MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya
Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,
Website: info@must.ac.ke Email: info@must.ac.ke

University Examinations 2023/2024

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN FINANCE

BFS 3356: PENSION FINANCE

DATE: APRIL 2024   TIME: 2 HOURS

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

QUESTION ONE (30 MARKS)

a) 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   (6 marks)

b) The pension coverage in Kenya is only 13% of the total labour force as compared to japan where the pension coverage 95%. Discuss three challenges of expanding pension coverage in Kenya   (5 marks)

c) Discuss three components of the regulation matrix in the Kenyan pension system

(6 marks)

d) Describe the factors affecting income in a segregated schemes arrangement

(6 marks)

e) Discuss four expenses deductible against employment income   (6 marks)

QUESTION TWO (20 MARKS)

a) Explain the justification for applying quantitative ceilings on investment of retirement benefit funds as per table G of the retirement benefits regulations   (8 marks)

b) Table G 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	Maximum percentage of aggregate market value
1.	Cash and demand deposits in licensed institutions	5%
2.	Fixed deposits, time deposits and certificates of deposits	30%
3.	Commercial paper, corporate bonds, mortgage bonds and loan stocks	30%
4.	Kenya government securities	70%
5.	Preference shares and ordinary shares of companies quoted in a stock exchange in Kenya, Uganda or TZ	70%
6.	Unquoted shares of companies incorporated in kenya	5%
7.	Offshore investments in bank deposits, government securities quoted equities and rated corporate bonds and offshore collective investment schemes	15%

8.	Immovable property in Kenya and units in property unit	30%
9.	Guaranteed funds	100%
10.	Any other assets	5%

Required:

Give a briefly description of each of the category of assets 1 to 10   (12 marks)

QUESTION THREE (20 MARKS)

a) Explain key considerations for determine investment strategy by pension fund sponsors

(6 marks)

b) Consider two employers X and Y. Each employer provides a defined benefit plan and offer similar salary progression structure. A worker at firm X with an annual income of $15,787 and retired in 2016 with an income of $50,000 after receiving annual salary increase 3% over 40 years. In contrast, assume that the retiree worked at the first employer from 1976 to 1996 (20 years) and then switched to firm Y for the remaining 20 years. Show that under defined benefit plan, annual benefits are higher if the employee worked in the entire career for a single employer rather than if the employees split careers between two firms   (6 marks)

c) Discuss the measures undertaken by Retirement Benefits Authority in line with RBA Act (1997) to protect members benefits and governance of schemes in Kenya (8 marks)

QUESTION FOUR (20 MARKS)

There are many laws in Kenya that provide for social security. Discuss any four of these laws

QUESTION FIVE (20 MARKS)

a) Give a brief description of the role the following parties in pension management

    i.   Fund manager

    ii.   Custodian

    iii.   Trustees   (12 marks)

b) How can pension coverage in Kenya be increased   (8 marks)