

FN281: Personal Finance
Assignment 6
Retirement Planning

- 1) What types of expenses can be lowered or eliminated during retirement?

Examples of expenses that can be lowered or eliminated during retirement includes: mortgages and loans, commuting expenses, professional clothing expenses, peak travel time expenses, and tax expenses. Most people, after retirement, will no longer have any debt burdens. Thus, interest expense, or periodic payments for all types of loans can be eliminated. This is assuming that the person has planned well ahead for his or her life. Commuting expenses can be reduced, as fees are lower for the elderly. There will also be no need for any professional clothing expenses for workplaces, so expenses on that part can altogether be eliminated. Tax expenses will also be lower due to the lower income earned.

- 2) What types of expenses might increase during retirement?

Costs that may increase during retirement includes: travel costs, entertainment, health care, and insurance costs. After retirement, people generally travel a lot more, thus travel costs will increase. To prevent boredom, the elderly will also seek entertainment and socialization, therefore having higher costs as well. It is obvious that health care expenses will rise as age increases due to the increasing health-related problems with time. As such, health insurance premiums will also rise.

- 3) Explain the difference between a defined-contribution and defined benefit plan.

A defined benefit plan is widely known as a pension. It is a retirement account that employers “pay” for the account, and promises to give a set amount of payout upon the employee’s retirement. A defined contribution plan, however, requires the employee to deposit or put in their own money. In this case, if the employee leaves the company before retirement, the defined contribution account can be withdrawn as a lump sum, which the defined benefit plan cannot.