FIN 533 Homework
Due Tuesday, October 22, 2009

My pension plan will pay me $10,000 each year (at the end of the year) for a 10-year period. The first payment will come in exactly 5 years. The pension fund wants to immunize its position. If the plan uses 5-year and 20-year zero-coupon bonds to construct the immunized position, how much money ought to be placed in each bond?

What will be the face value of the holdings in the 5-year zero-coupon bonds and in the 20-year zero-coupon bonds?

The current interest rate is 10% per year.