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**University Examinations 2015/2016**

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BFC 3430: PENSION FINANCE**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Distinguish between the following:
2. Pension scheme and a provident fund (2 marks)
3. Funded scheme and unfunded scheme (2 marks)
4. Pension scheme trustees and fund managers. (2 marks)
5. The principle in IAS 19 on Employee Benefits is that a present obligation is created when an employee renders service in exchange for benefits promised under the plan. In line with the principle, distinguish between vested and unvested benefits (4 marks)
6. Manpower Planning Inc. is a Kenyan subsidiary of UK based Multinational Human Resource Firm that has opened office in Meru Town. In a recent board meeting, the CEO of the Kenyan subsidiary underscored the need to have a pension plan for its company staff. A resolution was made to seek consultancy from Alexander Forbes (EA) Ltd, a financial services firm in which you are employed. Explain to the board the clear distinction between Defined Benefit scheme and Defined Contribution Scheme (10 marks)
7. Mr. Manono works as a senior auditor, Kenya National Audit Office on a permanent and pensionable basis. The following were his employment details for the month of December 2015:

* He was paid basic salary of sh.90, 000, house allowance of sh.30,000 and commuter allowance of sh.12, 000. He contributed five per cent of his basic salary to pension scheme and the employer contributed ten per cent. He lives in Nairobi and is married with two children.
* He had a life assurance policy with Liberty Life Inc for which he contributed sh.5,000.
* He had a mortgage loan from Savings and Loan (KCB) which he took for purchase of residential property on which he repaid Sh.20, 160. The repayment was inclusive of interest of sh. 10, 000.
* Other Statutory deduction: NHIF Sh. 1, 700.

**Required:**

Prepare a well laid out statement (pay-slip) showing Mr. Manono’s net pay for the month of December 2015:

1. Assuming that the pension scheme is registered
2. Assuming that the pension scheme is not registered.

**RATES OF TAX**

Monthly taxable pay (shillings) Rate of tax % in each shilling

1 - 10,164 10%

10,165 - 19,740 15%

19,741 - 29, 316 20%

29, 317 - 38,892 25%

Excess/over - 38, 892 30%

Personal relief Kshs. 1, 162 per month

Insurance Relief 15% of the contribution

(10 marks)

**QUESTION TWO (20 MARKS)**

1. Explain the justification for applying quantitative ceilings on investments of retirement benefit funds as per Table G of the Retirement Benefits Regulations. (8 marks)
2. Table G of Retirement Benefits Regulation lists the broad classes of investible assets permitted and the ceilings per each broad category of assets.

|  |  |  |
| --- | --- | --- |
| **TABLE G: INVESTIMENT GUIDELINES** | | |
| Item | Category of Assets | Macimum percentage of aggregate market value |
|  | Cash and Demand Deposits in licensed institutions | 5% |
|  | Fixed Deposits, Time Deposits and Certificates of Deposits | 30% |
|  | Commercial paper, Corporate Bonds, Mortgage Bonds and loan stocks | 30% |
|  | Kenya Government Securities | 70% |
|  | Preference shares and ordinary shares of companies quoted in a stock exchange in Kenya, Uganda or TZ | 70% |
|  | Unquoted shares of companies incorporated in Kenya. | 5% |
|  | Offshore investments in bank deposits, government securities, quoted equities and rated Corporate Bonds and offshore collective investment schemes. | 15% |
|  | Immovable property in Kenya and units in property unit | 30% |
|  | Guaranteed Funds. | 100% |
|  | Any other assets | 5% |

Required:

Give a brief description of each of the category of assets 1 to 10. (20 marks)

**QUESTION THREE (20 MARKS)**

1. The current retirement benefits system in Kenya can be classified into four scheme types.
2. List the four scheme types. (4 marks)
3. Discuss the scheme types in terms of their establishment, coverage, funding and regulation. (6 marks)
4. Briefly explain the following laws in Kenya that provide for social security:
5. National Hospital Insurance Fund. (5 marks)
6. Retirement Benefit Authority Act (5 marks)

**QUESTION FOUR (20 MARKS)**

1. Discuss various categories of financial risks faced by pension schmes (10 marks)
2. The pension coverage in Kenya is only 13% of the total labour force as compared to Japan where the pension coverage 95%.

Explain five innovative ways that the government can adopt to expand the coverage. (10 marks)

**QUESTION FIVE (20 MARKS)**

1. As of 2010, 36 million elderly people aged 65 years and over accounted for 3.6% of Africa’s population, up from 3.3% ten years earlier. Aging Population in Africa is expected to accelerate between 2010 and 2030, as more people reach age 65. Projections show that the elderly could account for 4.5% of the population by 2030 and nearly 10% of the population by2050 (UN, 2011).

Explain why the governments should be concerned with the aging population. (10 marks)

1. Discuss the role of each of the following parties who may be involved in the provision of pension services in Kenya.
2. Custodian (4 marks)
3. Administrator (4 marks)
4. Actuary (2 marks)