



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND  
TECHNOLOGY  
SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF  
BUSINESS ADMINISTRATION – WITH IT  
4<sup>TH</sup> YEAR 2<sup>ND</sup> SEMESTER 2013/2014 ACADEMIC YEAR  
BUSIA L. CENTRE**

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**COURSE CODE: ABA 428**

**COURSE TITLE: SOCIAL SECURITY AND PENSION FUNDS**

**EXAM VENUE:**

**STREAM: (BBA -HRM)**

**DATE: 21/8/14**

**EXAM SESSION: 9.00 – 11.00AM**

**TIME: 2 HOURS**

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**Instructions:**

- 1. Answer question 1 (compulsory) and any other 2 questions .**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

### **Question One**

- (a) Differentiate between the following terms as used in social security and pension fund;
- (i) Defined benefit pension plan and defined contribution pension plan. (4 marks)
- (ii) Pension fund and provident fund. (2 marks)
- (b) Highlight any TWO benefits of social security in addition to the provision of a retirement program. (4 marks)
- (c) Outline any THREE measures taken to protect the interests of members in a pension fund. (6 marks)
- (d) Based on the new NSSF Act 2013, calculate the contributions to Tier I and Tier II for the following pensionable income using the revised contribution rates.
- (i) Kshs.5,000 per month. (2 marks)
- (ii) Kshs.15,000 per month. (4 marks)
- (e) Given;
- $$F(x) = 1 - (1 - x/120)^{1/6}, \quad 0 \leq x \leq 120$$
- Determine the probability that a life aged 35 dies before the age of 55. (4 marks)
- (f) The new NSSF Act is set to transform social security in Kenya. Discuss. (4 marks)
- (Total: 30 marks)**

### **Question Two**

The following is the trial balance of Civil Servants Pension Fund as at 31 March 2012:

	Sh.000	Sh.000
Accumulated fund as at 1 April 2011		3,245
Land and buildings in the Central business district	2,000	
Pensions	390	
Income from fixed return securities		580
11% Treasury Stock	400	
Freehold Property (Developed with rental income housing units)	2,200	
Employers normal contribution		980
Employees additional voluntary contributions		200
Administration expenses	150	
Claims received on term insurance policies		21
Premiums paid on term insurance policies	49	
Term insurance policies	400	
Employers additional contributions		25
Employees normal contributions		300
Unpaid benefits		30
Group transfers in from other schemes		75
Individual transfers out to other schemes	5	
Debtors on investment transactions	16	
Commutation of pensions and lump sum retirement benefits	15	
Dividends received from equity investments		400
20,000 ordinary shares in Flamingo Airways	200	
Individual transfers in from other schemes		14
Income from unit trusts		70
Rental income from property		45
Group transfers out to other schemes	40	
Cash and demand deposits	35	
Tax paid on fund income	460	

Ksh.250, 000 loan stock in KVM	200	
Death benefits paid	15	
Creditors for investment transactions		22
Refund of contributions	28	
Investment in unit trusts	350	
Loan from HFCK to develop Property		1,000
Contributions due within 30 days	56	
Shares in Moyalematt Ltd 2.00		<u>2</u>
	<u>7,009</u>	<u>7,009</u>

**Additional Information:**

- The fund owned 12,000 shares in Moyalematt, which were initially purchased for Shs.14,000. These have been disposed of during the year. The only entries made in the books were in a debtor account and investment account since the shares are yet to be paid for.
- The trustees felt the need to reflect the following market prices in the financial statements:  
 Loan stock in KVM – Market price index – 84.00  
 Shares in Flamingo Airways -Sh.9.75 per share.

**Required:**

- Statement of changes in net assets for the year to 31 March 2012. (10 marks)
- Statement of net assets as at 31 March 2012. (10 marks)

**Note:** This should be in compliance with IAS 26 – Accounting and reporting by retirement benefit plans.

**(Total: 20 marks)**

**Question Three**

- Briefly explain the following FOUR main types of pension schemes in Kenya;
  - The civil service pension scheme. (3 marks)
  - National social security fund (NSSF) scheme. (3 marks)
  - Private occupational scheme. (3 marks)
  - Individual retirement benefits scheme. (3 marks)
- Fund managers are responsible for advising the trustees in the making of investment decisions of the fund. Outline any FOUR main responsibilities of fund managers as nominees by board of trustees in pension fund schemes. (8 marks)

**(Total: 20 marks)**

**Question Four**

- The survival distribution function for an individual is determined to be;

$$S(x) = \frac{75-x}{75}, \quad 0 \leq x \leq 75$$

**Required:**

- Find the probability that the person dies before reaching the age of 18. (4 marks)
- Find the probability that the person lives more than 55 years. (4 marks)

(iii) Find the probability that the person dies between the ages of 25 and 70. (6 marks)

(b) Given;

$$F(x) = 1 - (1 - x/120)^{1/6}, \quad 0 \leq x \leq 120$$

Determine the probability that a new born survives beyond age 25.

(6 marks)

**(Total: 20 marks)**

### **Question Five**

Different countries classify pension funds differently. There are however similarities in several concepts of classification between countries.

Briefly distinguish between the following classifications of pension funds;

(a) Public and private pension funds.

(5 marks)

(b) Occupational and individual pension funds.

(5 marks)

(c) Funded and unfunded pension funds.

(5 marks)

(d) Open and closed pension funds.

(5 marks)

**(Total: 20 marks)**