

FN281: ASSIGNMENT 6

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

- > Work expenses: no longer working, less gas for vehicle, buy less lunches, etc.
- > Clothing expenses: more casual clothes now.
- > Housing expenses: may decrease if you have paid off mortgage.
- > Income Taxes expenses: you will likely be in a lower tax bracket because of reduced income.

2) What types of expenses might increase during retirement?

- > Insurance: loss of employer's contribution to health and life insurance will increase your own payments.
- > Medical expenses: health care cost tends to increase as people age.
- > Leisure activities: you will likely to travel more.

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

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)