



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION DECEMBER-2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE**

**BUSINESS/COMMERCE**

**UNIT CODE: HBF 2402**

**UNIT TITLE: PENSION FINANCE**

**DATE: DECEMBER, 2019**

**TIME:**

**INSTRUCTIONS:**

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

**QUESTION ONE**

- (a) Chausiku is a finance Director of ABC Corporation. IN presenting financial report to the Board of Directors of ABC Corporation he stated that, “The pension fund assets had a negative return this year, therefore we will have to contribute more money to the fund over future years than was expected” Based on the statement of Chausiku, you are required to:
- Identify the type of pension plan being sponsored by ABC Corporation (6 marks)
  - Justify your answer by explaining **THREE** features of the pension plan sponsored by Mazingira Corporation (6 marks)
- (b) Describe the benefits for inpatients and outpatients as applicable to National Hospital Insurance Fund (NHIF) in Kenya (6 marks)
- (c) “Annuities are form of insurance against long lie” Explain **THREE** reasons to support the testament (6 marks)
- (d) Explain **THREE** factors would limit insurability of risk as in relation to pension plans (6 marks)

**QUESTION TWO**

- (a) You have been requested by a client who is running a pension plan for advice on the expected amount to invest in order to earn Kshs 1,400,000 at the end of 25 years. The Interests’ rate at the moment is 11%
- Required:**
- Calculate the amount needed for investment in order to earn Kshs 1,400,000 after the end of 25 years. (10 marks)
- (b) Suppose you deposit Kshs 5,000 at the beginning of every year for years in a pension scheme paying a compound interest of 8%
- Required:**
- Calculate the total amount you would earn at the end of 12 years (10 marks)

**QUESTION THREE**

- (a) You have been requested to present a paper on the topic “Reasons for purchasing loss sensitive insurance policy” Outline **FOUR** points that you would include in your presentation (8 marks)
- (b) Zainabu is an investor who expects a perpetual amount of Kshs 140 annually from the investment
- Required:**
- Calculate the present value for the perpetuity if the market rate of interest is 9% (4 marks)

- (c) Describe FOUR circumstances that would render disability insurance claim not to be honoured by the insurer (8 marks)

#### QUESTION FOUR

- (a) An insurance agent is selling a policy expected to pay at Kshs 1,200 at end of one year. The amount could be invested at 8% interest per year

**Required:**

- i) Compute the expected claim if it is invested for three years (6 marks)  
ii) Calculate the discounted expected claim after 1 year (6 marks)
- (b) A three policy which is expected to pay kshs 15,000 is discounted after two years. If the interest rate in the market is 6%

**Required:**

- i) Determine the amount payable after discounting the policy (8 marks)

#### QUESTION FIVE

- (a) Other factors being held constant, how does long-tailed lines insurance have lower fair premiums than short-tailed line insurance (8 marks)
- (b) Alfayo is civil servant due for retirement in April 2020 after serving in the ministry of Agriculture for 32 years. His final basic salary is Kshs 24,000 per month. You are required to compute his annual pension payable (6 marks)
- (c) If 15% of annual pension is paid in lum sum, determine;
- i) Total amount payable in lum sum (3 marks)  
ii) The monthly pension payable (3 marks)