

Assignment 4: Retirement Planning

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

Many retirees tend to spend more money on leisure activities and also health care costs in retirement. However there are many costs, which can reduce and some costs can eliminate entirely, for examples

First, Mortgage. Paying for insurance, property taxes and maintaining a home are considered as a fraction of mortgage, which is likely to be one of the largest monthly bills. This expense tends to payoff before retirement.

Second, Transportation cost. It is a big portion of expense for employees with long daily commuting to work. After retirement, all of transportation is based on personal pleasure and retirees can avoid traffic jam by skipping going out during peak travel period.

Third, Professional clothing. Some jobs require good looking and professional attire, stylish haircut, make up and formal clothing in special occasions like meeting and business party which lead to expensive cost. In addition, cost of dry cleaning service and professional tailor is also relatively high. On the other hands, retirees don't need to purchase more these kinds of cloth and they can wear causal dress, which is relatively low cost compared to professional clothing.

Fourth, Office cost. Retirees are not that necessary to pay for social cost, for instant paying lunch out for co-workers, purchasing a gift for special occasion of colleagues, sharing some specific amount of money for buying a present for boss and paying high cost of traveling with co-workers due to peak time of national holidays.

However there still have many costs that will increase or might increase during retirement, hence it would be better for retirees to plan for life after retirement especially to have enough money for expenditure without uncomfortable situation.

2. What types of expenses might increase during retirement?

Most of people believe that they can live with a smaller budget in retirement because they can reduce or eliminate some amount of expenditure. However it might have some situations or durations that they tend to spend more than working period, for examples

First, Travel cost. Many retired people are active to all traveling that they never had before since they have not enough vacation to do while working.

Second, Entertainment cost, Since retirees have more than free 8 hours per day leading to easy to get bored. One of the best solutions is finding some entertainments to fulfill this time gap through movie, performance, karaoke and game which some of them are quite expensive.

Third, Socializing. Socializing of retirees is pretty different from working people. It is mainly like having a big meal with family and it often has many people to join as a visiting grandparents.

Forth, Health insurance premium. Since it would be taking more risk of health condition for retirees, cost of health insurance will be higher. Furthermore chance to see a doctor and expenses for health care like prescription drug are increasing.

Therefore, retired people need to plan for their life after retirement since they will not have enough income like while they are working and it is difficult to find some jobs at that age. In order to prevent difficult situations, retirees should invest in something that will provide long-term return particularly fixed income.

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

There are main two categories of retirement plan, which are supported and sponsored by company or employer. The first one is a defined-contribution plan and another one is a defined-benefit plan. The key differences of these two retirements plan show that which party (employer or employee) bears the risk of investment and affects administration's cost for each plan.

Defined-contribution plan is a retirement plan which a certain amount or percentage of employee's money is set aside each year by a company or employer for the employee's benefits. It allows both employer and employee to contribute and invest funds in order to save for retirement. Employer allocates contributions to employee's account in the form of matching the contributions. Employee have a right to select the providing mutual funds, money market funds, annuities or stock that they would like to invest. This plan is quite low investment risk for employer because employer has no longer of any obligation on the account's performance after deposition of funds. Employee retirement benefit payable from a defined contribution plan depends only on the value of account balance after retirement.

On the other hands, a defined-benefit plan, mostly known as a pension, is a retirement plan, which funds is sponsored and supported by company or employer. In general, there are divided into two groups, which are traditional pension and cash-balance plan. The specific amount of funds that employee will receive in retirement depends on a formula along with factors like average salary in last a few weeks and duration of employment. Company or employer totally responsible and control investment risk, investment performance as well as investment management. Investment risk of this plan are considered as a risk of employer side since employer need to ensure that they have enough ability to pay that promised specific amount of money to retired employee. Therefore a defined-benefit plan requires complex actuarial projections and insurance for guarantee, which lead to higher administration cost.