

Assignment 6

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

Ans: Income Taxes – since there is no longer income from working

Transportation cost – no longer have to go to work every day, spend most of the time at home

Food expense – as people grow older, they tend to have less fancy food

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

Ans: Medical Expense – as people grow older, they are easier to get sick

Recreation Expense – since people have more time to spend on leisure

- 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)