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<u>FN281: Retirement Planning</u>

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

During retirement, there are many expenses that can be lowered. Firstly, tax, if you invest in RMF which is a fund that you could take out only when you retire, this will reduce tax by a maximum amount of 500,000baht and because of lower income, you will have overall lower tax too. Living expenses could also be reduced because lower income, lower consumption, before retirement it is also likely that you have already planned the budget available for each much. Adding to this, you don't have to go to work everyday anymore so the transportation cost may reduce, you will also be likely to eat at home more often so generally expenses will be reduced.

2) What types of expenses might increase during retirement?

During retirement, there are also many expenses that could increase, firstly medical expense, because as you grow older maintaining your health may be difficult and you could get ill easily. Secondly, travelling expense could increase because you will have more leisure time. If the retirement plan is not precisely followed, you might overspend on somethings, such as, donations etc.

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

Defined benefit plan refers to a plan between the employees and employer of the benefits that will be given to the employees at retirement. The benefits offered by the company could be, paying for health care, the employee's children health care, an amount of money per month until the employee dies (e.g. number of years worked at the company (%) x salary of the last year) and many more, depending on the agreement. The problem with this plan is that it is hard to estimate the value (what the medical expense will be etc.) so the employer bares the risk and the employee has only one risk, which is if the company goes default.

Defined-contribution plan has a similar concept as provident fund, both employee and employer will pay toward retirement. The benefits are quite similar, for example, the employer pays the employee an amount of money and the employee can manage by themselves. In this case, the employers has no risk but the employees bares all the risk however they don't have to worry if the company goes default because the company already put the money in the fund, the money depends on the return from the fund.

So the different between these 2 plans are that the person who bares the most risk are not the same. Employers would prefer defined contribution plan because they know the exact amount, however, employees would prefer defined benefit plan because the agreement is more certain.