ParsecFinancial
WEALTH MANAGEMENT

Second Quarter 2014

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Feeling Lucky?

by Michael E. Bruder, CFP®, CTFA
Senior Financial Advisor, Senior Trust Advisor

I suspect that, at some point in our lives, most of us have fantasized about winning the lottery –specifically, Powerball. Considering your chances of doing so are 1 in 175,223,510, it probably will remain a fantasy. And, make no mistake about it a win would be pure luck. No skill involved here!

However, there is a greater potential that you might receive an inheritance from a family member - sometimes expected, sometimes a total surprise. Fortunately, with some early planning, that inheritance can be shielded from the public eye.

One of the methods used to pass inheritances to children is a Trust. There are a variety of Trusts utilized for this purpose, but our focus will be on the Revocable Living Trust. It is established and funded during the life of the Grantor (usually the parent) and sets the boundaries for the use of the assets after the Grantor's death.

An appealing aspect of this type of Trust is that the assets included in it at the time of the Grantor's death escape the probate process. Where a Will is probated at the Clerk of Court's office and then becomes a public document, the Living Trust is a private instrument and therefore shielded from public view.

This can be extremely important to a family operating a small business and passing it on to children. Competitor businesses who might like to see how that business will be passed and operated will be denied that opportunity. Instead, the Trust allows only the beneficiaries access to the specifics contained within the document.

From a savings perspective, a Revocable Living Trust eliminates the probate fees charged by the Clerk of Court's office. Also, if designed properly, it can be the avenue to prevent unnecessary estate taxation. Should the value of the estate be higher than the current estate tax exemption ($5,340,000 in 2014), language can be inserted to create a vehicle to shield the growth of those assets from future estate taxation. It is imperative that you discuss potential tax implications with your tax advisor.

Lastly, the Trust can be designed to ensure that the assets are utilized by the beneficiaries exactly as the Grantor intended. An example would be that a lake house, cabin in the

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Feeling Lucky?

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mountains, or a beach house stays in the Trust and is to be used by the beneficiaries for their recreation and enjoyment. Monies are set aside within the Trust to maintain the property for this type of use.

If you were completely unaware of an inheritance, you are in a different position. Certainly, you would try to recall any discussion you had with the decedent concerning their wishes for theses assets. Next, you need to determine the form of the inheritance: cash, stocks/bonds, life insurance proceeds, real estate, personal property, et cetera. Then, you would consider whether or not to keep them in the same form or liquidate all or a portion of them. Lastly, you should develop a plan for when you need to utilize these assets and invest accordingly.

Since Parsec Trust advisors are experienced in these matters, please utilize our expertise to partner with you in the planning process. Receiving an inheritance is a financial event that is both emotional and personal. Each one of us will respond to it differently. How you choose to do so can both honor and respect the decedent in a variety of ways. Remember, they wanted you to have it and trusted you would use it wisely.

Form ADV and Privacy Notice

by Harli Palme, CFA, CFP®
Partner

Pursuant to SEC rules, we are required to provide you with a summary of any material changes to our ADV Part II brochure within 120 days of the close of Parsec's fiscal year. We must also provide other ongoing disclosure information about material changes as necessary.

This year, we did not have any material changes to the brochure. You can still receive a copy of our current brochure, if you like. Please contact our office, and we will be happy to mail a brochure to you. You can also view our brochure on our website: www.parsecfinancial.com.

Additional information about Parsec Financial is available on the SEC's website at www.advisersinfo.sec.gov. The SEC's website provides information about any persons affiliated with Parsec who are registered, or are required to be registered, as investment advisor representatives of Parsec.

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If Parsec's policy changes in the future, clients will be provided with a revised notice reflecting the new privacy policy.

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Form ADV and Privacy Notice

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Information Safeguarding

Each employee is required to sign a confidentiality agreement. The employee understands that he or she will be terminated if he or she discloses confidential client information to an outside party, unless that party requires the information to complete a transaction for you.

We require that any third-party vendor who may have indirect access to your information sign Parsec's confidentiality agreement.

In addition, we will maintain physical, electronic, and procedural safeguards that meet federal and/or state standards to guard your non-public personal information.

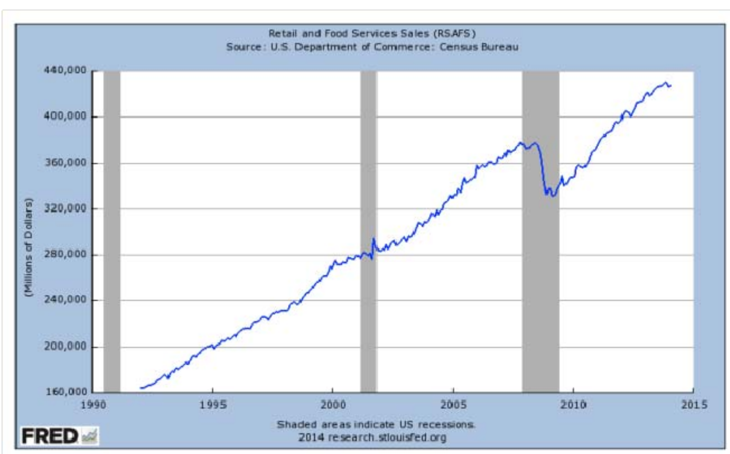
If you have any questions about the information you read in the brochure or our privacy policies, please let us know.

Consumers Ride to the Rescue Again

by Dr. James F. Smith,

Despite recurring unpleasant experiences with ice, sleet, snow, exceptionally low temperatures, wind and rain so far in 2014, consumers have kept on spending. On March 13, the Census Bureau gave us our first look at retail and food services sales for February.

The chart shows this story. After a 0.6 percent decline in January from December, total retail and food services sales posted a 0.3 percent increase in February from January. The total of $427.2 billion is the best February ever and 1.5 percent above February 2013.



It is the fourth-best month ever, behind only October, November and December (in descending order)

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Consumers Ride to the Rescue Again

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of 2013. In what is undoubtedly at least partially due to the unusually bad weather endured by so many parts of the nation, by far the best increase (6.3 percent) above February 2013 was racked up by non-store retailers. So long as people had electricity they could order over the Internet or by telephone.

The second biggest increase was posted by "Health and personal care stores," where sales rose by 5.5 percent above a year before. "Building materials and garden equipment supplies dealers" were next with a 3.2 percent year-over-year rise.

Gasoline stations had sales 4.6 percent lower than a year earlier. That was the result of slightly lower crude oil prices and less demand.

No matter the weather, people kept eating. Sales at "Food and beverage stores" were up 2.8 percent from a year earlier with the grocery stores part up 2.4 percent. "Food services and drinking places" (a.k.a. bars and restaurants) saw sales rise by 2.6 percent.

To read the rest of Dr. Smith's article, please visit our blog at www.parsecfinancial.com.

Taxable Income Reduction Strategies

by Daniel Johnson III, CFP®
Financial Advisor

As a trusted financial advisors for our clients, our priority is to stay apprised on current tax laws, as well as provide planning opportunities to reduce future tax liabilities. For many of our clients, their Traditional IRAs are also their largest tax liability. When an IRA is responsibly managed, the hope is that the account will continue growing until the owner's late 70s. At that point in time, the mandatory withdrawals from the account may offset any capital appreciation and earnings on the account. When taking into account these growth expectations, as well as the client's necessary cash flow, many clients find that the RMDs in their 80s will far exceed their necessary cash flow. These factors contribute to an increasing likelihood of the client having a higher tax rate later in life. Higher Modified Adjusted Gross Income(MAGI) is one concern that has a trickle down effect. When MAGI gets high enough, it can result in an income based adjustment for Medicare Part B and D. It should be clear by now that a healthy retirement can actually increase tax concerns.

So, by now you may be saying, "Thanks for the depressing news, Daniel. I don't think I want to read any further. " I encourage you to keep reading.

Controlling Income

The first step in keeping MAGI low is controlling income. For retired individuals, there are two main sources of cash flow. The first being social security and pensions. These are fixed amounts that cannot be changed. The second source is income from personal assets. This includes brokerage accounts, Traditional IRAs, and Roth IRAs. A brokerage account is not a tax-deferred account. Therefore any income produced by the account will contribute to MAGI. It is possible to manipulate a brokerage account's holdings to reduce taxable income. The second source of cash flow is withdrawals made from Traditional IRAs to supplement income or fulfill an RMD.

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Taxable Income Reduction Strategies

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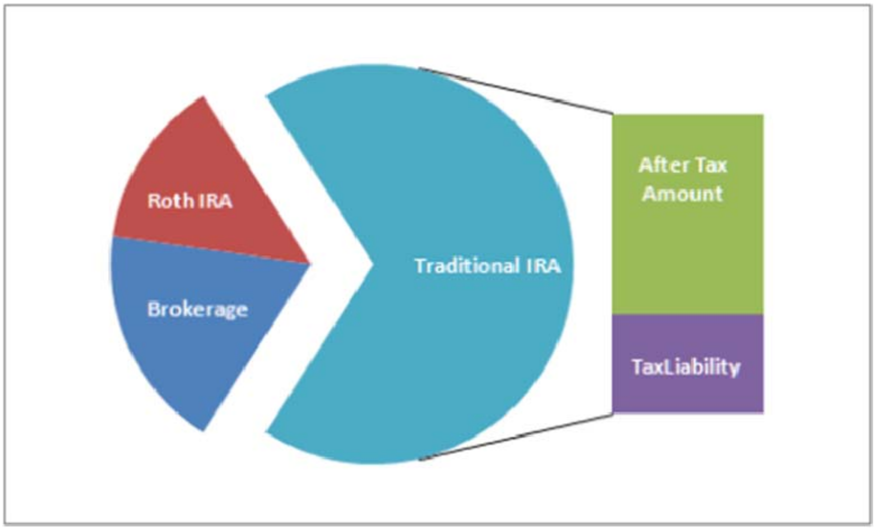
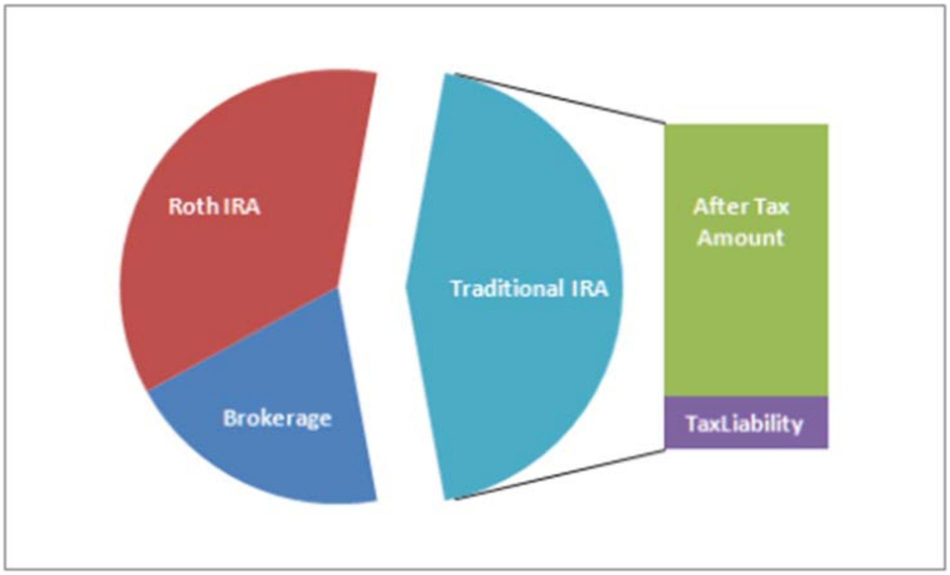
These withdrawals are fully taxable to the individual. In addition to Traditional IRA withdrawals, Roth IRA withdrawals can be made, however, these withdrawals are not taxable to the individual if made after 59 ½. The IRS gives us tax tables, from these, we are able to determine the maximum amount of taxable income we want to produce for clients. As I said before, it may become impossible to keep income below this desired threshold when RMDs get larger and larger. If this is the case, we move on to advanced planning techniques.



<u>Roth Conversions and Charitable Remainder Trusts</u>

One of our favorite techniques to reduce the impact of RMDs is to combine the benefits of a Roth IRA with a charitable gift. The establishment of a Charitable Remainder Trust may allow someone with charitable intentions for their estate to realize the benefit now. The Charitable Remainder Trust can provide a lifetime income stream for the donor, as well as provide a large charitable deduction. In this tandem planning technique, the charitable deduction can offset the income incurred from a Traditional to Roth conversion. The reduction in the size of the Traditional IRA will also truncate the amount of the RMD going forward.



This particular technique is just an example of some of the advanced planning options we evaluate with our clients. Every situation is different with special circumstances to consider. If you have any questions about these strategies, contact one of our advisors.

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