



UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

HRM 412: RETIREMENT BENEFITS MANAGEMENT

DATE: 31ST MARCH 2026

DURATION: 2 HOURS
MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

Nairobi Fresh Logistics (NFL) is a medium-sized transport company with 150 employees. The workforce is a mix of permanent administrative staff and a large fleet of drivers employed on renewable 2-year contracts. The Managing Director, Mr. Kamau, wants to establish a retirement scheme to improve staff retention and comply with industry trends.

However, Mr. Kamau is skeptical of external interference. He proposes an "In-House Provident Fund" where he acts as the Chairman of the Board of Trustees. He intends to appoint the company's Finance Manager as the Administrator and use the company's regular bank account to hold the funds "to save on custodian fees." His investment strategy is simple: "We will invest 80% of the funds back into buying more trucks for the company, as this yields a 20% return, which is higher than the 10% on Treasury Bills."

The employees are divided. The older drivers prefer a Provident Fund because they want a full lump sum to build rural homes upon retiring. The younger administrative staffs are reading about the NSSF Act 2013 changes and are confused about whether they should contribute to NSSF or a private scheme, or both. Furthermore, the drivers (who consider themselves part of the 'gig economy') are worried that a formal pension will deduct too much from their take-home pay and that they won't be able to access the money if their contracts are not renewed.

An external consultant warns Mr. Kamau that his proposed structure violates the Retirement Benefits Act (1997) governance structures and exposes him to jail terms.

Required:

- a) Critique Mr. Kamau's proposed governance structure (Chairman, Administrator, Custodian, and Investment). Identify the specific violations of the RBA regulations and explain the rationale behind the mandatory segregation of duties. **(10 MARKS)**
- b) Analyze the conflict between the drivers' preference for a Provident Fund and the broader industry push towards Pension Annuities. Why is the "Lump Sum" mentality prevalent in Kenya and what are the long-term risks of this approach for the retirees? **(8 MARKS)**

- c) Advise the younger staff on the "Three Pillar" system in Kenya. Clarify the interplay between the NSSF (First Pillar) and the proposed Occupational Scheme (Second Pillar). Can they opt out of NSSF if NFL sets up a private scheme? **(7 MARKS)**

QUESTION TWO

- a) Assess the role of "Umbrella Retirement Benefits Schemes" in the Kenyan market. Why are they considered a superior strategic choice for Small and Medium Enterprises (SMEs) compared to standalone Occupational Schemes? **(10 MARKS)**
- b) Distinguish between "Segregated Funds" and "Guaranteed Funds." Which option is more suitable for a scheme with an aggressive risk appetite, and why? **(5 MARKS)**

QUESTION THREE

- a) Evaluate the asset allocation trends in the Kenyan retirement industry. Despite regulations allowing up to 30% in REITs and 10% in Private Equity, allocations remain below 1%. Analyze the barriers (expertise, conservatism) preventing diversification into these alternative assets. **(10 MARKS)**
- b) Discuss the "Zero Pillar" of the Kenyan system (Inua Jamii). To what extent does this social safety net reduce the dependency burden on the working-class population? **(5 MARKS)**

QUESTION FOUR

- a) Analyze the impact of the "Changing Nature of Work" (Gig Economy) on social protection systems. How does the structure of traditional statutory schemes (like NSSF) fail to accommodate informal workers, and what recent initiatives has the RBA undertaken to address this? **(10 MARKS)**
- b) Examine the "Mortgage Regulation" in Kenya. How does the law allow members to utilize their accumulated benefits to secure housing without actually withdrawing the cash? **(5 MARKS)**

QUESTION FIVE

- a) Critique the "Pay-As-You-Go" (PAYG) pension model historically used in the public sector. Why is the shift towards Funded" schemes considered necessary for fiscal sustainability? **(10 MARKS)**
- b) Evaluate the tax incentives provided by the Kenyan government to encourage retirement savings. How do "Exempt-Exempt-Taxed" (EET) structures function? **(5 MARKS)**

QUESTION SIX

- a) Compare and contrast the roles of the Fund Manager and the Custodian in a registered scheme. Why is it critical that these two entities are independent of each other and the Sponsor? **(10 MARKS)**
- b) Assess the validity of the claim that "Retirement schemes in non-OECD countries have a bias towards Government Bonds." What economic factors drive this allocation in Kenya? **(5 MARKS)**