



## How To Be A Top Trustee

### Your Trustee Knowledge and Understanding Gap Indicator

#### Defined Contribution Schemes

#### Welcome

The Pensions Regulator has developed a checklist of the areas of knowledge that Trustees must have to perform their role. The code of practice on Trustee Knowledge and Understanding lists three key requirements:

- Trustees are required to have knowledge and understanding about the law relating to trusts and to pension schemes generally.
- Trustees are required to have knowledge and understanding about the principles relating to the funding of occupational pension schemes and the investment of the scheme's assets.
- Trustees need to be conversant (i.e. familiar) with the documents that are particular to their own scheme so that they are able to make use of those documents in carrying out their functions.

The following pages help you assess your current level of knowledge against the Pensions Regulator's TKU framework. In particular, each page allows you to confirm how well you believe you meet each of the Regulator's specific knowledge requirements. This document is based on the framework set for defined contribution (DC) schemes as provided by the Pensions Regulator.

Separate frameworks exist for defined contribution schemes and (much reduced) for small (12-99 members) fully insured defined contribution schemes.

This gap indicator is also available in Excel format. If you would like it in this format for easy analysis please contact your usual Aon consultant or the Pensions Training team (*email:pensionstraining.enquiries@aon.com*).

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Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

## Area of Knowledge

1 2 3 4

- 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.**
- a **The definition and nature of a pension trust** including the separation between the scheme and the sponsoring employer and the separation of assets
- b **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
- c **Professional advice and decision-making**, including the need to obtain professional advice (where appropriate) in reaching decisions
- d **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)
- e **Investment of scheme assets**, including the Trustees' responsibility to act prudently and in accordance with the trust documentation
- f **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)
- g **Trustees' powers** including:
- The power to:
    - Amend the Rules
    - Delegate functions while retaining responsibility
    - Authorise signatories for payments

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

Area of Knowledge

1 2 3 4

- 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
- h The balance of powers between the sponsoring employer and the Trustees** including the size of contributions, investment decisions and the calculation of contributions
- i 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
- j Taking office**, including the particular requirements and the implications of joint and several liability
- k Fitness and propriety to act as a 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
- l Ceasing to hold office**, including the implications of personal liability for past decisions
- m Protections and immunities offered to Trustees**
- n 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

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

**Area of Knowledge**

1 2 3 4

**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.**

- a 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
  
- b 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
  
- c 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
  
- d Disputes resolution, including:**
  - Internal Disputes Resolution Procedure (IDRP)
  - The role of The Pensions Advisory Service (TPAS) and the Pensions Ombudsman
  
- e Member Nominated Trustees/Directors**
  
- f The law relating to internal controls and sound administration, including the obligation to administer the scheme in accordance with legal and regulatory requirements**
  
- g 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**

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

**Area of Knowledge**

1 2 3 4

- h 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 Trustee to modify their scheme rules by resolution to meet the requirements for a qualifying scheme

**3 Running a Defined Contribution (DC) occupational arrangement (including AVCs) - this includes the principles relating to the operation of DC occupational arrangements and the risks borne by scheme members.**

- a How DC occupational pension arrangements work, including the payment of fees, charges and expenses, and the operation of a Trustee bank account**

- b 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

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

- d 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

- e The implications of contracting out**

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

**Area of Knowledge**

1 2 3 4

- 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.*
- a** **Capital markets**, including, in broad terms, the effect of economic cycles
  - b** **The major asset classes and their characteristics**    
    - Equities
    - Bonds
    - Property
    - Cash
  - c** **The implications of overseas investment**, including foreign exchange risk and political risk
  - d** **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)
  - e** **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
- 5** *Investment choice and the implications for members - this includes the principles relating to the choice of investments to be offered to members.*
- a** **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
  - b** **The importance of member understanding of investment risk**

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

**Area of Knowledge**

1 2 3 4

- 6 Fund management - this includes the principles of fund management and how the performance of fund managers can be measured.**
- a The structure of investment portfolios**, including such matters as:    
    - Active vs passive management
    - Pooled funds vs segregated portfolios
    - Rebalancing portfolios
    - Investment style
  - b The selection of fund managers**
  - c Investment mandates**, including an understanding of the nature of the contract between the Trustees and their asset managers, and the fee structures and charges
  - d Measurement of performance using indices, benchmarks and targets**
  - e 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
  - f The importance of sound custody arrangements**, including adequate monitoring and correct record-keeping
  - g 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
  - h The Myners principles for the governance of the investment decision-making process**
- 7 A working knowledge of the scheme’s own trust documentation - this includes any subsequent amending documents.**
- a The duties, powers and discretions of Trustees**
  - b The balance of powers between the sponsoring employer and Trustees** including the size of contributions, investment decisions and the calculation of contributions

Tick the appropriate box – Advanced (1), Knowledgeable (2), Developing (3), Basic / No Knowledge (4)

**Area of Knowledge**

**1 2 3 4**

- |   |   |
|---|---|
| <p><b>c</b> <b>Categories of membership in the scheme</b>, including eligibility for membership</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>d</b> <b>Decumulation of pension funds</b>, 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</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <br>  |   |
| <p><b>8</b> <b>A working knowledge of the scheme’s Statement of Investment Principles (SIP)</b></p>   |   |
| <p><b>a</b> <b>Roles and responsibilities for preparing the SIP</b></p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>b</b> <b>The scheme’s investment objectives and asset allocation strategy</b></p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>c</b> <b>The contents of the SIP</b>, including the legal and regulatory requirements covering the contents of the SIP</p>  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>d</b> <b>Monitoring and updating the SIP as appropriate</b></p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <br>  |   |
| <p><b>9</b> <b>A working knowledge of the scheme’s other relevant documents - these include:</b></p>  |   |
| <p><b>a</b> <b>Scheme booklet, announcements and other member communications</b>, including the popular report and accounts for members</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>b</b> <b>Minutes of meetings</b></p>  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>c</b> <b>Regular stewardship reports</b>, including compliance issues</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>d</b> <b>Payment schedule</b></p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>e</b> <b>Internal audit reports or reports of alternative internal checks</b>, including checks on the adequacy and robustness of systems and on calculations used in individual member communications</p>  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>f</b> <b>Annual report and accounts for the scheme or auditor’s statement of contributions</b>, including any audited reports</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>g</b> <b>Any significant contract in respect of scheme assets</b>, including insurance policies</p>   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>h</b> <b>Any other significant agreement or contract</b>, including those with delegated authority, professional advisers and suppliers of services, eg contracts of appointment, service level agreements</p>  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| <p><b>i</b> <b>Any Trustee approved procedures</b>, including documentation relating to the:</p> <ul style="list-style-type: none"> <li>■ Internal Disputes Resolution Procedure (IDRP)</li> <li>■ Appointment of all classes of Trustees</li> <li>■ Appointment of the chair</li> <li>■ Policy to manage conflicts of interest</li> <li>■ Risk register</li> </ul> | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |



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**Area of Knowledge**

**1 2 3 4**

<b>j</b>	<b>Statement of compliance with the Myners principles (where appropriate)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>k</b>	<b>Terms of reference of any sub-committee (where relevant)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>l</b>	<b>Memorandum and Articles of Association (or equivalent documents) of the corporate Trustee (where applicable)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>m</b>	<b>The scheme's business plan</b> , including a schedule of meetings and a timetable for anticipated agenda items	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>n</b>	<b>Job descriptions for the chair and for the Trustees</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>o</b>	<b>Trustee skills audit, training needs analysis and training log</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>p</b>	<b>The whereabouts of all original documents and the arrangement for their custody, safekeeping and access</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>