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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: AUGUST, 2016 TIME: HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Explain the following terms as used in the pension industry:
2. Premature death (2 Marks)
3. Trustee Deed (2 Marks)
4. Vested interest (2 Marks)
5. Universal health coverage (2 Marks)
6. Registered pension scheme (2 Marks)
7. Despite numerous advantages of using corporate trustees, over 90% of Pension Schemes in Kenya use individual trustees.

Required:

Explain :

1. The advantages of using individual trustee (5 Marks)
2. The disadvantages of using corporate trustee (5 Marks)
3. State the responsibilities of the following professionals in the management of pension schemes:
4. Funds Administrator (5 Marks)
5. Funds custodian (5 Marks)

**QUESTION TWO (20 MARKS)**

Old age is emerging as a global phenomenon. Number of persons who are old worldwide is estimated to be around 800 million today. This aging population is posing insurmountable challenges both for the developed as well as developing countries such as Kenya.

**Required**:

a) Explain five problems associated with old age in Kenya. (10 Marks)

b) Explain five solutions to old age problems. (10 Marks)

**QUESTION THREE (20 MARKS)**

1. The pension coverage of total labour force in some developed countries such as USA and Japan is over 90% while the pension coverage in developing countries such as Kenya is less than 10%.

**Required:**

Discuss the causes of the low pension coverage in Kenya. (10 Marks)

1. The pension industry worldwide is dogged by scandals. After a scandal, various countries enact laws and regulations to ensure that such a scandal does not recur. Kenya enacted the Retirement Benefits Act in 1997 and the Retirement Benefits Regulation in 2000 (and various amendments thereafter) to govern the entire management and administration of the pension industry in the country. The Act ensures that scandals similar to the Robert Maxwell Scandal and the Enron Scandal do not occur in Kenya.

Required:

1. Describe the Maxwell Scandal and state how it affects the Kenya law.(5 Marks)
2. Describe the Enron Scandal and state how it affects the Kenya law. (5 Marks)

**QUESTION FOUR (20 MARKS)**

Miss Fatuma Ali is the Chief Legal Officer, Pwani University. The following information relate to her salary for month July, 2016.

1. She was paid basic salary of sh. 100,000 , house allowance of sh. 50,000 and commuter allowance of sh.14,000.
2. She contributed 10 percent of her basic salary to Pwani University Pension Scheme and the employer contributed 20 per cent.
3. She had a life assurance policy with ICEA-Lion for which she contributed Kshs. 6,000
4. She had a mortgage loan from savings and Loan (KCB) which she took for purchase of residential house on which she repaid Kshs. 25,000. The repayment was inclusive of interest of Kshs.15,000
5. She contributed Kshs 8,000 to a registered Home Ownership Savings Plan
6. She contributed Kshs. 5,000 to Pwani University SACCO
7. She paid NHIF deductions of Kshs. 1,700

**Required:**

1. Assuming that the pension scheme is registered compute her:
2. Gross pay (1 Mark)
3. Taxable pay (5 Marks)
4. Net Tax (3 Marks)
5. Net pay (3 Marks)
6. Assuming that the pension scheme is not registered compute:
7. Taxable pay (3 Marks)
8. Net Tax ( 2 Marks)
9. Net pay (3 Marks)

**QUESTION FIVE (20 MARKS)**

1. The permanent and pensionable employees of Kenya Power have the option of joining the Company’s Defined Benefit Scheme or the Defined Contribution Scheme. Emma Bosire is a new employee and is not sure which scheme to join. She has approached you for advice.

**Required:**

Explain to her five reasons why she should join the Defined Contribution Scheme as opposed to Defined Benefit Scheme. (10 Marks)

1. Personal risks are risks that directly affect an individual. The risk is not only a burden to the individual but to society as well.

**Required:**

Discuss the various techniques of handling the risks. (10 Marks)

**APPENDIX: INDIVIDUAL TAX TABLE**

|  |  |  |
| --- | --- | --- |
|  | **Bands of Taxable Income (Kshs)** | **Tax Rate on Band %** |
| First | 10,164 | 10 |
| Next | 9,576 | 15 |
| Next | 9,576 | 20 |
| Next | 9,576 | 25 |
| OVER | 38,892 | 30 |

Insurance Relief 15% of premium

Personal Relief Kshs. 1, 162 per month