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University Examinations 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BFC 3430: PENSION FINANCE

DATE: DECEMBER 2024   **TIME:2 HOURS**

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

QUESTION ONE (30 MARKS)

a) Explain the key risks associated with pension fund investments and discuss strategies to mitigate these risks. (l0mks)

b) Explain the role of technological solutions in mitigating the problems associated with old age. (8mks)

c) ABC Corporation wants to design a new pension plan for its employees. The company is considering either a Defined Benefit or Defined Contribution plan. As a pension consultant, provide advice on which type of plan would be most suitable for the company, considering factors such as risk, funding requirements, and employee preferences. (8mks)

d) A pension fund has KES 100 million to invest. The fund allocates 50% to equities, 30% to government bonds, and 20% to real estate. If the annual return on equities is 10%, on government bonds is 5%, and on real estate is 8%, calculate the total return on the portfolio. (8mks)

QUESTION TWO (20 MARKS)

a) By use of examples, discuss the importance of community-based initiatives in addressing the problems faced by the elderly. (10mks)

b) A pension fund is expected to make annual payments of KES 2 million for 15 years to retirees. If the discount rate is 6%, what is the present value of these future payments? (4mks)

c) Explain the role of strategic asset allocation in pension fund management. (6mks)

QUESTION THREE (20 MARKS)

a) Discuss the role of government policies and programs in mitigating the problems faced by the elderly. (10mks)

b) Discuss five major challenges facing the pension industry in Kenya today. And their potential solutions (10mks)

QUESTION FOUR (20 MARKS)

a) Discuss the major theories that underpin pension systems, particularly in the context of Kenya. (10mks)

b) Explain the concepts of vesting and portability in pension plans. and why they are important in pension plan design particularly for modern, mobile workforces? (10mks)

QUESTION FIVE (20 MARKS)

a) Discuss three major regulatory challenges facing pension funds in Kenya and their potential impact on pension fund investments. (9mks)

b) Briefly describe the role of the following players in pension industry

i. Retirement benefit authority (RBA) (6mks)

ii. Fund trustees (5mks)