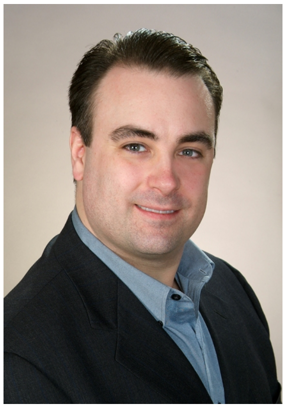

Nicholson Financial Services

Did You Know...???

The Biggest Problem We Face

No, this isn't some sort of doomsday prediction involving a meteor destroying the world. Financially speaking, the biggest problem that we face as a society is longevity. People are living longer, healthier lives on the whole than they were in the past. Now I know you are thinking, "isn't that a good thing?" Of course it is. However, longer lifespans carry with them financial issues that many people have never thought about. The threat of outliving your nest egg has been a point of financial advisors for a long time. Obviously, longer life spans require larger, well managed nest eggs. But, the problem is not that simple.

Have you noticed the increasing number of companies that have done away with their pension plans? You probably have, but here is an interesting fact: If you were hired by one of the 100 largest companies in the US in 1985, 89 of them offered a pension plan to their employees. By 2002, that number had dropped to 50 and by 2010; only 16 of the 100 largest companies still offered one. Why is that you ask? Pension plans have become much more costly to maintain due to the rising cost of healthcare, inflation, and a number of other reasons. The most obvious, though, is longevity. Many pension plans were designed at a time when people were not living as long as they are now.

In 1940, the life expectancy of the average American was 60.35 years. By 2010, that number had gone up to 79.8 years! I would assume that there are many pension plans that were established long enough ago that they never accounted for former employees living to 80 years old *on average* . Multiply that longevity by a large number of retirees and you might have a problem. As an example, let's look at six auto makers and compare the number of retirees per 100 active employees. As of 2007, Toyota: 2; Honda: 5; Nissan: 11; Chrysler: 153; Ford: 163; GM: 320. After reading that, do GM's financial struggles in the past few years seem so surprising?

The opportunity to work for a company for many years and then have that company pay you a retirement income and benefits for the rest of your life is disappearing. Most companies have replaced their pension plans with a 401k, allowing employees to save for their own retirements. Many companies offer an employer match to encourage contributions. The big question is, "are people saving enough?" In many cases, they are not. Unlike pension plans, 401k plans are completely voluntary which makes it all too easy to not contribute enough or to avoid saving altogether.

Unfortunately, private companies are not the only ones freezing their pension plans for new hires and replacing them with 401ks. We are now starting to see cities, towns and municipalities following suit. Recently, the cities of Ft. Lauderdale and Tampa Bay, Florida announced they will no longer be offering their pension plan to new hires. I am sure there are others that I am not aware of and I believe that trend will only be increasing.

The gradual disappearance of pension plans means that individuals must put more effort into funding their own retirement. Sound financial planning is even more critical when your retirement income comes only from your own assets, and perhaps Social Security. In my own experience, I have seen this trend over the last 10 years. As I do financial plans for clients, fewer of them have that pension income to rely on. So what do you do if you don't? Knowing that funding your retirement income is up to you is a great start.

The rest involves saving, investing, and planning. On a regular basis, I help clients to determine how much income they will need in retirement. Once we have an idea of what amount that will be, we can create conservative projections of how much money will be needed to make a comfortable retirement possible. That is a core part of the financial planning process. If you are interested in talking to me further about this issue, please contact me.

Nicholson Financial Services, Inc.

David S. Nicholson
Financial Advisor, RJFS
89 Access Road
Ste. C
Norwood, MA 02062
781-255-1101
866-668-1101
David@NicholsonFS.com
www.NicholsonFS.com

In my last issue, I used this section to talk about cell phones, how amazing the technology is and how fast it has evolved. Since then, we have witnessed an uprising in Egypt and other countries around the world. This "social media" revolution came as a surprise to me. I could see it happening, eventually, but not this quickly. Through things like Facebook, Youtube, Twitter, etc. the world has seen how people in the US and other "developed" nations live. Then they ask "why can't we have that here?" about their own land. I think that is what led to the overthrow of the dictatorship in Egypt and also why Libya and other countries are experiencing uprisings. We are witnessing democracy and capitalism spreading faster than ever before. All in all, it is pretty exciting.

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Spring 2011

The Biggest Problem We Face

Important Questions to Ask Aging Parents

Retirement Plan and IRA Limits for 2011

What health-care changes become effective in 2011?

Important Questions to Ask Aging Parents

The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).
- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills.
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, which kicks in at age 65, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must.

Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?

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Retirement Plan and IRA Limits for 2011

Many retirement plan and IRA limits are indexed for inflation each year. Most of the limits for 2011 are unchanged from 2010.

Many retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2011 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to $16,500 in 2011, unchanged from 2010. If you're age 50 or older, you also can make a catch-up contribution of up to $5,500 to these plans in 2011 (also unchanged from 2010). (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed $16,500 ($22,000 with catch-up contributions). You can split your contribution any way you wish. For example, you can make $9,500 of Roth contributions and $7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to $11,500 in 2011 (unchanged from 2010). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2011 is $2,500 (unchanged from 2010).

IRA limits remain the same for 2011

The amount you can contribute to a traditional or Roth IRA remains at $5,000 (or 100% of your earned income, if less) for 2011, and the maximum catch-up contribution for those age 50 or older remains at $1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Contribution limits: 2011 tax year*		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), govt. 457(b) plans	$16,500	$5,500
SIMPLE plans	$11,500	$2,500
Traditional and Roth IRAs	$5,000	$1,000

*Contributions can't exceed 100% of your income. Special catch-up rules apply to 403(b) and governmental 457(b) plans.

Some other key numbers for 2011

For 2011, the maximum amount of compensation your employer can take into account when calculating contributions and benefits in qualified plans (and certain other plans) is $245,000 (unchanged from 2010).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to $195,000 in 2011 (unchanged from 2010).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2011 is $49,000 (also unchanged from 2010), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2011	
1. Covered by an employer plan	
Single/head of household	$56,000-$66,000 (same for 2010)
Married filing jointly	$90,000-$110,000 ($89,000-$109,000 for 2010)
Married filing separately	$0-$10,000
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	$169,000-$179,000 ($167,000-$177,000 for 2010)
Income phaseout range for determining ability to fund Roth IRA in 2011	
Single/head of household	$107,000-$122,000 ($105,000-$120,000 for 2010)
Married filing jointly	$169,000-$179,000 ($167,000-$177,000 for 2010)
Married filing separately	$0-$10,000

Ask the Experts

Nicholson Financial Services, Inc.
David S. Nicholson
Financial Advisor, RJFS
89 Access Road
Ste. C
Norwood, MA 02062
781-255-1101
866-668-1101
David@NicholsonFS.com
www.NicholsonFS.com

What health-care changes become effective in 2011?

The Patient Protection and Affordable Care Act (PPACA), signed into law in 2010, makes significant changes to our health-care delivery system. Here are some of the most important changes scheduled to take effect in 2011.

The cost of over-the-counter drugs not prescribed by a doctor can no longer be reimbursed through a health reimbursement account or a health flexible spending account, nor can these costs be reimbursed on a tax-free basis through a health savings account (HSA) or Archer medical savings account. Also, the tax on distributions from HSAs and Archer MSAs that are not used for qualified medical expenses increases to 20% (up from 10% and 15% for HSAs and Archer MSAs respectively).

Medicare Part D participants will receive a 50% discount on brand-name prescriptions filled in the coverage gap (i.e., the "donut hole") from pharmaceutical manufacturers, and federal subsidies for generic prescriptions filled in the coverage gap will start to be phased in.

Also, certain preventive services covered by Medicare are no longer subject to cost-sharing (co-payments), the deductible is waived for Medicare-covered colorectal cancer screening tests, and Medicare now covers personalized prevention plans including a comprehensive health risk assessment.

Medicare Advantage (MA) plans can no longer impose higher cost-sharing for some Medicare-covered benefits than would be imposed by traditional Medicare insurance. Also, MA plans cannot exceed a mandatory maximum out-of-pocket amount for most Medicare services. The maximum amount in 2011 is $6,700, but MA plans can voluntarily offer lower out-of-pocket amounts. Also, the annual enrollment period for MA plans is changed to October 15 through December 7.

The requirement that employers report the total value of employer-sponsored health benefits on employees' W-2s was to begin in 2011. However, the IRS has deferred this requirement until 2012.

Are some preventive care services free?

Generally yes. Under the Patient Protection and Affordable Care Act (PPACA), qualifying health insurance plans must offer certain preventive care services to you and your family at no cost.

If your health insurance plan is subject to these new requirements, you and your family may be able to receive important preventive health-care services without having a co-payment, deductible, or co-insurance. Many of the covered services are based on your gender, health status, and age. Some of these services include:

• Blood pressure, diabetes, and cholesterol screenings

• Mammograms, colonoscopies, and many other cancer screenings

• Routine vaccinations against diseases such as measles, polio, and meningitis, as well as flu and pneumonia shots

• Wellness counseling for such issues as quitting smoking and losing weight

• Screenings for depression and alcohol abuse

A current list of preventive care services can be found on the government website: www.healthcare.gov.

To be eligible, you must be enrolled in a health plan through your employer or have individual health insurance put in place after March 23, 2010. The preventive care services will then be effective on the next policy anniversary occurring on or after September 23, 2010, or as of January 1, 2011, for calendar-year plans. If your health plan is "grandfathered" (in place on or before March 23, 2010, and has not been materially changed), these benefits may not be available to you.

Free preventive services may only be available for in-network providers (you may have to pay for preventive services received from an out-of-network provider). Also, if your doctor provides preventive services, such as cholesterol screening, and other diagnostic or therapeutic services during the same office visit, you may have to pay for part of the office visit and the other services given by your doctor, but not the preventive services.

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