

Knowledge and understanding

Working knowledge of pensions (TGB017)

All governing bodies should maintain a list of items the members of the governing body should be familiar with. The list should be available in an accessible format and reviewed regularly. Our expectations for learning and development are set out in [Building and maintaining knowledge](#).

Our expectations of knowledge and understanding apply equally to any individual who exercises any trustee function within a company acting as trustee of the scheme. Professional trustees and those appointed because of specialist expertise should be able to demonstrate a greater level of knowledge than members without such expertise.

The items we consider to be key are listed below. This list is not exhaustive, and some governing bodies may add other items. Some elements of this list will not be relevant to certain schemes.

Pension law and associated legislation

- The roles, responsibilities and duties of the governing body.
- The governing body's liabilities and potential liability for decisions made.
- The law relating to pensions and trusts.
- The definition and nature of a pension trust (if applicable).
- The separation of the scheme's assets (if applicable) and any sponsoring employer.
- Fiduciary duties and safeguarding the financial interests of all beneficiaries.
- The responsibility to act prudently and in accordance with the scheme rules.
- The law relating to pensions and trusts.
- Other legislation that might affect the scheme, for example:
 - anti-discrimination
 - data protection.
- The Pensions Regulator's codes of practice.
- Proposals for legislative change.
- Tax treatment of pension schemes.
- Main features of the state pension provision.
- Key elements of [automatic enrolment](#) legislation.

The scheme

- Trust deed and rules and any amendments (if applicable).
- Scheme regulations and statutory guidance (public service schemes only).
- The governing body's powers and discretions.
- The benefit structure, including the pension or decumulation options available to members.
- The balance of powers between the governing body and the employer.
- Any written policies and procedures relating to:
 - internal dispute resolution
 - the appointment of members of the governing body.
- Statements of policy about the exercise of discretionary functions.
- How policies, practices and scheme rules are reviewed and amended.
- Terms of reference, structure and operational policies of any sub-committees of the governing body.
- Any admission body policies (public service schemes only).
- Any categories of membership of the scheme.
- The annual chair's statement (certain DC schemes) (see [Chair's statement](#)).

Scheme funding and investments (excluding LGPS)

- Statement of investment principles (if applicable)
- Statement of funding principles (if applicable).
- Any policies the governing body has adopted in relation to stewardship of investments and ESG matters.
- The choice of investments, if any, offered to members and any default arrangement.
- The contribution rate(s) or amount(s) payable by employers participating in the scheme.
- The contribution rate(s) or amount(s) payable by scheme members participating in the scheme.
- The investment of scheme assets and the governing body's investment objectives.
- The importance of the [employer covenant](#).

- Recovery plan and covenant analysis (if applicable).
- The Pension Protection Fund (PPF) where applicable.
- The scheme's investment mandates.
- Strategic asset allocation.
- Measurement and reporting of investment performance.
- The impact of investment charges and fees (see also [Value for members](#)).
- The key features and processes of investment management.
- The processes and principles used for selecting fund managers.

Principles of investment (excluding LGPS)

- How investment can affect scheme member outcomes.
- Custody arrangements including monitoring and record-keeping.
- The operation of financial markets.
- The major asset classes and their characteristics.
- Characteristics of alternative asset classes, financial instruments and investment techniques.
- The implications of overseas investment including foreign exchange risk and political risk.
- The nature of financial risk, including:
 - risk/reward profile of each major asset class
 - basic principles of matching assets to liabilities (DB)
 - basic principles of matching assets to pension expectations (DC)
 - managing risk by diversification of assets.
- The investment strategy adopted by the governing body.

Risk management

- The risk register.
- Risk assessment framework and risk management policies for the scheme.
- Any policies and procedures including documentation relating to:
 - conflicts of interest
 - reporting breaches
 - maintaining contributions to the scheme
 - gifts and hospitality.

Scheme administration and service providers

- The need to obtain professional advice in certain circumstances.
- The pension administration strategy, or equivalent documents setting details of performance targets etc.
- Whether the scheme is being used for automatic enrolment.
- The roles and responsibilities of appointed advisers and service providers.
- Any policies and procedures including documentation relating to:
 - record-keeping
 - cleaning and maintaining data
 - collection of data.

In relation to scheme communications governing bodies should be familiar with

- Any scheme-approved booklets, announcements and other key communications to scheme members and employers.
- Statements of policy about communications with scheme members and employers.
- Policies relating to the public provision of information and information given on request.
- Where applicable, procedures for dealing with Freedom of Information requests.

Glossary

Accessibility

Making sure that communications and online services can be used and understood by as many people as possible. This includes those with impaired vision or hearing, motor difficulties, cognitive impairments and learning disabilities. The government has produced helpful guidance on this:

<https://www.gov.uk/government/publications/inclusive-communication/accessible-communication-formats>

Beneficiary

A person who benefits from a trust; the member, spouse or children, for example

Decumulation

Accumulation is where your pension grows (by contributions or investment return, for example). Decumulation is where you take money out of your pension to fund your retirement, for example, as a lump sum or by buying an annuity.

Employer covenant

The ability of the sponsoring employer to financially support a DB pension scheme

Custody arrangement

An arrangement where a third party holds assets on behalf of someone else (a pension scheme, for example). The custodian may undertake certain reconciliation and transaction activities.

Money laundering

The concealment of the origins of illegally obtained money

Passive management

Involves setting up your investment framework (having divided your investments upfront) and leaving the investments to grow

Pension Protection Fund (PPF)

The Pension Protection Fund is a statutory fund in the United Kingdom, intended to provide limited protection to DB scheme members if their pension fund winds up without sufficient funds to pay benefits

Professional trustee

A person whose business includes trusteeship. Someone will normally be considered a professional trustee if they have represented themselves to one or more unrelated schemes as having expertise in trustee matters generally (rather than just in certain areas).

Recovery plan

A plan put in place to enable a defined benefit scheme to return to being fully funded on a statutory basis

Scheme rules

The rules and associated documentation setting out how a given scheme is to operate

Governance of knowledge and understanding (TGB005)

This module applies to schemes subject to the requirement to maintain an effective system of governance under the Pensions Act 2004, section 249A.

It is important that the governing body as a whole can demonstrate they jointly possess the skills, knowledge and experience^{GO1} to run the scheme effectively.

The governing body should:

- have a balance of skills and experience spread throughout the board and be able to demonstrate this
- be able to apply its knowledge to governing the scheme
- have sufficient skills to judge and question advice or services provided by a third party
- maintain a plan for the ongoing maintenance and development of the governing body's knowledge (see [Building and maintaining knowledge](#)).
- be able to identify and address skills gaps
- have sufficient understanding of industry good practice and standards to assess the performance of the scheme and its service providers (see [Managing advisers and service providers](#)).
- keep records of the learning activities of individual members and the body as a whole
- be able to demonstrate steps it has taken to comply with the law
- have and maintain training and development plans to ensure that its collective knowledge and understanding is kept relevant and up to date (see [Building and maintaining knowledge](#)).

GO1 Sections 247-248 Pensions Act 2004

Building and maintaining knowledge (TGB003)

Individual members of governing bodies must ensure they have the appropriate knowledge and understanding^{BU1} to enable them to properly exercise their functions. Learn more in [Working knowledge of pensions](#) and [Governance of knowledge and understanding](#).

The members of a governing body should invest sufficient time in their learning and development, alongside their other responsibilities and duties. Governing bodies should provide their members with the necessary training and support. Members of a governing body should be aware that their responsibilities and duties begin from the date they take up their post.

Learning programmes should be flexible, allowing members to update areas of learning and to acquire new knowledge. Members of governing bodies who take on new responsibilities will need to ensure they gain relevant knowledge and understanding. Trustees of occupational pension schemes have the right to time off to perform their duties as trustee of their employer's scheme and for trustee training.^{BU2}

The steps to help governing bodies ensure their knowledge and understanding is established and maintained are outlined below. Members of a governing body should:

- be able to demonstrate a basic level of knowledge and understanding needed to run their scheme within six months of their appointment^{BU3} (see [Working knowledge of pensions](#)).
- start on a programme of learning immediately on appointment, if not before, in conjunction with a scheme specific induction programme, if one is provided
- undertake advanced scheme-specific learning once a good understanding of the scheme has been obtained
- consider how they are meeting our expectations of knowledge and understanding (see [Working knowledge of pensions](#)).
- review their own knowledge and understanding and identify any gaps at least annually, particularly in relation to changes in legislation or their scheme
- keep records of any review of knowledge and understanding and steps taken to address any gaps
- keep records of any alternative or further learning activity (eg reading, attending conferences, sessions with the scheme advisers)

BU1 Sections 247, 248 and 248A of The Pensions Act 2004 [Articles 224, 225 and 225A of The Pensions (Northern Ireland) Order 2005]

BU2 See section 58 of the Employment Rights Act 1996 [Article 86 The Employment Rights (Northern Ireland) Order 1996]

BU3 Sections 247 and 248 of The Pensions Act 2004 [Articles 224 and 225 of The Pensions (Northern Ireland) Order 2005]