Assignment 4 Thanat Likitsan

5604641844

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

Ans. During the retirement period, people are mainly lowered the cost on Food, travelling, shopping and cost of living for their children. According to the health problem, the retire people cannot consume much amount of food so, retired people can decrease the cost of food both the eating out and eating in home. Also, the health problem makes retired people don't like much travelling because it too much use of their body and vulnerable to the disease. The shopping cost is lower as they are mostly don't seriously taking care of their look and beauty. At the time of retirement, mostly child can look after their personal economic situation so, retired people would no longer need to provide financial support for them.

2) What types of expenses might increase during retirement?

Ans. The highest cost of the retired people is the Medical cost. Since the age of 60 (The retirement age), most people face the health problem and the body cannot cure it as well as it does 30 to 40 years ago. The disease is harder to cure and needed to admit to be in the doctor's eyes. So, the cost of medical is definitely higher and sometimes it is unexpected very high. The other cost is the hiring cost. With the low ability to do the hard job, hiring is the best way to do it instead. The retired people may need to spare the increasing in the cost of maid, driver and personal nurse.

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

Ans.

Defined Benefit Plans

Employers guarantee a specific retirement benefit amount for each participant of a defined benefit plan, which can be based on the employee's salary, years of service or a number of other factors. Employees have little control over the funds until they are received in retirement. The employer bears the investment risk of ensuring the defined benefit amount is able to be paid to the retired employee. Due to this risk, defined benefit plans require complex actuarial projections and insurance for guarantees, making the costs of administration very high. This has made defined benefit plans all but obsolete.

Defined Contribution Plans

Defined contribution plans are funded primarily by the employee, called the participant, with the employer matching contributions to a certain amount. A participant may elect to defer a portion of his gross salary via a pretax payroll deduction to the plan, and the company matches according to its summary plan description, or SPD. The contributions can be invested, at the participant's direction, in select mutual funds, money market funds, annuities or stock offered by the plan. As the employer no longer has any obligation on the account's performance after the funds are deposited, these plans require little work and are low risk to the employer. The employee must direct contributions and investments to grow the assets adequate for retirement.