

Diploma in Pension Trusteeship - sample questions

Section 1 – Knowledge and Understanding

1. Define the management and leadership good practice/arrangements necessary to manage a trustee board effectively (tick all correct answers):

- a) The board meets as often as it needs to be effective.
- b) The chair, working with board members and staff, plans the board's programme of work and its meetings, making sure trustees have the necessary information, time and space to explore key issues and reach well-considered decisions, so that board time is well-used.
- c) Where significant differences of opinion arise, trustees use their own experiences in discussions rather than considering a range of perspectives and exploring alternative outcomes.
- d) The board has a vice-chair or similar who provides a sounding board for the chair and serves as an intermediary for the other trustees if needed. e) The board discusses its effectiveness and its ability to work together as a team, including individuals' motivations and expectations about behaviours when it feels it is necessary.
- f) The board does not collectively consider specialist in-house or external governance advice and support. This decision is taken by the Chair, the Deputy and the Treasurer. g) The board regularly discusses its effectiveness and its ability to work together as a team, including individuals' motivations and expectations about behaviours. Trustees take time to understand each other's motivations to build trust within the board and the chair asks for feedback on how to create an environment where trustees can constructively challenge each other.

2. Which of the following techniques allow trustees to work well together (tick all that apply):

- a) A brief end of meeting review.
- b) Lead conversations with the experts and those who wish to be heard.
- c) Well organised Board papers and Agenda.
- d) Attending to practical details e.g. understanding Board members individual needs.
- e) Hold a Board only session at the start of meetings to discuss difficult dynamics.
- f) Understand the role of soft skills in meetings. g) Always rely on the default 'we have always done it like this' approach.

3. The investment adviser is suggesting a move to fiduciary management and has suggested his firm and two others are considered. Do you:

- a) Accept the suggestion.
- b) Suggest the trustee board looks at the regulatory guidelines for such an appointment.
- c) Suggest someone agreed as suitable to run the selection process who is not associated with the investment adviser.
- d) Suggest a training session on the concept.
- e) Ask the Employer Nominated Trustee whether what is being proposed is in the members' best interests.
- f) Remind the board of their duties especially around conflicts.
- g) Suggest that the process is checked and facilitated by an independent third party.

4. Trustees who have decided that they can and should make a commitment to ESG and/or factor it into their decision-making regularly, should consider implementing which of the following steps (either themselves or by their delegated investment managers):

- a) Create an ESG policy and communicating this with their beneficiaries and investment managers.
- b) Recognise that trustees' fiduciary duties restrict them from favouring ESG investments over traditional investments.
- c) A review of the integration of financial and non-financial factors.
- d) Conducting a periodic risk assessment of investments to understand, and to be aware of, their obligations in every market in which they operate.
- e) Ever take into account non-financial factors in their investment decisions if this involves a significant risk of financial detriment to the trust fund.
- f) Implementing training and ensuring effective communication of ESG policies and practices.
- g) Voluntary or mandatory reporting as required or appropriate.

5. When exercising the duty of care under Pensions Act of 2004, there is an objective baseline of care that every trustee, depending on the size and responsibility of their office, to exercise "such care and skill as is reasonable in the circumstances". This is exercised when (tick all relevant correct answers):

- a) investing trust capital.
- b) acquiring or managing land.
- c) the board distributes trust assets to a beneficiary who is not entitled to them under the terms of the trust document.

- d) the board invests the trust fund in a way not permitted by his express or statutory powers of investment.
- e) appointing or reviewing agents.
- f) insuring trust properties.
- g) exercising powers to compound liabilities.

6. What do the powers relating to the disposal of scheme assets that are commonly found in pension schemes normally concern:

- a) the provisions relating to early retirement.
- b) ill-health early retirement.
- c) death-in-service benefits.
- d) increase in benefits (including annual increases to pensions in payment and revaluations of deferred pensions).
- e) non acceptance of transfers into the scheme.
- f) a deficit on the scheme winding-up.
- g) powers of amendment relating to the trust deed and rules.

7. In performing their duties, the trustees are required to act honestly and diligently, therefore a trustee should always (tick all that apply):

- a) act in the best interests of all beneficiaries to determine capital growth.
- b) not act for the benefit of third parties.
- c) work for their own benefit, except where expressly authorised.
- d) be required to take positive steps to avoid placing themselves in a position where their duties may conflict with their personal interests.
- e) work in compliance with any terms imposed on the powers contained in the Trust.
- f) to act impartially or with even-handedness.
- g) proceed on the basis of some mistake of fact or law which vitiates a decision.

8. The Government is fully committed to working with regulators, industry and enforcement agencies to protect people from pension scams through transfers from one pension scheme to another and make it as hard as possible for criminals to carry out their malevolent intentions. It is government's intention to introduce interventions to tackle the serious threat of pension scams. Which of the following apply:

- a) regularly warn members about pension scams.
- b) encourage members asking for cash drawdown to get impartial guidance.
- c) get to know the warning signs of a scam and best practice for transfers.

- d) take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures.
- e) regularly cold call members to discuss pension scams.
- f) clearly warning members if they insist on high-risk transfers being paid.
- g) do not report concerns about a scam to the authorities and communicate this to the scheme member, as they will already know.

9. The power conferred on the trustee(s) or any other person to make payments to the employer out of funds held for the purposes of the scheme may only be exercised if—

- a) the trustees have obtained a written valuation of the scheme's assets and liabilities prepared and signed by a prescribed person.
- b) there is a certificate in force stating that in the opinion of that person the prescribed requirements are met as at the date by reference to which the assets are valued and the liabilities are calculated.
- c) the payment exceeds the maximum amount specified in the certificate.
- d) the trustees are satisfied that it is in the interests of the members that the power is exercised in the manner proposed.
- e) where the power is conferred by the scheme on the employer, the employer has asked for the power to be exercised, or consented to its being exercised, in the manner proposed.
- f) there is a freezing order in force in relation to the scheme under section 23 of the Pensions Act 2004.
- g) notice of the proposal to exercise the power has been given, in accordance with prescribed requirements, to the members of the scheme.

10. A Statement of Funding Principles (SFP) is a document prepared by trustees on the advice of their actuary, and agreed by the sponsoring employer, that provides the following information:

- a) The method and assumptions used in calculating the technical provisions decided on by the scheme actuary and not the sponsoring employer.
- b) How and over what period any shortfall against the statutory funding objective will be remedied.
- c) The policy on discretionary increases and whether discretionary increases are to be funded for in advance.
- d) Intervals at which Trustees will obtain valuations and circumstances that would trigger an out of cycle valuation.
- e) How cash equivalent transfer values are calculated and, if they need to be reduced.
- f) Any funding objective adopted in addition to the SFO.

g) Content that should be such that it can only be understood by scheme members.

11. The powers that are at the discretion of the trustees will vary between different pension plans, but they will typically include which of the following:

- a) Withholding of lump sum death benefits.
- b) Granting ill-health early retirement pensions.
- c) Reducing, suspending or terminating benefits in accordance with the plan's rules.
- d) Setting actuarial factors.
- e) Granting non-statutory transfers or trivial commutation.
- f) Settling benefits for children under age 18.
- g) No requirement to articulate the Target End State.

12. A covenant assessment should provide sufficient information for trustees to be able to:

- a) Ignore the trustees assessment of the employer's current and likely future profitability and cash flows.
- b) Understand over what period of time can the employer afford to repay the scheme's funding deficit.
- c) Decide how much value could the scheme recover in an insolvency of the employer.
- d) Assess what are the risks to the covenant and how may it change over time.
- e) Review any options to improve security to the scheme.
- f) Discuss what are the potential implications of all this for the scheme's investment and funding strategies.
- g) Identify if the employer could reduce deficit repair contributions in the event of adverse scheme experience, and over what period of time.

13. Which of the following metrics do you think are most important when considering evaluating ESG performance?

- a) A formal, overarching ESG policy which provides an overview of a company's social responsibility and environmental position.
- b) Self-disclosure in ESG reporting mechanisms.
- c) A corporate code of ethics to guide management and employees as they carry out organisational objectives.
- d) Diversity among employees, board members and management, promoting a wider range of perspectives in decision-making.
- e) A formal environmental policy showing the management team's ability to monitor and address the environmental costs of the organisation's operations.
- f) Approving ESG reporting to just what can easily and consistently be measured.

g) Health and safety record, using accident and incident rates to measure safety of working environments.

14. Which of the following investment mandates can be used by individual investors or by fund managers to guide how their money is invested in order to meet short- or long-term goals?

- a) A large stock investment mandate.
- b) A low-turnover investment mandate.
- c) A cash investment mandate.
- d) An international investment mandate.
- e) A long-term growth mandate.
- f) An income investment mandate.
- g) An Environmental, Social, and Governance (ESG) mandate.

15. A trustees' commercial interests in administering the trust efficiently and profitably can, on occasion, conflict with their duty to administer the trust in the best interests of the beneficiaries. In order to manage this conflict it is suggested that trustees should:

- a) ensure that the trust instrument authorises the payment of the trustees' fees and expenses from the employer.
- b) if necessary, make provision for fees and expenses where appropriate.
- c) ensure the level and type of fees charged are not precluded by the terms of the trust instrument.
- d) ensure their fee schedule has been disclosed to the settlor, protector, enforcer, primary beneficiaries, unit holders or such persons to whom the trustees have a duty to account.
- e) have no duty or need to account for any changes to the fee schedule.
- f) clearly set out the level of fees and expenses charged to the persons to whom the trustees are required to account to. g) ensure all fees and charges are clearly set out in the trustees' fee schedule.

16. When displaying appropriate judgement in observing fiduciary duties you must consider:

- a) The potential long-term consequences for the company.
- b) The interests of employees.
- c) Maintaining your company's good business reputation.
- d) The lack of need to exercise your own judgement and delegate the exercise of your powers.

- e) The need to promote good relationships with suppliers and customers.
- f) The company's impact on the environment and local community.
- g) The need to act fairly between members, for example, treating those with few shares in the same manner as institutions with a large shareholding.

17. When Identifying the investment objectives of a Fund which of the following apply:

- a) Demonstration of value added.
- b) Delivery of specialist processes.
- c) Proactivity of advice.
- d) Discounting the need to offer advice and assistance to the trustees on any other issues arising.
- e) Support with scheme management and compliance.
- f) Relationship and service standards.
- g) Varying fees according to progress.

18. Asset allocation is a very important part of creating and balancing an investment portfolio. Establishing an appropriate asset mix of stocks, bonds, cash, and real estate in a portfolio is a dynamic process. Which of the following strategies could best be used for establishing asset allocations?

- a) Strategic Asset Allocation.
- b) Market Timing Allocation.
- c) Constant-Weighting Allocation.
- d) Tactical Asset Allocation.
- e) Asset allocation without regard to ESG.
- f) Insured Asset Allocation.
- g) Integrated Asset Allocation.

19. When undertaking a process of selecting fund managers, what issues are relevant?

- a) Are the manager's incentives aligned with ours?
- b) What is the underlying source of the manager's performance?
- c) Ignore performance attribution?
- d) How stable can we expect their performance to be in the future?
- e) How much risk could the manager contribute to the portfolio?
- f) How resilient was the manager to periods of market stress?

g) Recruit based purely on past performance?

20. When demonstrating an awareness of the importance of sound custody arrangements, what issues need to be considered when selecting a custodian?

- a) the importance of a non-systematic selection process.
- b) opacity of fees and the place of benchmarking.
- c) legal advice on key provisions in custody agreements.
- d) agreed service standards and reporting requirements.
- e) level and frequency of relationship reporting.
- f) issues arising on transfer to new custodian.
- g) the need for adequate monitoring and correct record-keeping.

21. What are some of the issues associated with transfers in and out of the pension fund?

- a) The risk that participants will live longer than current annuity mortality tables would indicate.
- b) The risk that funds set aside for paying retirement benefits will fail to achieve expected rates of investment return.
- c) Accepting the pandemic has happened, and dealing with transfers as quickly as possible.
- d) Offering a definitive timescale/turnaround time.
- e) The risk that changes in the interest rate environment will cause significant and unpredictable fluctuations in balance sheet obligations, net periodic cost, and required contributions.
- f) Disregard of the need to take 'independent financial advice' under the Pensions Schemes Act 2015.
- g) The risks of a plan sponsor's pension liabilities becoming disproportionately large relative to the remaining assets and liabilities of the sponsor.

22. Which of the following are elements of a good decumulation process:

- a) Offer a 'one size fits all' strategic approach.
- b) Manage pension funds to maximise growth before retirement.
- c) Align investments to relevant income position within 5 years of retirement.
- d) Identify 'optimal retirement income'.
- e) Offer tax free cash/lump sum at retirement.
- f) Accept that the member will not want to purchase an annuity for investment growth.

g) Develop a suitable exit strategy to secure income.

23. Under the EU General Data Protection Regulation (GDPR), trustees count as “data controllers” due to the large amount of personal member data they manage. This means that trustees must comply with the data protection principles set out in the GDPR. The GDPR principles include ensuring that personal data is:

- a) Processed fairly and lawfully and in a transparent manner.
- b) Processed only for specified, explicit and legitimate purposes.
- c) Offered on the understanding that 'personal data' and 'sensitive personal data' is processed alike.
- d) Adequate, relevant and limited to what is necessary for the processing.
- e) Offered to third parties on request.
- f) Accurate, and where necessary, kept up to date.
- g) Kept secure and confidential and not kept for longer than is necessary.

24. The trust deed and rules may tell trustees how to manage the scheme, including matters such as how to make decisions. If these matters are not set out in the scheme documents, they can usually agree their own working methods. Pensions' legislation provides that:

- a) If the trust deed and rules do not give details on how decisions should be taken, they may be made by a majority of the trustees. The 'majority' is a majority of all the trustees at the meeting.
- b) You can decide the minimum number of trustees who must be present (the 'quorum') in order to make the business carried out at a meeting valid.
- c) If a decision may be taken, all trustees must be given notice of the occasion (which will usually be a trustee meeting) stating the date, time and place, no later than 20 business days beforehand unless the trustees agree other arrangements.
- d) If a decision has to be taken urgently, you do not have to give formal notice.
- e) Any decisions made between meetings must be included in the minutes of the next trustee meeting.
- f) If the trust deed and rules are to be amended, trustees must act in line with the scheme's power of amendment and pensions law.
- g) For many schemes, the scheme auditor will also need to audit the scheme accounts. The accounts usually form part of the annual report about the scheme.

25. UK legislation prohibits various forms of discrimination as they affect pension schemes. Discrimination may be direct or indirect. However, in general, indirect discrimination may be lawful if it can be objectively justified as a proportionate means of achieving a legitimate aim. Which of the following are determined as unlawful:

- a) Discrimination against part-timers.
- b) Discrimination against fixed-term workers.
- c) Discrimination on the grounds of sexual orientation.
- d) Disability discrimination.
- e) Discrimination for marriage or civil partnership.
- f) Discrimination for religion or belief.
- g) Discrimination for maternity leave purposes.

26. Which of the following are elements of the Myners Principles for DB Schemes?

- a) Effective Decision Making.
- b) Clear Objectives.
- c) Appropriate Investment Options.
- d) Focus on asset allocation.
- e) Appropriate Default Strategy.
- f) Performance Objectives.
- g) Responsible Ownership.

27. Which of the following are duties of a Chair (in normal circumstances):

- a) Planning the annual cycle of board meetings, and chairing and facilitating these to ensure their smooth running.
- b) Allowing meetings to operate and flow organically.
- c) Developing membership of the trustee board to ensure that it contains the diverse range of skills, experience and knowledge needed to operate effectively.
- d) Ensuring that successors for key posts – treasurer, chair etc. are identified and inducted in good time.
- e) Ensure trustees find suitable training for themselves to enable them to fulfil their roles.
- f) Monitor the calibre, level of commitment and attendance of all trustees.
- g) Ensure that the board reviews its own work and how effectively it operates, making sure to take any corrective action required.

28. Public service pension schemes need to have procedures and processes that enable the effective monitoring of pension contributions, resolving payment issues and reporting payment failures. A scheme must report payment failures that are likely to be of 'material significance'. Which of the following is likely to be of 'material significance':

- a) the employer not being willing or able to pay contributions.

- b) possible dishonesty or misuse of assets or contributions.
- c) contacting and discussing the late payment with the employer.
- d) fraudulent evasion of the duty to pay contributions.
- e) rectifying the late payment and taking steps to avoid recurrence.
- f) the employer having inadequate procedures.
- g) contributions having been outstanding for more than 90 days.

29. The FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting states that "effective and ongoing monitoring and review are essential components of sound systems of risk management and internal control". In putting together a robust process, on an ongoing basis, the board should consider:

- a) how effectively the risks have been assessed and the principal risks determined.
- b) how the principal risks have been managed or mitigated.
- c) removing conflicts of interest as a risk element.
- d) the operation of the risk management and internal control systems, covering the design, implementation, monitoring and review and identification of risks and determination of those which are principal to the company.
- e) the integration of risk management and internal controls with considerations of strategy and business model, and with business planning processes.
- f) the changes in the nature, likelihood and impact of principal risks, and the company's ability to respond to changes in its business and the external environment.
- g) ignoring issues dealt with in reports reviewed by the board during the year as they are out of scope.

30. Which of the following do the TPR recognise as being important to run an effective trustee meeting?

- a) waiving conflicts of interest.
 - b) actions arising, and any decisions made since, the previous meeting.
 - c) investment performance and strategy.
 - d) risks to the scheme (new and existing).
 - e) administration including discretion cases and complaints.
 - f) member engagement, including communications.
 - g) budget monitoring except issues around trustee and adviser fees and expenses.
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Section 2 – Case Study - Application

You are appointed to a board of 12 trustees including four elected member nominated trustees and an independent of a medium sized DB scheme. However, it was noticeable quite soon that that trustee board, which did have this diverse group of people at board level, also has a dominant Chairperson. This meant that whilst others had alternative views, it was the Chairpersons views that formed the basis of decisions made and which were supported by an agreeable board.

The financial position of the sponsor had come under significant pressure, and the future strategic direction of the scheme needed consideration and robust budgets to be put in place. The trustees had different ideas about how this could be done and different levels of understanding of the finances; for the sake of the sponsor's future, the board needed to work together on this.

Whilst the Board did include a healthy diversity of views and backgrounds it was failing to harness these skills and function effectively, especially with the 'silent' trustees who had the financial expertise necessary.

1. Why do good boards make bad decisions?

i. They have a clear overall purpose and agreed ways of working. ii. They have a Chair that can hold authority and values open debate. iii. Trustees feel unsafe in expressing differences of view.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

2. What are the signs of problems within the Board as a group?

i. One or two people tend to dominate proceedings/conversations. ii. Board members are overly aggressive toward staff or other board members. iii. Board members appear remote and uninterested; for example: erratic board attendance; don't read the papers; get distracted by their phones or side conversations. Agreed actions are not carried out.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)

- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

3. This board of trustees seems to have developed a group mindset, where the decisions made are not reflective of the individual members thoughts but represent a blander view that everyone can agree on. How can this be resolved?

i. Skills development and training. ii. Understanding of others style and behaviours. iii. Listening to Chair's views, and taking them as a final decision.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

4. The Chair wishes to become more collegiate, as it has been noticed that the Board is working more effectively as a team through engaging with fellow trustees and utilising their skills. What practices could the Chair use to further foster better Board dynamics?

i. Accessing independent professional advice, such as legal or financial advice, at the sponsor's expense if needed for the board to discharge its duties. ii. Maintaining the two tier approach of 'new trustees' and 'older more experienced trustees and their differences of opinion. iii. The board regularly discussing its effectiveness and its ability to work together as a team, including individuals' motivations and expectations about behaviours.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

5. Two trustees are silent when a detailed question of investment strategy is being discussed. What should the Chair do?

i. Ask if there are any questions of clarification. ii. Ask if everyone understands the proposal. iii. Confront the silent trustees for their views.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

6. As the situation in terms of finances is quite delicate and serious, the Board is seemingly divided on a proposal that needs urgent attention, what should the Chair in this situation do?

i. Check if there is any further clarification required before taking a vote. ii. Defer the decision to allow further discussions. iii. Seek the middle ground for approval.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct h) All are false

7. The trustees have never commissioned a formal assessment of the Sponsor's covenant, and believe they know it well enough to make the assessment themselves, although most have been retired for a few years. What would you suggest the next steps are:

i. Suggest a formal covenant review which you conduct, being experienced in this area. ii. Request the board to conduct an external covenant review. iii. Suggest a training session on regulatory requirements and best practice around valuations.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

8. The Employer Nominated Trustees are not supportive of the suggestion that an external employer covenant adviser be appointed, following an initial failure to agree the assumptions to be used for a forthcoming valuation. Their view is that the Sponsor has provided all the financial information necessary. What should the Board do?

i. Accept the position despite being of the opinion that the Sponsor could afford to fund the Scheme with more prudent assumptions. ii. Seek to delay the valuation and warn the Sponsor of the potential consequences of missing the valuation deadline. iii. Remind the Employer Nominated Trustees of their responsibilities to act in the best interests of the members.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

9. It has been agreed that the covenant is the employer's legal obligation and financial ability to support the scheme now and in the future. What does the Board need to consider when assessing and monitoring the covenant?

i. Make sure the Board work effectively and collaboratively independently of the employer, to avoid conflicts of interest. ii. Focus on the employers with a legal obligation to support the scheme – it may be appropriate to rely on the informal support of employers in the short term but not in the medium or long term as it isn't certain whether this will continue. iii. Make sure the covenant assessment looks at both the present and future, focusing on the ability of the employer to contribute cash to the scheme over an appropriate period to achieve and maintain full funding.

- a) Only (i) is true
- b) Only (ii) is true
- c) Only (iii) is true
- d) Both (i) and (ii) are true and not (iii)
- e) Both (i) and (iii) are true and not (ii)
- f) Both (ii) and (iii) are true and not (i)
- g) All are correct

10. Having undertaken valuation negotiations and you have some concerns about the strength of the employer covenant following the external review. You are leading negotiations on behalf of the trustee board. You could ask the Sponsor

for more money now but the Sponsor is suggesting an offer involving non-cash security, as there is also a proposed acquisition that will strengthen the covenant. Do you:

- i. Take no cash now but accept some non-cash assets as that will have less impact on the Sponsor covenant.
 - ii. Keep pushing to get as much cash as possible now.
 - iii. Take some cash and negotiate a parent company guarantee.
- a) Only (i) is true
 - b) Only (ii) is true
 - c) Only (iii) is true
 - d) Both (i) and (ii) are true and not (iii)
 - e) Both (i) and (iii) are true and not (ii)
 - f) Both (ii) and (iii) are true and not (i)
 - g) All are correct