust and Financial Advisor™. It is a certification mark of the American Bankers Association (ABA). The mark indicates the individual has met established educational and work experience requirements and satisfaction of ongoing certification requirements set forth by the Association.

Employment Opportunities

We currently do not have any job openings for any of our locations. For up-to-date postings, please visit our website at https://parsecfinancial.com/employment-opportunites/.

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