

# Trustee Knowledge and Understanding (TKU)

Revised guidance on the  
scope of the TKU requirements

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Scope guidance

**Small (12-99 members) fully insured  
defined contribution schemes**

2009

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) 

## **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, the separation of assets and the requirement for a trustee bank account

#### **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 relinquishing one pension arrangement for another, eg buying out or winding up the current scheme

#### **1c The role of advisers and suppliers to the scheme**

Including:

- auditors (as appropriate)
- financial advisers
- pension providers

#### **1d The operation of the scheme in accordance with the trust documentation and insurance policy**

Including:

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

#### **1e Trustees' powers**

Including, as appropriate:

- 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 documentation, insurance policy and relevant legislation
- the effect of legislation

## **1f 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
- where the sponsoring employer is also the corporate trustee
- trustees required to use their discretion in relation to members whom they may know well (most commonly in the distribution of death benefits)
- professional advisers or financial advisers who may be retained by both trustees and the sponsoring employer

## **1g Taking office**

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

## **1h Fitness and propriety to act as trustee**

Including the need for:

- appropriate knowledge and understanding
- preparation for and regular attendance at meetings
- knowledge of the circumstances in which a person is disqualified from taking office

## **1i Ceasing to hold office**

Including the implications of personal liability for past decisions

## **1j Protections and immunities offered to trustees**

## **1k Trustees' responsibility for sound governance and administration**

Including:

- business planning, risk management, minutes of trustee meetings, correspondence, member communications
- the performance of the provider, eg administration functions, and the accuracy and timeliness of its record-keeping and reporting

## **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 a cap on contributions and benefits which attract tax privileges
- allow personal pensions and occupational pensions to be run concurrently

#### **2c Pensions related legislation**

Including:

- anti-discrimination
- arrangements for giving advice on pensions
- civil partnerships
- 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 sound administration**

Including the administration services carried out by the provider

#### **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 occupational DC schemes 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 (eg contributions with payroll details; employer and trustee member records with provider's records)
- the accurate and timely switching of assets when required (eg lifestyling)
- robust systems and processes, and checks for fraud

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

#### **3d The nature of insured pensions products**

Including, as appropriate:

- charges and limitations on switching funds, eg market value reductions and possible loss of guarantees in relation to with-profits policies
- initial unit charges
- discontinuance charges
- liquidity of assets (eg policy restrictions on switching out of or realising certain assets)
- fund choices
- guarantees
- minimum contributions

### **3e 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
- deferred member surcharge
- 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

### **3f 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**

Including:

- equities
- bonds
- property
- cash

#### **4c 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 the major asset classes

#### **4d The existence of other asset classes and investment techniques**

Including:

- default funds and lifestyling arrangements
- with-profits arrangements (as appropriate)

## **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:**

### **A working knowledge of the scheme's own trust documentation and insurance policy**

This includes any documentation supplied by the provider, which may combine the insurance policy and trust deed and rules, and any subsequent amending documents.

#### **6a The duties, powers and discretions of trustees**

#### **6b The balance of powers between the sponsoring employer and trustees**

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

#### **6c Categories of membership in the scheme**

Including eligibility for membership

#### **6d Decumulation of pension funds**

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

#### **6e The insurance policy (as appropriate)**

Including, again as appropriate:

- charges
- arrangements for disinvestment
- fund choice
- guarantees
- minimum contributions

## **Unit 7:**

### **A working knowledge of the scheme's other relevant documents**

These include:

#### **7a Scheme booklet, announcements and other member communications**

#### **7b Communications from the provider for members or trustees**

Including:

- annual benefit statements and statutory money purchase illustrations (members)
- any regular reports for the trustees, eg on administration or compliance issues

#### **7c Minutes of meetings**

#### **7d Payment schedule**

#### **7e Auditor's statement of contributions**

#### **7f Any significant agreement or contract**

Including:

- bank mandates
- insurance policies
- service level agreements with the provider
- letters of appointment with both professional advisers and financial advisers

#### **7g 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

#### **7h Memorandum and Articles of Association (or equivalent documents) of corporate trustee (where applicable)**

#### **7i Trustee training log**

#### **7j The whereabouts of all original documents and the arrangements for their custody, safekeeping and access**