

Trustee Knowledge and Understanding (TKU)

Revised guidance on the
scope of the TKU requirements

Scope guidance

**Small (12-99 members) fully insured
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, 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 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