

Trustee Knowledge and Understanding (TKU)

Revised guidance on the
scope of the TKU requirements

Scope guidance

Defined contribution schemes

2009

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Unit 1:

The law relating to trusts

This includes an understanding of the special nature of a pension trust and the duties, obligations and powers of trustees to operate pension schemes in accordance with the law and the trust documentation.

1a The definition and nature of a pension trust

Including the separation between the scheme and the sponsoring employer and the separation of assets

1b Fiduciary duties

Including the obligation to act prudently, safeguarding the financial interests of all beneficiaries, eg:

- in the choice of investment vehicles
- in any decision involving the possibility of changing to a different pension arrangement, eg buying out or winding up the current scheme

1c Professional advice and decision-making

Including the need to obtain professional advice (where appropriate) in reaching decisions

1d The role of advisers and suppliers to the scheme

Including the employment by the trustees of:

- administrators
- auditors
- benefit consultants
- custodians
- financial advisers
- fund managers
- investment consultants
- investment managers
- lawyers
- providers (as appropriate)

1e Investment of scheme assets

Including the trustees' responsibility to act prudently and in accordance with the trust documentation

1f The operation of the scheme in accordance with the trust documentation

Including:

- the trust deed and rules
- any amendments
- the Memorandum and Articles of Association or equivalent documents (corporate trustees)

1g Trustees' powers

Including:

- the power to:
 - amend the rules
 - delegate functions while retaining responsibility
 - authorise signatories for payments
 - exercise certain discretions (eg distribution of death benefits)
 - invest scheme assets
 - wind up the scheme
- the limitations and conditions imposed by the trust deed and rules and relevant legislation
- the effect of legislation

1h The balance of powers between the sponsoring employer and trustees

Including the size of contributions, investment decisions and the calculation of contributions

1i Conflicts of interest

Including situations which may give rise to conflicts and how conflicts may be managed, eg:

- trustees whose relationship with the sponsoring employer might make it
- difficult to maintain the interests of the beneficiaries as the prime concern
- trustees required to use their discretion in relation to members
- whom they may know well
- professional advisers who may be retained by both trustees and the sponsoring employer
- investment advisers running a fund management service

1j Taking office

Including the particular requirements and the implications of joint and several liability

1k Fitness and propriety to act as trustee

Including the need for:

- an appreciation of the full range of trustee duties
- appropriate knowledge and understanding
- preparation for and regular attendance at meetings
- knowledge of the circumstances in which a person is disqualified from taking office

1l Ceasing to hold office

Including the implications of personal liability for past decisions

1m Protections and immunities offered to trustees

1n Trustees' responsibility for sound governance and administration

Including:

- secretariat functions, eg planning, minutes of meetings, correspondence, complaints
- administration functions, eg record-keeping, payment of benefits, receipt of contributions, checks for fraud
- risk management, eg internal controls, contingency planning
- decision-making and delegation

Unit 2:

The law relating to pensions

This includes occupational pensions legislation (in outline) and the key provisions of related legislation that affects pension schemes and impacts on the role and activities of pension scheme trustees.

2a Occupational pensions legislation

Including:

- the key provisions of pensions legislation
- the Pensions Regulator's Codes of Practice and guidance for DC schemes
- the outline of proposals for major legislative change already approved by the Government

2b The tax privileges and requirements for occupational pension schemes

Including the relevant provisions of the Finance Act 2004, eg those which:

- set the conditions to be met by a Registered Pension Scheme
- allow personal pensions and occupational pensions to be run concurrently
- set a cap on contributions and benefits which attract tax privileges

2c Pensions related legislation

Including:

- anti-discrimination
- arrangements for giving advice on pensions
- civil partnerships
- compensation arrangements
- data protection
- employment legislation
- money laundering
- parental leave
- pensions sharing on divorce

2d Disputes resolution

Including:

- Internal Disputes Resolution Procedure (IDRP)
- the role of The Pensions Advisory Service (TPAS) and the Pensions Ombudsman

2e Member nominated trustees/directors

2f The law relating to internal controls and sound administration

Including the obligation to administer the scheme in accordance with legal and regulatory requirements

2g The interface between occupational schemes and state pension provision

Including the implications of contracting out and the relationship between pension scheme benefits and means-tested state benefits

2h The obligation on employers to offer a qualifying scheme for all employees from 2012

Including the conditions for meeting the requirements for a qualifying scheme, covering such matters as:

- automatic enrolment of members
- minimum contribution rates
- eligibility for membership
- the definition of pensionable pay
- the power of trustees to modify their scheme rules by resolution to meet the requirements for a qualifying scheme

Unit 3:

Running a Defined Contribution (DC) occupational arrangement

This includes the principles relating to the operation of DC occupational arrangements and the risks borne by scheme members.

3a How DC occupational pension arrangements work

Including:

- the payment of fees, charges and expenses
- the operation of a trustee bank account

3b Administration procedures specific to DC occupational arrangements

Including the importance of:

- complete, accurate and up-to-date member records
- the timely collection of contributions and allocation of assets
- regular reconciliations
- the accurate and timely switching of assets when required (eg lifestyling)
- robust systems and processes

3c The role of the employer in the calculation and collection of member contributions

3d The implications of the transfer of risk to members of DC occupational arrangements

Including:

- market risk
- mortality risk
- changes to the legislation or tax regime
- contributions not being paid across to the scheme accurately and on time
- excessive charges and up front charging structures
- ineffective communications between members and trustees
- lack of member understanding of pension funding in general
- insufficient contribution levels
- inappropriate investment choices by members
- inappropriate or uninformed decision-making at retirement

3e The implications of contracting out

Unit 4:

The basic principles relating to the investment of assets

This includes the major asset classes and their risk profiles as well as information about other asset classes and the principles of risk and reward.

4a Capital markets

Including, in broad terms, the effect of economic cycles

4b The major asset classes and their characteristics

- equities
- bonds
- property
- cash

4c The implications of overseas investment

Including foreign exchange risk and political risk

4d The existence of other asset classes and investment techniques

Including:

- annuities used as an asset class
- default funds and lifestyling arrangements
- with-profits arrangements (as appropriate)

4e The balance between risk and reward

Including:

- the nature of risk
- risk/reward profile of each major asset class
- basic principles of matching assets to pension expectations
- basic principles of managing risk by diversification of asset classes

Unit 5:

Investment choice and the implications for members

This includes the principles relating to the choice of investments to be offered to members.

5a The implications for members of the investment strategy adopted by trustees

Including:

- whether or not trustees offer investment choices to members
- the range of investment choices where they are offered
- the suitability of the investments for the membership
- the implications of a default investment fund
- the implications of lifestyling as a default option

5b The importance of member understanding of investment risk

Unit 6:

Fund management

This includes the principles of fund management and how the performance of fund managers can be measured.

6a The structure of investment portfolios

Including such matters as:

- active v passive management
- pooled funds v segregated portfolios
- rebalancing portfolios
- investment style

6b The selection of fund managers

6c Investment mandates

Including an understanding of the nature of the contract between the trustees and their asset managers, and the fee structures and charges

6d Measurement of performance using indices, benchmarks and targets

6e The mechanisms for monitoring investment arrangements and fund managers

Including:

- reports from fund managers
- implications of changes within the fund manager's organisation
- compliance with the statement of investment principles (SIP)
- the completeness and accuracy of records and of calculations
- the calculation and the impact of charges and fees
- management of any transition of assets between one manager and another
- robust processes and systems

6f The importance of sound custody arrangements

Including adequate monitoring and correct record-keeping

6g The importance of responsible ownership of assets

Including:

- the extent to which social, environmental and ethical considerations are taken into account when making investment decisions
- the corporate governance of the companies in which the trustees invest
- the extent to which (if at all) they will exercise their voting rights

6h The Myners principles for the governance of the investment decision-making process

Unit 7:

A working knowledge of the scheme's own trust documentation

This includes any subsequent amending documents.

7a The duties, powers and discretions of trustees

7b The balance of powers between the sponsoring employer and trustees

Including the size of contributions, investment decisions and the calculation of contributions

7c Categories of membership in the scheme

Including eligibility for membership

7d Decumulation of pension funds

Including the ways in which funds can be converted into benefits (decumulation) including the market option, any default arrangements and the way in which payment is made

Unit 8:

A working knowledge of the scheme's Statement of Investment Principles (SIP)

8a Roles and responsibilities for preparing the SIP

8b The scheme's investment objectives and asset allocation strategy

8c The contents of the SIP

Including the legal and regulatory requirements covering the contents of the SIP

8d Monitoring and updating the SIP as appropriate

Unit 9:

A working knowledge of the scheme's other relevant documents

These include:

- 9a Scheme booklet, announcements and other member communications**
Including the popular report and accounts for members
- 9b Minutes of meetings**
- 9c Regular stewardship reports**
Including compliance issues
- 9d Payment schedule**
- 9e Internal audit reports or reports of alternative internal checks**
Including checks on the adequacy and robustness of systems and on calculations used in individual member communications
- 9f Annual report and accounts for the scheme or auditor's statement of contributions**
Including any audited reports
- 9g Any significant contract in respect of scheme assets**
Including insurance policies
- 9h Any other significant agreement or contract**
Including those with delegated authority, professional advisers and suppliers of services, eg contracts of appointment, service level agreements
- 9i Any trustee approved procedures**
Including documentation relating to the:
 - Internal Disputes Resolution Procedure (IDRP)
 - appointment of all classes of trustees
 - appointment of the chair
 - policy to manage conflicts of interest
 - risk register
- 9j Statement of compliance with the Myners principles (where appropriate)**
- 9k Terms of reference of any sub-committee (where relevant)**
- 9l Memorandum and Articles of Association (or equivalent documents) of corporate trustee (where applicable)**
- 9m The scheme's business plan**
Including a schedule of meetings and a timetable for anticipated agenda items

- 9n Job descriptions for the chair and for the trustees**
- 9o Trustee skills audit, training needs analysis and training log**
- 9p The whereabouts of all original documents and the arrangements for their custody, safekeeping and access**