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FN281 Assignment 6

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

Work related costs can be greatly reduced. These costs include transportation costs, social costs, such as fancy meals at restaurants when you have to socialize with clients or co-workers. This also contribute to more spending as sometimes work-related events needs fancy clothing and other luxury goods. Retirement would bring less income. This means that the tax structure you face is changed, and you have to pay lower tax. Moreover, during retirement, people would be less likely to purchase new cars and/or new houses. Thus, without the consideration of these major purchases, expenses are greatly reduced.

1) What types of expenses might increase during retirement?

Recreation expenses can be increased during retirement as the retired would have more free time to spend. Theses expenses include travelling expense, entertainment, and hobbies. Getting older means that they are more likely to be less healthy, which means that health premiums would be higher, and for those who have no insurance and have no longer buy health insurance, they would be paying a lot more for medical expenses.

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

Both plans are the retirement plan. The distinct difference is that the money contributed for a defined-contribution plan is a fixed amount by employees themselves. 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. The contributions can be invested, at the participant's direction, in select mutual funds, money market, or in a stock market. The defined benefit plan is contributed by employer, and the benefits are calculated using many factors, such as an employee’s salary. The employer is responsible for making investment and plan all the investments.