

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

**BCOM 344: PENSIONS MANAGEMENT**

**STREAMS: BCOM**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 10/12/2018**

**11.30 AM – 1.30 PM**

#### **INSTRUCTIONS:**

**Answer Question One and any other Two Questions**

#### **Question One (CASE STUDY)**

**Read the below case study and answer the questions that follow:**

Pension funds not only provide social security, they play a major role in driving various activities that can stimulate economic growth. It is this understanding that has seen the call of unlocking pension funds to drive various economic activities including private equity and real estate development among others.

Pension funds in Kenya have traditionally invested in property, equities and debt instruments but there has been agitation to unlock them to drive more social and economic growth. One of the solutions for their mortgages. Lower income earners can barely afford housing, as the cost is prohibitive. Pension funds can play a role in addressing this situation. They have a long-term horizon compared to depository institutions.

One of the solutions proposed is to allow members of pension funds to use their accumulated benefits as security for their mortgages. A regulated housing finance institution would offer the mortgage at agreeable interest rates. Kenya made strides by amending Section 38 of the Retirement Benefit Authority to enable pension members to attach up to 60 per cent of their accumulated benefits to secure a mortgage. This allows members to acquire land or a house, pay for stamp duty, valuation fees and legal fees among other transaction fees. The uptake has however been extremely low with trustees wary of managing the risk due to many grey areas in implementing this while mortgage institutions have failed to respond with more favorable terms.

#### **Questions**

- (a) Explain the benefits of pension funds to an economy like Kenya. [8 marks]

- (b) Discuss the role of the Retirement Benefit Authority in the administration of pension in Kenya. [8 marks]
- (c) Author quotes “The uptake has however been extremely low ...”. Discuss the reasons for low uptake of pension products by individuals. [6 marks]
- (d) Explain the ways in which the Kenyan government can promote the uptake of pension among its citizens. [8 marks]

**Question Two**

- (a) Describe the characteristics of defined Benefit and Defined Contribution schemes. [12 marks]
- (b) You have been appointed as the Employee Benefits manager for your County government. Explain to the Executive Committee the main reasons why the County should provide employee benefits. [8 marks]

**Question Three**

- (a) You are a Pensions Adviser for a PLC which sponsor a defined contribution occupational pension scheme. A new Trustee has recently been appointed to the Board and he would like to obtain a better understanding of his obligations around the disclosure of information to the scheme members. Write a paper for him which explains the requirements which have to be met in this area. [12 marks]
- (b) Discuss the risk factors that an insurance company must consider in calculating premiums for a life assurance pension policy. [8 marks]

**Question Four**

- (a) Outline the following aspects of personal pension plans:
  - (i) Eligibility [4 marks]
  - (ii) Contributions [4 marks]
  - (iii) Relevant earnings [4 marks]
  - (v) Death benefits. [4 marks]
- (b) Describe how defined benefit scheme are funded. [4 marks]

