

# Trustee Knowledge and Understanding (TKU)

Revised guidance on the  
scope of the TKU requirements

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Scope guidance

**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 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 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**