Q4 | 2019

ParsecFinancial

YEAR-END EDITION

CONTENTS

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2019

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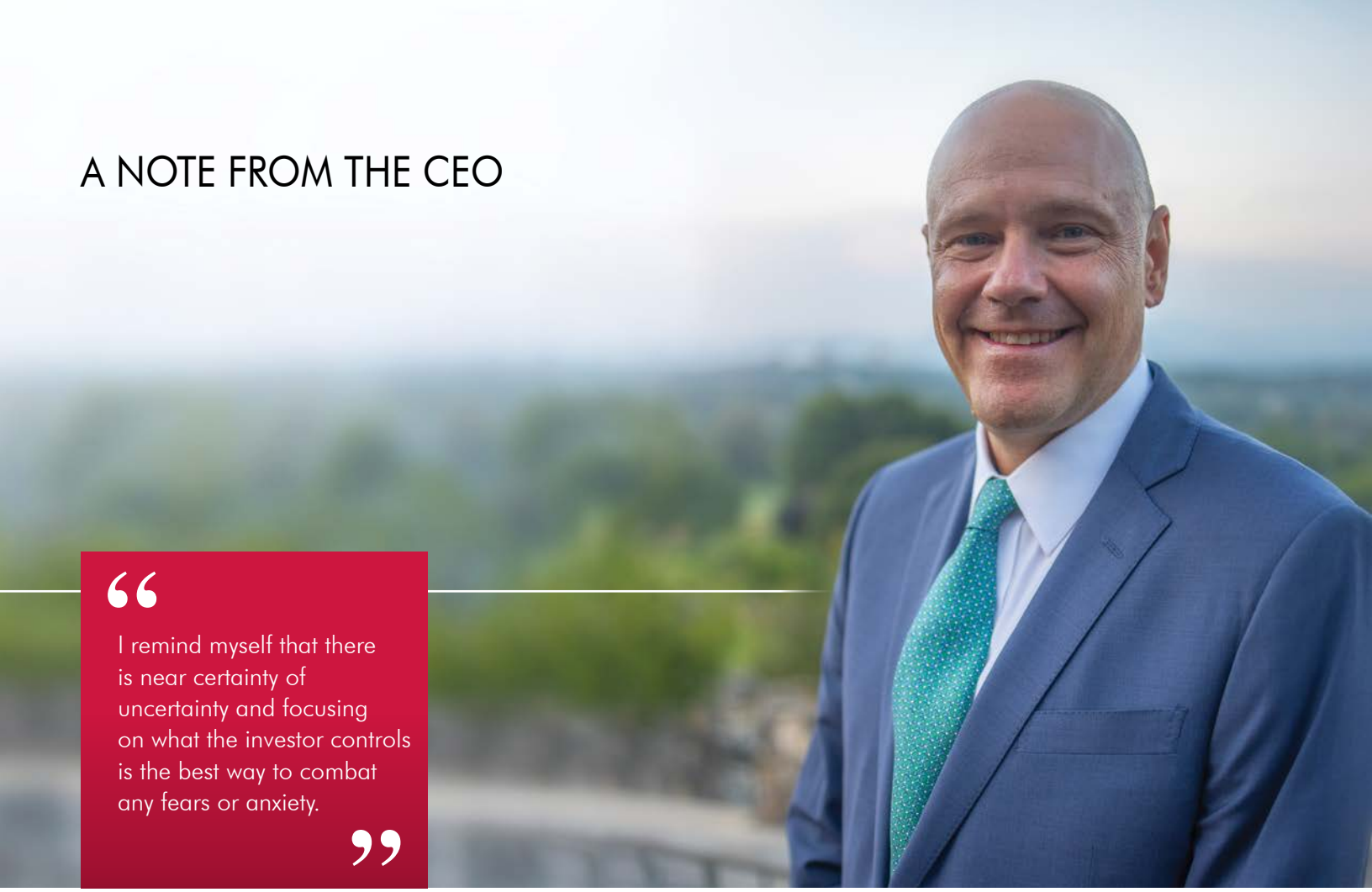
A NOTE FROM THE CEO



> "I remind myself that there is near certainty of uncertainty and focusing on what the investor controls is the best way to combat any fears or anxiety."

As we enter the fourth quarter, I am already amazed at the events of 2019. The year has brought considerable change to financial markets and the economy. As markets sold off at the end of 2018, they rallied through much of 2019, albeit with relentless volatility. The economy teeters between the stimulus injected from the tax cuts and the drag from tariffs and the rhetoric surrounding tariffs. The world has priced over $18 trillion of sovereign debt in negative interest rates.

The wall of worry that the markets climb is always steep, but in my view, this year seems significantly concerning. I remind myself that there is near certainty of uncertainty and focusing on what the investor controls is the best way to combat any fears or anxiety. What do I mean? Go back to your financial planning and cash flow projections to be sure that your cash levels and asset allocation best represent your ability to invest for the long term. Get short-term cash flow requirements out of the stock market. Having the correct amount of cash equivalents helps make sure that you are not forced to sell for your cash flow in the midst of a downturn.

Next year is likely to be no less interesting because it is an election year. The primaries and then the general election will come with a lot of news coverage. We will all likely be overwhelmed and tired by the end. Market strategists will be compelled to review the sectors most likely to be affected in either party's successful outcome. There is likely to be added volatility in health care, energy and technology. Each party has platforms that will work to add to the potential volatility of these sectors: health care, because of its complexity and the rising costs; energy, with the climate change backdrop; and technology, which is faced with growing concern that big tech has too much power and responsibility. The growth of the wealth and income gap is sure to garner much attention as well. All of this said, there is not much a long-term investor should do to try to predict how an election outcome will affect portfolio returns. In the short run, it is likely to increase volatility, but viewed with a long-term focus, the trends that affect the economy are much longer than the political cycle and influenced by much more than party platforms.

This quarterly newsletter is focused on end-of-year planning and helps to capture some important considerations. Enjoy the read and remember to focus on the things you can control. That's good advice when looked at through long-term goggles.

- Rick Manske, CFP®, BFA™

Longevity Forum Was a Success!

Longevity Forum event helped clients and guests prepare for retirement and help ensure financial and physical well-being.

We recently hosted more than 150 invited clients and their guests at the beautiful Omni Grove Park Inn for a full day of educational seminars by leaders in our community on longevity topics such as Medicare, lifestyle medicine, continuing care retirement communities and legacy planning. The Longevity Forum was a huge success, and we are delighted to hear all of the feedback from attendees. Thank you to everyone who joined us for the event and gave us feedback on how to further tailor events to best fit your needs going forward.

We have published all of the content and key takeaways at parsecfinancial.com/longevity-forum.

Please reference this page to watch the keynotes, download the various presentations and read the articles providing summaries from the breakout sessions and panels.

- Longevity and Happiness
- The Good, the Bad and the Ugly About Medicare
- How To Create a Retirement Paycheck
- Lifestyle Medicine: Longevity and the Health Span
- Panel on Continuing Care Retirement Communities
- Proactive Aging
- 2019 Estate Planning and Trustee Update
- Understanding Your 1040
- Success Into Significance: Turning Your Life Into Your Legacy
- Strategies To Survive the Elder Abuse Epidemic

Do you have a specific request for an event you would like to see Parsec host?
We'd love to hear from you – please email us at news@parsecfinancial.com.

Jim Smith's Crystal Ball

Trade issues won't derail the U.S. expansion

President Trump and Chinese leader Xi Jinping have had a field day hurling tariff threats at each other. If it weren't so detrimental to the economies of both countries as well as many others, we would all laugh at the ongoing machinations of this game of he said, she said.

Most of the things we warned you to pay attention to and worry about in our note on the topic in October 2018 have come to pass. Nonetheless, the Chinese and U.S. economies have continued to grow since then, as has the global economy. The International Monetary Fund has lowered its latest estimate of global real GDP growth for 2019 to 3.2% from 3.3%. They also noted that actual 2018 growth was 3.6%. These are still decent numbers. Coincidentally, the IMF published its latest analysis of the Chinese economy on August 23. If you want to really delve into the Chinese situation, you can download that report for free.

The last real trade war that involved the U.S. was caused by President Herbert Hoover's signing of the Smoot-Hawley Tariff Act on June 17, 1930. Some people have called this law the biggest mistake Congress made in the entire 20th century. While that is a bold claim, Chart 1 shows how world trade collapsed from 1929-1933.

As you can see on the scary-looking spiral graph, world trade collapsed from almost $3 billion in January 1929 to a little less than $1 billion in June 1933, a drop of 66.9%. Now that's a real trade war!

What happened to world trade, 1929-1933 ($ millions)

Source: Charles P. Kindleberger, The World in Depression 1929-1939

Chart 1

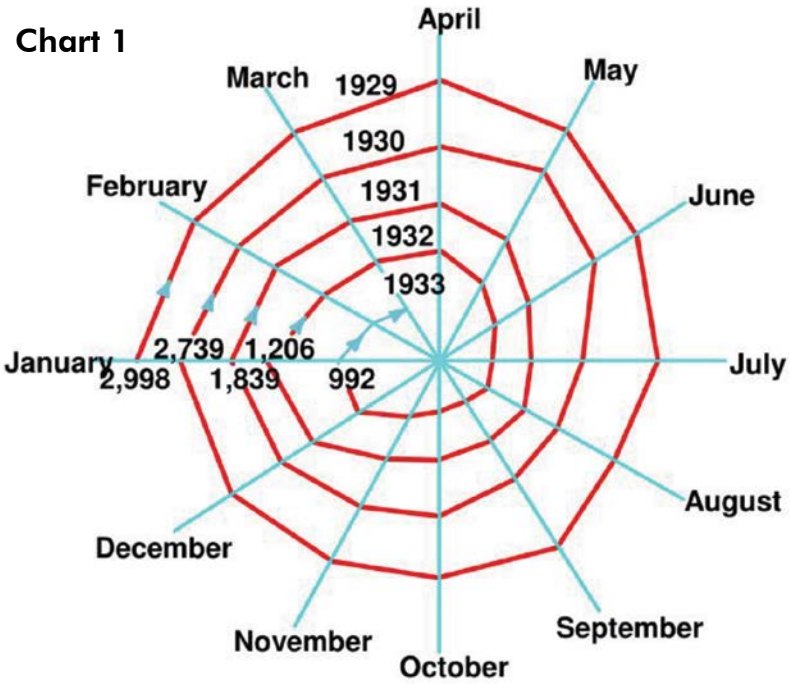
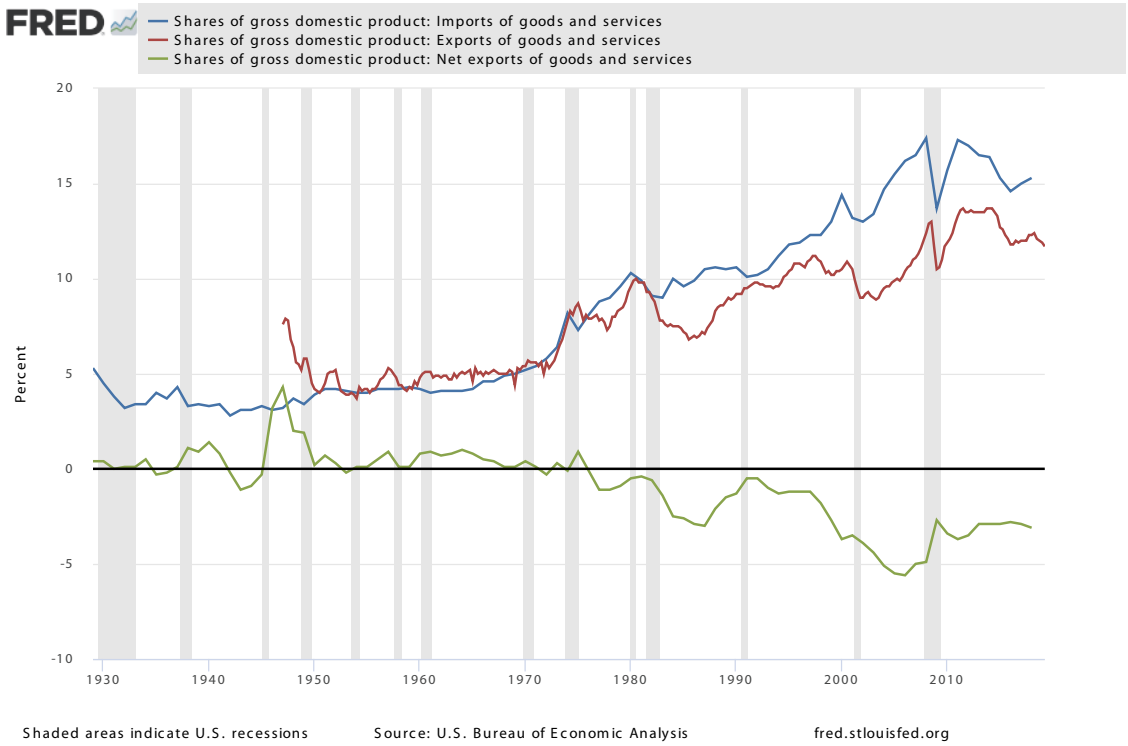


Chart 2



The reason why all today's trade squabbles, which are both counterproductive and detrimental to GDP growth, will not derail the expansion is because trade is just not that important to the U.S. economy. Chart 2 sums it all up. The top two lines are exports and imports measured as a share of GDP. The green line at the bottom shows net exports since 1929. Net exports have been negative since the first quarter of 1976. The bottom was -5.5% in 2005 and -3.1% in 2018.

The range of estimates among economic forecasters today is that all these trade issues will subtract 0.2%-0.5% from real GDP growth over the next year. That will slow overall real GDP growth from the 2%-2.5% range to the 1.5%-2% range. That's not a good thing, but it still leaves real GDP in the U.S. growing faster than in any other developed country.

Dr. Mary E. Lovely, senior fellow at the Peterson Institute and professor of economics and Melvin A. Eggers Faculty Scholar at Syracuse University's Maxwell School of Citizenship and Public Affairs (where she combines interests in international economics and China's development), recently appeared on the August 15 *FiveThirtyEight* podcast. In the podcast titled "Trump's Trade War Puts His Best Asset — The Economy — At Risk," Dr. Lovely does a great job of explaining how these trade issues might adversely affect the economy at some point.

All the evidence since World War II shows that increases in world trade volumes contribute positively to world GDP growth. The volume of world trade is currently declining, and that is the main reason that the IMF lowered its estimates for global growth.

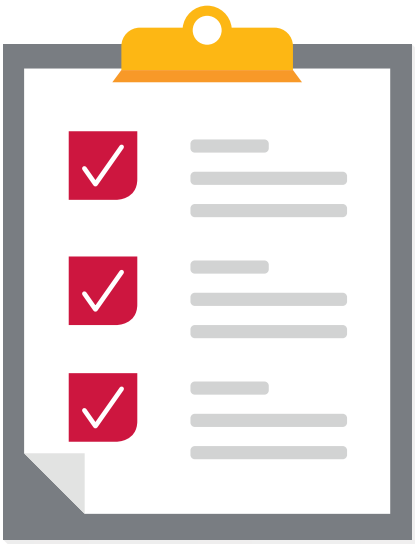
Keep watching all the twists and turns of these trade squabbles if you enjoy them. The major damage is the uncertainty that businesses have to face in managing their supply chains. This is holding back business fixed investment, which is hurting our growth rate.

President Trump has repeatedly said he would like a world with low or no tariffs. If he were to actually pursue such a course of action, both the U.S. and global economies would see growth rates increase dramatically. This would be especially beneficial to Europe, which is seeing serious slowdowns in growth, with some countries like Germany even teetering on the edge of a recession. Since Germany is the world's largest exporter and fourth-largest economy, seeing its growth rate rise would be very good news.

The U.S. had a GDP of $20.6 trillion in 2018, by far the largest in the world. Trade issues will certainly slow our growth, but they won't derail it (unless the leaders of the world's two largest economies do much crazier things). The total amount of tariffs, which are a tax on consumers, was $63 billion in the first 10 months of fiscal year 2019. That's less than 0.3% of annual GDP. Not so big, right?

There are plenty of things to worry about, but it's certainly not a very good idea to devote worry time to the trade disputes.

Your Financial To-Do List



Betsy Cunagin

It's the end of the year, and, like most of us, your to-do list is a mile long. Your family or friends may be arriving for holiday visits, so there's cleaning and cooking to do. You have gifts to buy. You have holiday parties and school functions to attend. The last thing on your mind is your finances. Still, they deserve a good look before the close of the year.

Charitable giving

Year-end is a popular time for charitable giving. The type of gift (appreciated stock or cash from a brokerage account, contributions of appreciated stock to a donor-advised fund, cash gift from an IRA, etc.) should be carefully considered in the context of your overall tax situation. Tax law changes at the end of 2017 add to the importance of a well-thought-out annual charitable giving plan.

For example, the standard deduction was doubled (in 2019, $24,400 for a couple filing jointly or $27,000 for a couple both over age 65), so if available Schedule A deductions do not exceed the higher standard amount, charitable gifts are effectively not tax deductible.

The following are tax-efficient charitable gifting options for those taking the standard deduction.

Qualified charitable distribution (QCD): If you're over 70 ½ and taking a required minimum distribution (RMD), charitable gifts made directly from an IRA reduce taxable IRA distributions dollar for dollar. A charitable gift from an IRA is called a QCD. These types of gifts were made a permanent part of the tax code in early 2016.

Another benefit of the QCD is the possibility of reducing Medicare Parts B and D premiums, which are determined by modified adjusted gross income (MAGI = AGI + tax-exempt interest). This year, there are five tiers of MAGI that determine Medicare Parts B and D premiums.

A QCD reduces MAGI, so charitable gifts made through an IRA could lower income enough to drop into a lower MAGI tier, thereby reducing Medicare Parts B and D premiums.

Donor-advised funds (DAF): Grouping several years of charitable giving into one year (often called front-loading) allows gifts to be itemized along with other available Schedule A deductions. Appreciated stock that is overweighted in a taxable portfolio can be reduced by gifting shares to a DAF. No tax is realized upon the transfer.

In subsequent years after the DAF is funded, gifts are made from the DAF rather than from a brokerage account. Structuring a charitable giving plan to incorporate a DAF allows a client to time contributions in years to achieve the greatest tax benefit while maintaining the same level of annual gifting.

Retirement plan contributions

Don't forget your retirement plan! You have options, depending upon the type of plan you have.

401(k)/403(b)/defined contribution plans: If the contribution amount was lowered at any point during the year, revisit to ensure contributions are sufficient to receive the maximum company match. The limit this year for employee contributions increased by $500 to $19,000. If you're over age 50, a step-up of an additional $6,000 is available. We advise clients to maximize contributions to a retirement plan to the extent cash flow allows. These contributions are typically pretax, serving to lower taxable income during working years. Contributions also compound more quickly than a similarly invested taxable portfolio.

IRA contributions: The IRA contribution limit also increased this year to $6,000. If you'll be 50 or older this year, a catch-up contribution of an additional $1,000 is available for a total limit of $7,000.

While the annual contribution limit is the same for all IRAs, the tax treatment isn't. Speak to your advisor before making an IRA contribution to ensure the most tax-efficient approach, which can change from year to year.

For example, if your AGI is larger than $193,000 (married filing jointly) or $122,000 (single), then a direct contribution to a Roth IRA may be reduced or prohibited. If you've contributed to a Roth in the past, revisit any changes this year that may push your income over the threshold for a direct contribution.

Capital gain/loss harvesting

Parsec strives to manage portfolios in a tax-efficient manner. Portfolio managers harvest losses to offset capital gains realized throughout the year. If you have outside assets that have realized gains this year, reach out to your advisor to discuss possible additional year-end loss harvesting.

Health savings account (HSA)

Contributions to an HSA are pretax if made through payroll deductions. If contributions are made with after-tax dollars, an "adjustment to income" deduction is taken, which serves to lower adjusted gross income. In addition, withdrawals are not taxed if used for qualifying medical expenses. And don't forget — HSA account balances roll over from year to year, unlike their FSA counterpart.

Given the tax-preferred treatment of HSAs, we recommend maximizing annual contributions if an HSA is available with your medical plan. For 2019, contributions can be made up to $3,500 for individual coverage and $7,000 for family coverage. For those over 55, an additional $1,000 can be added as a "catch-up" to these limits.

Medicare Part D review

Changes can be made to an existing plan during open enrollment, which runs from October 15 to December 7.

If you've experienced an increase in your monthly drug costs, we recommend reviewing your Part D coverage here: www.medicare.gov/drug-coverage-part-d. Formularies (drugs covered by a plan) may change from year to year. A review and comparison with other plans could uncover substantial savings.

Annual exclusion gifts

Gifts up to $15,000 can be made to an unlimited number of individuals this year. These annual gifts do not count toward the applicable lifetime gift-tax exclusion amount, which is why they're often called 'annual exclusion gifts.'

Gifts made each year can reduce a taxable estate over time. All future growth on these gifts is outside of the taxable estate.

529 contributions

Consider additional savings to your children's 529 plans at year-end. Parent-owned 529 plans can also receive contributions from grandparents.

Betsy Cunagin, CFP®
Senior Financial Advisor

Overwhelmed?
While we cannot help you with the cooking, cleaning and gift-buying, we can help with your financial to-do list. Give your advisor a call. Let us make sure you tackle any items on the list that apply to your unique situation.

A CPA's Year-End Wish List: My 4 Requests of You

Larry B. Harris

Normally, we CPAs do not make these requests until we are in the throes of tax season. Let's take a proactive look at steps you can take now.

Larry Harris, CPA, CFP®, PFS
Director of Tax Services

1. Keep your advisor and CPA updated.

Without a workable and effective financial plan, you and your family can be placed at a higher risk of financial instability and uncertainty. Tax planning is only one component of your overall financial plan — but an essential one.

If you have experienced any life changes or decided that your goals have changed, we want to know! Let's work together to create a new financial plan and tax strategy.

2. Maintain complete philanthropic records.

Are you on track to contribute in a fashion that suits your charitable objectives for 2019? Make sure to maintain a file containing the charitable acknowledgments you receive for your charitable gifts of $250 or more. The IRS can and does disallow charitable contributions of $250 or more that are not substantiated with a written acknowledgment from the recipient charity. Gifts of less than $250 must be substantiated with bank records or a receipt or letter from the charity. Other rules apply to noncash gifts.

My colleague, Betsy Cunagin, discusses some options for charitable giving back on page 6 of this newsletter.

3. Enact and adhere to timely reminders.

Manage the timing of state and local tax payments, considering the $10,000 limitation on deducting state and local taxes for U.S. income taxes.

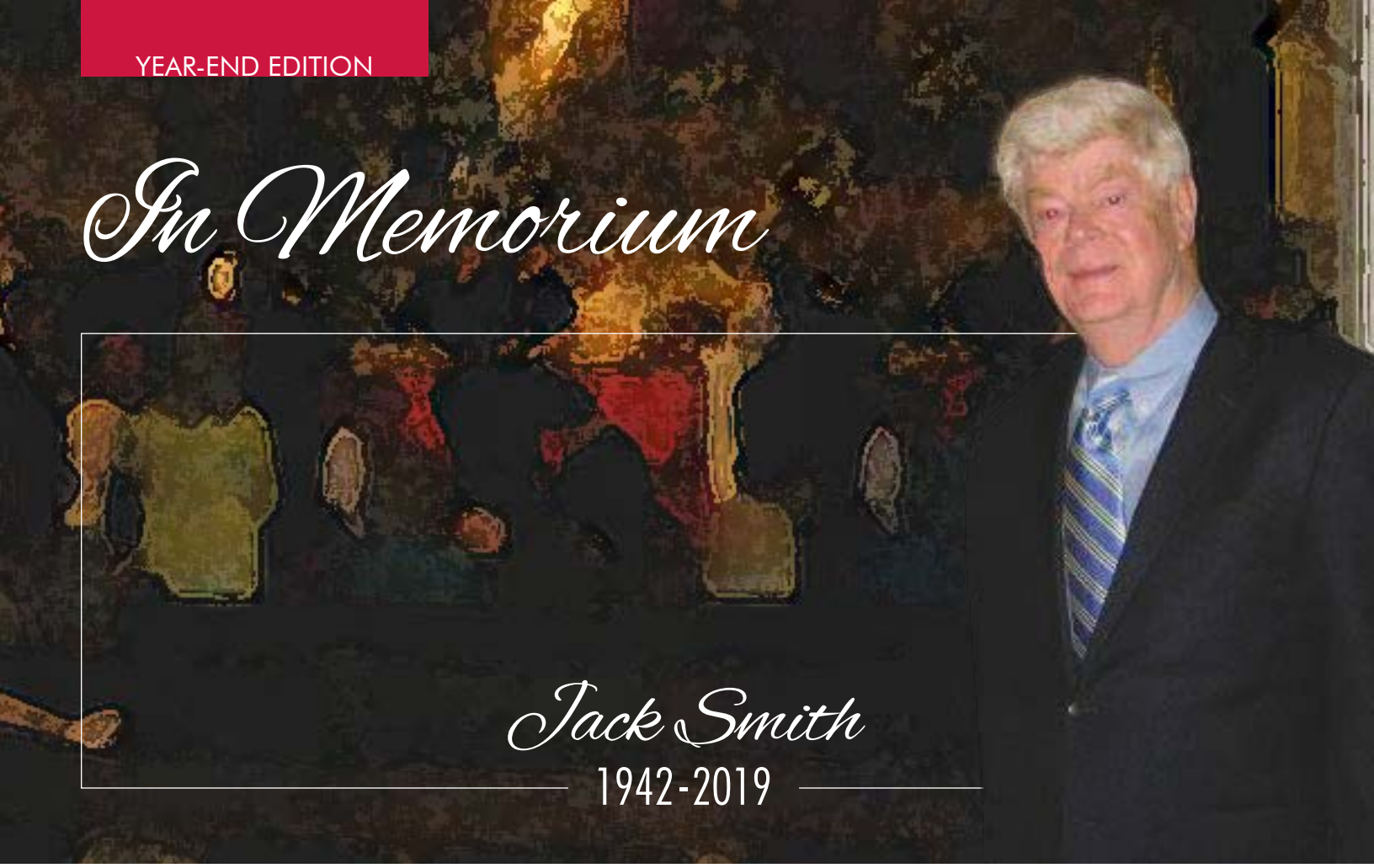
Ask your advisor to arrange for a tax plan to give you an idea of the adequacy of your income tax withholding or estimated tax payments made or that you plan to make before year-end. A tax projection in the closing months of the calendar year can be a great springboard for other discussions with your financial advisor.

4. Start your spring cleaning now!

The IRS and state tax authorities and taxpayers are limited to years "open" under the statute of limitations for purposes of audits and assessing additional tax or amending for refunds. The statute of limitations is three years in most cases but can be five, seven or even 10 in some limited situations. We recommend clients keep tax returns indefinitely and the documentation to substantiate the income and expenses claimed on returns for seven years post-filing date.

> "Please contact your financial advisor for help. Accomplishing year-end tasks on your own can be daunting. Let us make things easier for you."

In Memorium



Jack Smith

1942-2019

It is with great sadness that I share the news of Jack Smith's passing on August 22. Jack worked tirelessly at Parsec for 20 years until his retirement in 2006, and we are forever grateful for his dedication to his clients, passion for accounting, determination to grow Parsec and humor around the office.

Jack joined Parsec in 1986 as a partner after selling his CPA practice. I recall the early days when we worked from the lower level of my home on Sunset Mountain. We partnered tirelessly through the early days to establish the business despite the 1987 stock market crash (down 22% in one day!) and ongoing economic and political turmoil. We were joined by Bonnie Scully, Lynn Greene and Dean Hines, who can all likely remember Jack's legendary jokes to keep spirits high.

In 1987 we moved our Asheville headquarters to Wall Street, and Jack infamously kept a messy desk to my great dismay. Early employee Cristy Freeman recalls that he kept a hidden stash of Snickers bars in a file drawer.

Despite his personal messiness, professionally he was a champion of education and seeing his clients succeed. He was devoted to his clients, many of whom became close personal friends over the years. Early clients likely recall personal notes from him written with his favorite fountain pen that he used for many years until it became too difficult to find ink refills.

In the 1990s Jack and I attended numerous conferences together. During one NAPFA conference, we attended a session on the importance of incorporating technology in the office. Jack had hounded me for months to get a fax machine, which I steadfastly refused. When asked about a recent technology purchase, Jack responded that he had recently bought an electric pencil sharpener. Alas, when we returned from the conference Jack got his beloved fax machine.

Our condolences go out to his wife of 54 years, Yvonne, and his children, John III, Maura and Jennifer. He loved his wife and children fiercely and unconditionally. I watched his children grow up and was always in awe of his dedication as a father. In his later years he thoroughly enjoyed doting on his seven grandchildren.

I am forever grateful for Jack's contribution to Parsec and the Asheville community. Jack, you can bet you will be deeply missed – you always liked betting on a sure thing!

- Bart Boyer, Founder and Chairman of the Board

What You Need To Know Before You Turn 65

Lori King

Medicare is a word that you likely hear often. However, many people don't fully understand how it works and how it can benefit them. This broad topic 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. Let's explore some easy steps to help you make the best decision for you and your family.

First of all, 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 and 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 are incurred or buy a Medicare supplement policy to cover the possible 20%. Medicare Advantage plans (Part C) are optional policies that would replace Medicare Parts A and B and might include additional benefits. Here's a quick refresher on Medicare Parts A, B, C and D.

Lori King, FPQP™
Compliance and Marketing Associate

Part A: Hospital insurance

This coverage is free if the applicant 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 $135.50/month but can be as high as $460.50/month (visit www.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 your Social Security benefits. There is also a yearly deductible for Part B that you have to meet. This year, it is $185; 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 and 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 drugs

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.

> "Making the correct choices about your health insurance can have a significant impact on your financial future."

With that background, let's look at some steps to help you determine which Medicare coverage will be most beneficial to you. There are two main ways to get your Medicare coverage. Follow the steps in the chart below to help you determine which coverage you would prefer.

Step 1: Decide how you want to get your coverage.

Original Medicare	-OR-	Medicare Advantage Plan
Parts A and B Hospital and medical insurance		Part C Hospital and medical insurance

Step 2: Decide if you need to add drug coverage.

Note that most Advantage plans include prescription drug coverage.

Step 3: Decide if you need to add supplemental coverage.

If you choose a Medicare Advantage plan, review your coverage carefully and understand that you may still face out-of-pocket expenses.

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

Now that we've reviewed some of the highlights, you can start digging further into it. Follow the 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 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 seven-month window around your 65th birthday, including the three months prior to, the month of and three 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 seven-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 intending to remain on that plan, sign up for Part A now. When you retire, you will sign up for Parts B and D by applying online at www.medicare.gov or going to the Social Security office. You will be in what is called a special enrollment period based on your previous employer coverage. The special enrollment period will allow you to sign up for Parts B and D with no penalties and will grant you guaranteed approval for any plan.

Step 3: Consider the need for a supplemental 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. These supplement plans are written and regulated by Medicare, so the plan benefits/coverage are the same for each plan type (G, F, K, etc.). The only differences in the plans from one company to the next are price and level of service received by the insurance company that is managing the plan for you.

Depending on your financial situation, you may choose to pay the 20% out-of-pocket and not carry supplemental coverage. Keep in mind that you would pay all deductibles and copays 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 anytime, 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, you will have to 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% per month that you wait to get a drug plan. For example, if you wait five 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 would have to go through the medical underwriting process. The only time you are guaranteed any policy with any company is during open enrollment. Visit www.medicare.gov to shop plans and prices.

Medicare is an important benefit and tool for financial planning during your retirement. It is a benefit that you have paid for and earned while working throughout 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.

Announcements

Upcoming Parsec events and sponsorships:

Parsec employees have a busy fourth quarter full of client events, event sponsorships and volunteer opportunities. Here's what we are looking forward to:

October 11:	Volunteering at Ira B. Jones Elementary School in Asheville for United Way Days of Impact campaign
October 11-13:	Sponsoring the Tryon International Film Festival
October 21:	Sponsoring the Arts Council of Moore County's classical concert series
October 24:	Sponsoring the 2019 Metro Economy Outlook luncheon in Asheville
October 27:	Sponsoring the Western Carolina Medical Society's Family Fall Festival in Asheville
November 4:	Co-sponsoring a Schwab golf tournament in Greensboro

Upcoming office closings:

November 28-29:	Thanksgiving holiday
December 25:	Christmas holiday
January 1:	New Year's Day

Important dates:

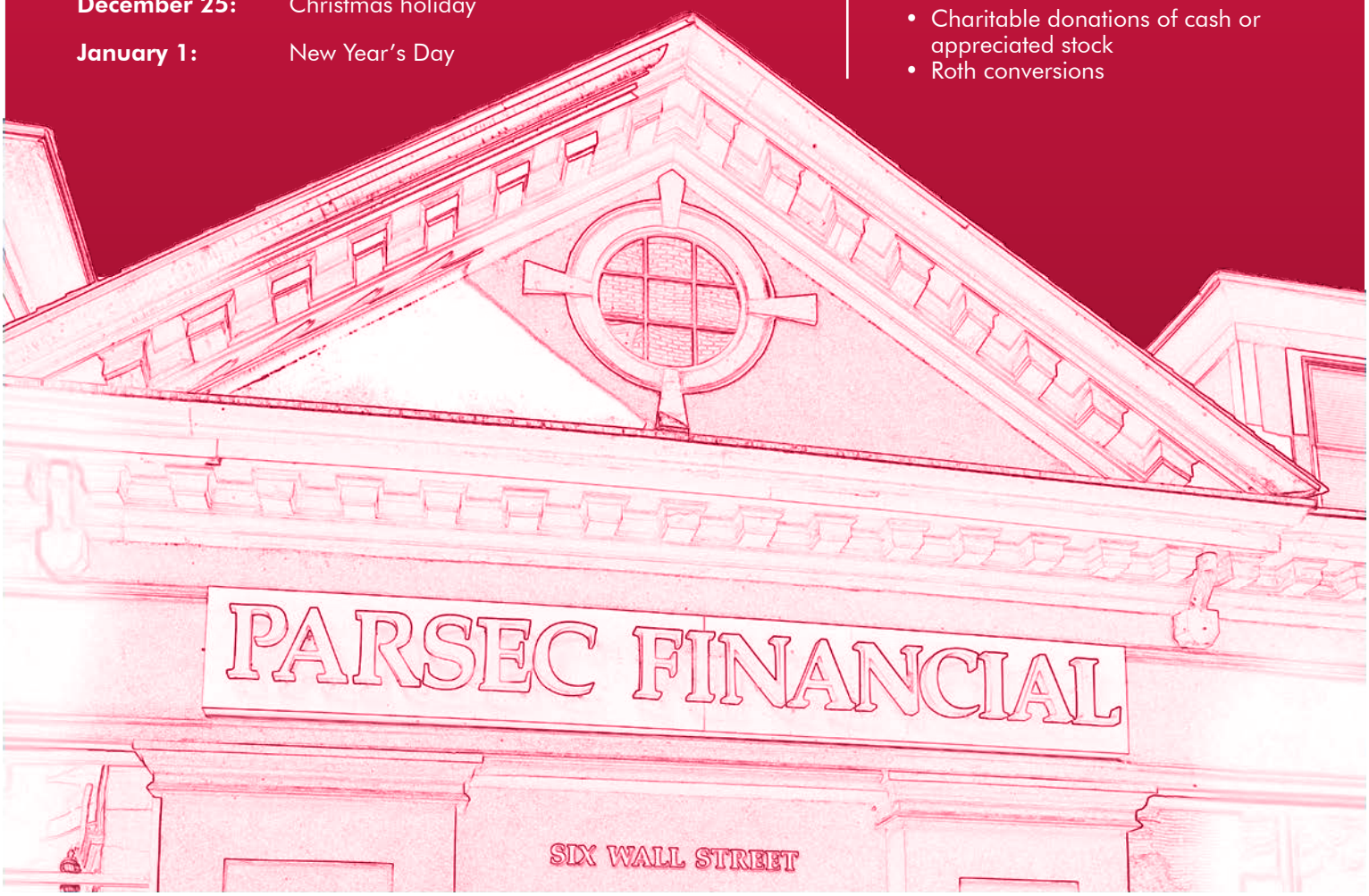
As the end of the year approaches, we would like to remind you of of important 2019 tax deadlines. The end of the year is a busy time for last minute charitable donations and tax-oriented account transactions. During December, many of these requests are handled on a best-effort basis by the custodians, as they get overwhelmed with last minute requests.

To ensure your needs are met and to help us manage this workflow, we request that you contact us for the following transactions by the below dates.

Thank you!

November 1:
- Required Minimum Distributions (RMDs)
- Qualified Charitable Distributions from IRA (QCDs)
- Retirement account setup (IRA, Roth IRA, SEP IRA, etc.)

December 1:
- Charitable donations of cash or appreciated stock
- Roth conversions



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