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Retirement Planning

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

Ans: - Income tax expense → No longer working or reduced in working income

- Clothing expense → More casual cloth suitable for current age
- Housing Expense → May decrease if you pay-off your mortgage
- Working Expenses → No longer working, less traveling, less meal outside, less car expense.

2) What types of expenses might increase during retirement?

Ans: - Medical Expenses → As age increased, medical expenses tend to be increased

- Leisure Activity → As you no longer working, you will do more hobby and leisure activity.
- Insurance → loss of employer's contribution to health and life insurance will increase your own payments.

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

Ans: **Defined Contribution Plan:**

→ Employee and employer contribute set amounts each year.

→ At retirement, employee uses pot of money to purchase an annuity.

→ Preferred by employers because their obligation is known.

Defined Benefits Plan:

→ Formula for calculating the benefit employee receives at retirement. (based on number of years of employee and annual wages)

→ Employer is usually responsible for ensuring there is enough in the pension to fund promised benefits.

→ Usually more beneficial to employee. (pension is usually better)