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“ Retirement Planning ”

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

Credit cards: As you move into retirement, you will likely have to adjust to living on a lower income. To avoid getting into trouble later, make sure you are only buying what you can afford. The overarching thought here is that during their retirement years, folks are more likely to be living on a fixed income, and that may affect the repayment process later on.

Technology: Don't sign up and pay for anything you aren't going to use. Paying for cable can become a major financial drain over time. Consider slimming down on elaborate packages or turning to cheaper alternatives.

Travel: If you know you are going to travel more during retirement, try to factor those costs into your retirement saving ahead of time. However, regardless of prior planning, keep costs low by adjusting your travel itinerary. Shop around for the cheapest airline seats and discounted hotel rooms.

Insurance: The older you get, the less important it becomes to focus your attention and money on life insurance plans. But when you are retired, typically the folks who were dependent on you before aren't anymore.

What types of expenses might increase during retirement?

Medical expenses: Health care is likely to be one of your largest and most unpredictable retirement expenses. It is difficult to foresee exactly what health conditions you might develop and how much care or medication you will require to treat them. Keep in mind that if you retire prior to age 65, you will probably have to pay for your health insurance out-of-pocket until you qualify for Medicare.

Housing: Hopefully by the time you retire, you will own a house debt-free. Removing the big expense of a mortgage payment should be at the top of your list of things to do before you retire. Whether you plan to stay in your already paid off home or move to a new location, you’ll need to budget for typical housing costs and fees, such as annual real estate taxes, home insurance and maintenance fees. Many retired couples have found that they can save lots of money by simply downsizing and moving to an area that offers a lower cost of living, which will also reduce your overall home ownership costs.

Travel, Leisure and Social Activities: Make sure you factor travel and entertainment expenses into your retirement budget. You will have eight hours a day to fill with new activities. Think about the costs of a few vacations each year, as well as monthly leisure and entertainment costs, such as movies, dinner and country club dues.
On a related note, although overall travel expenses may rise, you should be able to

travel more cost-effectively in retirement.

Transportation: Retirees generally drive less than workers who commute to their jobs every day, thus spending less on automobile maintenance, tolls, gasoline, etc. Some retired couples will only need one or two vehicles after retirement. If you eliminate an unnecessary car, you can save money on insurance and maintenance

The expense of saving and taxes: As a retiree, you will no longer need to save for retirement since you'll be living in it—no more contributions to your retirement funds. And you'll also get to skip paying payroll taxes since you won't have a job (unless of course you are working part-time).

Your children and grandchildren Most people have children who will be self-sufficient by the time they retire. College costs, dependent insurance coverage, and living expenses for your children should be minimal to non-existent. However, with the recent sluggish economy, more adult children are moving back in with their parents after college or a job loss. Another increasing trend shows retirees raising their grandchildren.

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

A defined benefit plan, most often known as a pension, is a retirement account for which your employer ponies up all the money and promises you a set payout when you retire. A defined contribution plan requires you to put in your own money. Because defined benefit plans are more costly for employers than defined contribution plans, most of them have scaled back dramatically or eliminated these plans altogether in recent years. If you still have a defined benefit plan at your company, consider yourself lucky.

In general, defined benefit plans come in two varieties: traditional pensions and cash-balance plans. In both cases, you just show up for work and, assuming you meet basic eligibility rules, you're automatically enrolled in the plan.