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Assignment 6

Retirement Planning

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

Ans. Income tax expense – Not have job to do, so not have income anymore. (Or less income from working, so less income tax expense too.)

Clothing expense – Have much clothe to wear in daily life, not want to follow fashion anymore. (Or follow a little bit)

Transportation expense – When not have job, no need to use car, mean that use less of gasoline.

2. What types of expenses might increase during retirement?

Ans. Medical expense – As age increase, our health continue decline or mean that we have to visit doctor more although we not have danger disease.

Leisure activity – During retirement we will have more free time because we not have to work anymore, so we will try to do many activity which more spending than working period surely.

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.