

## Assignment4

### Retirement Planning

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

##### ANS:

1. Tax expenses – Extra deductions are available for people over age 65, and taxable income typically decreases at retirement. Social Security taxes (FICA withholding) end completely at retirement and Social Security benefits are partially or fully tax-free.
2. Savings expenses – Investing for retirement will no longer be needed. Allotting a portion of your income for retirement savings should not be necessary since you already have retired.
3. Shelter expenses – Due to children leaving the home, retirees generally need less space to live. Many people reduce or eliminate mortgage payments in retirement.
4. Educational expenses – Retirees with families typically spent a significant amount of money on education prior to retirement. Additional educational assistance to children will likely decrease or disappear by retirement.
5. Apparel and services expenses – Many of the items and services that you need during your working career are reduced in retirement.
6. Transportation expenses – Another work-related expense that typically drops off in retirement.

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

##### ANS

1. Health care expenses –Medical costs rise as we age, and most of us will lose employer-paid health coverage upon retirement. Many retirees opt for assisted living arrangements later in retirement. These factors, combined with longer life expectancy may require a significant budget for medical expenses.
2. Utilities expenses– Spending more time at home means higher costs of heating, cooling, etc.
3. Entertainment expenses – Many retirees spend considerable time traveling and pursuing hobbies and leisure interests.

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

##### ANS

A defined benefit plan, most often known as a pension, is a retirement account for which an employer pull all the money and promises employees a set payout when they retire.

A defined contribution plan requires employees to put in employee's own money themselves. Because defined benefit plans are more costly for employers than defined contribution plans because in defined contribution plan, part of the cost comes from employees themselves, and an employer take the burden only some part.

In general, defined benefit plans come in two varieties: traditional pensions and cash-balance plans. In both cases, employees just show up for work and, assuming employees meet basic eligibility rules, employees are automatically enrolled in the plan. (In some instances, however, employees aren't enrolled until you've completed your first year on the job.) Employees also need to stick around on the job for several years – typically five – to be fully “vested” in the plan. The difference is in how the benefits are calculated; in a pension, it's based on a formula that takes into account how long employees were on the job and employee's average salary during employee's last few years of employment. The cash-balance plan credits employee's account with a set percentage of employee's salary each year. Another key difference is that if employees leave the company before retirement age, employees may take the contents of employee's cash-balance plan as a lump sum and roll it into an individual retirement account. A traditional pension isn't portable.