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Assignment 4 FN221 Personal Finance

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

Expenses that are related to job or going to work can be eliminated. Transportation costs can be highly lowered as there is no need to commute to work every day. Job-related expenses such as telephone fees and food expenses can be reduced as one does not need to call customers as used to and one can also eat out less as one does not have to eat lunch or dinner with coworkers or customers at expensive restaurants or luxurious gatherings. Clothing and beauty products expenditures can also be reduced as one does not need to dress well and professionally like in the workplace. Retirees will also pay less tax as income substantially reduces.

2) What types of expenses might increase during retirement?

Health-related expenses are most likely to increase. Medical expenses will significantly increase because at retirement age and after, one may have more age-related illnesses and have to do more health check-ups. Health insurance premiums might also increases as the buyer is more senior and more prone to illnesses. Nursing care expenses may also be incurred if retirees need extra care at hospital or at home. Travel and entertainment expenses may go up since retirees have more free time to travel and enjoy the entertainment services such as going for a cruise.

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

A defined contribution plan requires a specific amount of money to be contributed to retirement plan, such as from 2% -15% of salary. This amount of money will be invested in retirement funds and given to employees at retirement or end of employment, with employer's contribution and return from funds.

Whereas, defined benefit plans does not specify the amount of retirement benefit today, it can only be determined at retirement. This is because the pension payment will be determined by from a formula,

Monthly benefit = average salary for Y last years x years of service x Z%

Average salary for Y last years and years of service can only be determined at the very end. Therefore, this can be a risk to employees as it is difficult to estimate the retirement benefits.