The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE
(BCOM YR IV SEM I)

UNIT CODE: HBF 2402

UNIT TITLE: PENSIONS FINANCE

DATE: 19TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:
- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Your organization is planning to establish a pension fund to manage retirement benefits for employees. The trustees of the fund have requested you to explain to them FIVE reasons establishing a pension fund (10 marks)

(b) Nancy, a retire employee worked for two firm. She served the first employer for 20 years earning a basic salary of kshs 20,000 while in the second employment she worked for 15 years and retired after attaining 60 years of age. The basic salary form the second employer was kshs 30,000. In both cases her employers were paying 6.5 percent while she was contributing 3.5% of her basic salary per month to pension fund. Pension was paid after attaining 60 years of age. Calculate;

i. Her total pension contribution (2 marks)

ii. Employer's total pension contribution (2 marks)

(c) If 25% of pension was paid in lump sum by each employer and the balance invested in a fund earning an annual interest of 9% for 10 years. Calculate the total amount she will earn after 10 years (6 marks)

(d) You have been approached by an insurance agent who wants to sell to your company a retirement annuity that would yield kshs 112,000 after 10 years. The current interest rate in the market for long term investment is 8% Ignoring taxes; you are required to determine the total annuity payable (5 marks)

(e) Suppose you invest Kshs 9,000 at the beginning of every year for 12 years in pension fund earning at 9% compound interest. Calculate the amount of you will earn after 12 years (5 marks)

QUESTION TWO

(a) Distinguish between a defined contribution (DC) plan and a defined benefit (DB) plan. (10 marks)

(b) Jesse an employee of the ministry of Foreign Affairs has asked your determine his pension after working for 30 years. According to his employment terms the final basic salary is Kshs 80,000 per month.

i. Determine his expected annual retirement pension payable (4 marks)

ii. Suppose a quarter of his pension is his pension in lump sum and the balance paid on monthly basis. Calculate his lump sum pension and the amount to be paid per month (6 marks)

QUESTION THREE

(a) Newly established financial firms had requested you to explain to them various types of employee benefits that are normally offered. Outline FIVE types of such employee benefits that would form part of your presentation (10 marks)

(b) You have been asked to advice a firm which is in a dilemma whether to contribute pension by monthly cash payment to an employee or to contribute to a qualified pension fund. The amount payable annually as pension is kshs 20,000. If the prevailing interest rate for investment is 12%, tax rate is 30% and the amount is invested for 10 years.

Required:

i. Calculate the amount of pension payable under each scheme (5 marks)

ii. Determine the tax rate and the amount of tax payable (5 marks)

QUESTION FOUR

The Board of Trustees for Retirement benefit scheme in your firm has requested you to present a paper on the Retirement Benefit Authority (RBA). In your presentation explain the following;

(a) FIVE functions of RBA (10 marks)

(b) FIVE factors that have contributed to the growth of retirement benefits schemes in Kenya (10 marks)

QUESTION FIVE

(a) Outline FOUR statutory tests that are normally done before a pension scheme is terminated under distress termination (8 marks)

(b) Explain the procedure followed in terminating a pension plan under the standard termination (8 marks)

(c) Explain the circumstances that may lead a person to be paid under the following insurance cover;

i. Long-term disability insurance program (2 marks)

ii. Short-term disability insurance program (2 marks)