



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION DECEMBER -2018**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE  
BUSINESS / BACHELOR OF COMMERCE  
(YR I SEM II)**

**UNIT CODE: HBF 2401**

**UNIT TITLE: PENSIONS FINANCE**

**DATE: 17<sup>TH</sup> DECEMBER, 2018**

**TIME: 9:00 AM – 11:00 AM**

**INSTRUCTIONS:**

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

**QUESTION ONE**

- (a) Explain THREE (3) circumstances that could render disability of insurance benefit claim not to be honoured by the insurer. (6 Marks)
- (b) Jaoko is an investor who expects a perpetual amount of kshs 140 annually on an investment from his pension payment.  
Required;  
Compute the present value for the perpetuity if the market rate of interest is 9%. (6 Marks)
- (c) Annuities are form of insurance against long life. Explain THREE reasons to support this claim. (6 Marks)
- (d) Other factors held constant explain how each of the following would affect the average amount of benefits that would be on a retirement plan.
- (i) A decrease in the payroll tax rate. (4 Marks)
- (ii) A long run increase in the unemployment rate. (4 Marks)
- (e) In reference to pensions management, distinguish with examples in Kenya between custodian and fund manager. (4 Marks)

**QUESTION TWO**

- (a) Explain the term scheme in reference to pensions. (2 Marks)
- (b) Silvano a civil servant was due for retirement in April 2018, after serving in the Ministry of Livestock for 30 years. His final basic salary was kshs. 26,000 per month.

Required;

1. Compute his annual pension payable. (6 Marks)
2. If 25% of annual pension is paid in lump sum; determine:
  - (i) Total amount payable in lump sum. (6 Marks)
  - (ii) Total monthly pensions payable (6 Marks)

**QUESTION THREE**

- (a) Madam Truphena desires to terminate her pension. Advise her on available methods to adopt. (6 Marks)
- (b) Describe key concerns that should be considered in the selection of an administrator for a retirement fund. (6 Marks)
- (c) Matano used his pension to take up an insurance where an insurer sold him a policy for which he expected to pay at the end of the year, while the company could also invest at 6% per year.

Required;

Compute discounted expected claim cost.

(8 Marks)

#### **QUESTION FOUR**

- (a) Explain the likely outpatient benefits for a health insurance benefit like NHIF in Kenya. (4 Marks)
- (b) Suppose you join pension savings and deposit kshs 2,500 at the beginning of the year for 6 years in the pension fund, at 6% compound interest.

Required;

Determine your money value at the end of the 6 years.

(8 Marks)

- (c) Jacinta has been contributing to her pension promptly. Payments of kshs 1,000 are made twice a year and are accumulated at 9% compound semi-annually.

Required;

Determine amount accumulated following the tenth payment. (8 Marks)

#### **QUESTION FIVE**

- (a) Distinguish between the following in pensions finance;
  - (i) Defined contribution plan and defined benefit plan. (6 Marks)
  - (ii) Non-forfeiture option and settlement option. (6 Marks)
- (b) Alfayo received his pension in lump sum and was not interested towards buying an insurance policy.

Required;

Describe why we might find wealthier people purchasing less insurance benefits.

(8 Marks)