



Pensions
Management
Institute

ACHIEVING PENSIONS EXCELLENCE

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PMI Level 3 Award in Pension Trusteeship (Defined Contribution and Defined Benefit Schemes)

Qualification Specification

PMI Level 3 Award in Pension Trusteeship (Defined Contribution and Defined Benefit Schemes)

QUALIFICATION AIM

To provide formal recognition of a trustee's knowledge and understanding (TKU) in-line with the requirements of the Pensions Act 2004.

PREREQUISITES

There are no formal prerequisites for this qualification; either qualifications or knowledge and experience.

However, we would anticipate most candidates would be working in the field and/or undertaking the role of trustee.

QUALIFICATION STRUCTURE AND ASSESSMENT

This qualification comprises one mandatory unit covering three syllabus areas.

- Syllabus Area 1 : Law and pensions overview
- Syllabus Area 2 : Investment and funding issues for defined contribution and defined benefit pensions
- Syllabus Area 3 : Scheme management issues for defined contribution and defined benefit pensions

Further details on assessment can be found in the relevant test specification.

SYLLABUSES

Each syllabus area is presented in a form which is intended to give an indication of the depth and breadth of knowledge which is required. Each syllabus area is divided into sections with an initial statement, or learning outcome, indicating what is expected of candidates and some notes in italics which give an indication of the way in which the initial statement should be interpreted. The initial statement and notes use key words in heavy type to indicate the depth and/or breadth of knowledge which is required. The key words should be interpreted as follows:

- analyse** – interpret and examine in detail
- define** – make clear the exact meaning
- demonstrate** - explain or prove by reasoning/example
- describe** - give a detailed account of
- distinguish** - mark the difference between
- evaluate** – determine the value
- explain** - make clear or intelligible; illustrate the meaning of
- identify** - demonstrate what something is
- outline** - brief general explanation; summary without detail
- understand** - comprehend; have a thorough knowledge of

RECOMMENDED STUDY TIME

This is also known as Total Qualification Time (TQT) or Guided Learning Hours. TQT is a measure required by Ofqual the qualifications regulator and is comprised of:

- a. Guided Learning Hours (GLH). This means time spent being taught by an instructor (and not necessarily face to face); and
- b. Study Time. This means self study/revision/reading

In order to comply with Ofqual requirements and to provide an estimation of study time we have calculated the following:

As GLH, as defined above, is not common we have estimated a total of 5 hours for this component. For study time we have estimated 55 hours. Therefore TQT = 60 hours for this qualification.

The above estimates are based on evidence we have gathered from users of our qualifications, past experience and benchmarking exercises. The evidence we have gathered indicates that there is considerable variation within the overall TQT estimates as blended approaches are common with differing mixes of Guided Learning and other elements which contribute to TQT. These estimates are reviewed regularly.

REGULATION

This qualification is regulated by Ofqual and appears in the Register of Regulated Qualifications: <http://register.ofqual.gov.uk/>

QUALIFICATION LEVEL

This qualification has been benchmarked at Level 3 in the national framework.

FEES

Fees for this qualification can be found on this page; <http://www.pensions-pmi.org.uk/qualifications-and-learning/awards-in-pension-trusteeship-overview/dates-fees-and-forms/> and here in the Qualification fees document : <https://www.pensions-pmi.org.uk/documents/qualification-fees-2018/12018qualificationfees.pdf>

LINKS WITH OTHER QUALIFICATIONS AND PROGRESSION

There are no other qualifications specifically aimed at trustees but it may be appropriate to consider some other introductory qualifications in the field of pensions and retirement provision.

MEMBERSHIP ENTITLEMENT

Candidates completing the qualification successfully will receive complimentary Trustee Group Membership until the end of the year in which they entered. Please note that the membership year runs from 1 January to 31 December.

Alternatively, candidates undertaking the qualification may, if they wish, become Student Members of the PMI.

CONSTITUENT SYLLABUS AREAS

SYLLABUS AREA 1 : LAW AND PENSIONS OVERVIEW

Aim

To broadly cover the relevant part of the Pension Regulator's Trustee knowledge and understanding requirements as defined in its indicative syllabus.

Learning Outcomes

At the end of this syllabus area, candidates will be able to **demonstrate an understanding** of:

- the law relating to trusts
- the law and regulatory guidance relating to pensions

Syllabus

The learning outcomes are further broken down so that the candidate should focus on the headings in bold as any of these may be included in the assessment of this unit. In order to ensure full knowledge and understanding of all assessment areas each section it is advisable to have an understanding of all of the areas mentioned below.

Understand the law relating to trusts
<p>1.1 Summarise the Basic Concepts of a Trust and Reasons for a Trust</p> <ul style="list-style-type: none">• Placing assets in the care of persons of integrity for the benefits of others (the beneficiaries)• Separate pensions money from company money• Legal ownership with trustees, not employer or members• Government encouragement with tax benefits• Legal arrangement specifically designed to provide benefits on the future• Enforceable benefits can be given to those who are not employees e.g. spouses and children
<p>1.2 Summarise the Creation of a Trust</p> <ul style="list-style-type: none">• Who can create a trust• How a trust is created• Legal definition of a trust• How a pensions trust is usually created• Trust documents e.g. trust deed & rules• Memorandum/Articles of Association (corporate trustees only)• Obligation under trust law to take legal action where appropriate
<p>1.3 Summarise the Beneficiaries of a Trust</p> <ul style="list-style-type: none">• The persons or classes of persons given benefits by the trust documents, eg<ul style="list-style-type: none">▪ members (active, deferred, pensioners)▪ dependants▪ position of the employer as a beneficiary▪ position of divorced spouse

1.4 Analyse Fitness and Properness to Act as a Trustee

- Provision of trust documents for the selection, appointment and dismissal of trustees
- Member nominated trustees
- Elections, nominations, committees of management.
- Different forms of trusteeship
- Person setting up the trust is trustee unless someone else is appointed
- Anyone agrees and is not legally excluded may be appointed a trustee
- Independent trustee
- Employer as trustee
- Corporate trustee
- Trust corporation (as defined by statute)
- The grounds for discharge of trustees e.g.
 - statutory disqualification
 - mental health
 - failure to attend meetings
 - being abroad for more than 12 months

1.5 Analyse Trustees Taking Office

- The need for access to trust documents
- The need for confidentiality
- The requirement for signature mandates
- The potential liabilities and consequent personal duties and responsibilities of the trustee role
- The need to obtain professional advice when required
- The need for appropriate training

1.6 Analyse Trustees Ceasing to Hold Office

- Provisions of trust documents
- Member nominated trustees
- Elections, nominations, committees of management
- Discharge of individuals
- Requirements to be taken off mandates
- Personal liability for past decisions remains

1.7 Summarise Fiduciary Duties

- To act in accordance with the trust deed and rules subject to overriding law
- Distinction between duties, powers and responsibilities
- Do not delegate unless authorised by the trust deed
- Act by majority unless the trust deed requires otherwise
- Comply with statutory requirements
- Provide required information
- The concept of the duty of care and the standard to which it should be exercised
- Act prudently, conscientiously and honestly and not profit from the trust eg
 - take a considered view
 - the ability to justify actions
 - all relevant factors taken into account and all irrelevant factors ignored
 - reaching a reasonable decision
- Duty to see sums owed are paid
- Required to act impartially e.g.
 - between all categories – actives, deferred and pensioners
 - between all groups of employees
 - between employer and pension scheme members
- Invest and safeguard scheme assets

- Keep proper records e.g.
 - obtain accounts
- Comply with statutory requirements
- Provide information
- Appoint auditor and scheme actuary (DB only)

1.8 Demonstrate an Awareness of the Organisation of Trustees

- How decisions are made
- Keep minutes to record decisions made
- Quorum as set out in trust deed or Articles of Association (Corporate Trustee)
- Meetings at a frequency appropriate to the necessity to make decision or confirm actions of sub committees
- Rights of trustees to call meetings
- Rights of trustees to act individually and jointly

1.9 Summarise Professional Advice and Decision Making

- Appointment of other professional advisers
- Written terms of reference
- When to ask for professional advice
- Challenging professional advice
- Responsibility for decision making is the trustee's

1.10 Summarise the Role of Advisers and Service Providers

- Actuary, administrator, benefits consultants, communications advisers, custodians, financial advisers, fund managers, insurance brokers, investment advisers, lawyers, statutory independent trustees
- Written terms of reference
- Understand the role of the auditor, both internal and external.
- Written terms of reference

1.11 Summarise Conflicts of Interest

- Independence of the trustee's role
- Act in the best interests of the beneficiaries, "best interests" as best financial interests in a trust providing financial benefits
- Requirements to set aside personal views and other interests
- Trust as a separate legal identity
- Exclusions from advisory roles
- All trustees must act for all the beneficiaries
- Trustees are not "representatives" of special interests even if they are member, pensioner, union or company nominated
- Trustees to be aware of situations giving rise to potential conflict
- Trustees to be aware of methods of resolving conflicts e.g.
 - declaration in minutes
 - absenting from decision making
 - taking independent advice
- The implications of the balance of powers
- Circumstances in which professional relationships may give rise to conflicts of interest
- Relations with sponsoring employer

1.12 Analyse the Role of Advisers and Use of Advisers where a Scheme or Employer is under threat or in wind up

- Powers and responsibilities of trustees
- The need to act and react promptly to changing circumstances and advice received
- The need to keep advisers fully up to date
- The need to reassess advisers if possible conflicts of interest
- The possible need for different types of advice such as accountants for financial investigations of the company
- Purposes of valuation (DB only)
 - solvency determination
 - contribution rate
 - discontinuance solvency in wind-up

1.13 Summarise Investing Funds

- Trustee investment powers
- Who can make investment decisions
- Invest the contributions promptly in accordance with the Statement of Investment Principles
- Statutory provisions including Pensions Act 1995/Investment Regulations (2005)
- Definition of “acting prudently”
- Significance of “responsibility for others”
- Nature of “best financial interests of beneficiaries”

1.14 Summarise Operating under Trust Deed and Rules and Subsequent Amendments

- Delegation powers
- Acting by majority unless the trust deed requires otherwise
- Compliance with statutory requirements
- Provide required information
- Obligation to be accountable for the performance of pensions

1.15 Evaluate Trustees' Liabilities and Protections

- Personal indemnity and exoneration in deed
- Insurance
- Trustee Act 1925 – application to court
- Pensions Act 1995 – reliance on professional advice/civil penalties and fines
- Financial Services and Markets Act 2000
 - advice to individuals
 - scheme investment decisions
 - applies to investment managers
- Importance of seeking to do things properly in context of seeking protections
- Loss of protections in cases of wilful default or fraud

1.16 Demonstrate an Awareness of the Importance of Sound Governance and Administration

- Secretariat functions, e.g. planning, minutes of meetings, correspondence, complaints
- Administration functions, e.g. record-keeping, payment of benefits, receipt of contributions, checks for fraud
- Risk management, e.g. internal controls, contingency planning, risk register
- Decision-making and delegation.
- Systems and controls to be proportionate and include
 - accurate record keeping
 - adequate assessment of scheme administration risks
 - reconciliations of payroll, contributions and investments
 - capture and maintenance of correct and up-to-date member data
 - active co-operation with sponsoring employer over payroll data
 - accurate calculation and payment of benefits
 - accurate recording of cash movements
- Robust systems for contributions and unit allocations

1.17 Summarise the Trustees' Powers

- Significance of the scheme's own trust documentation in relation to trustee powers including the power to
 - amend the rules
 - delegate functions while retaining responsibility
 - authorise signatories for payments
 - augment benefits (DB only)
 - set contributions (DB only)
 - exercise certain discretions (e.g. 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.
- Understand the effect of legislation in
 - adding powers to those found in the trust documentation
 - altering or limiting powers found in the trust documentation
 - requiring amendments to the trust documentation

1.18 Demonstrate an Awareness of the Balance of Powers between the Sponsoring Employer and the Trustees

- The significance of the relative powers of sponsoring employer and trustees, particularly in making amendments to the scheme rules, setting contributions and agreeing recovery plans (DB only)
- The importance of using such powers with restraint and the risks of the misuse of powers
- The implications of legislation which overrides the scheme rules in relation to powers, e.g. the requirement to consult the sponsoring employer, the role of the regulator in the event of a dispute, and the significance of the strength of the sponsoring employer covenant when negotiating (DB only)

Understand the law and regulatory guidance relating to pensions

2.1 Demonstrate an Awareness of Occupational Pensions Legislation

2.2 Demonstrate an Awareness that Pension Law may Override the Provisions of the Trust Deed and Impose Obligations on Trustees not existing in the Trust Deed

- Pensions Act 1995 and 2004, Pensions Scheme Act 1993 and associated regulations
- Funding and contributions including the funding objective, requirements for a Statement of Funding Principles (SFP – DB only)/ certification, recovery plans investment including the requirement for a Statement of Investment Principles (SIP) as appropriate/consultation and advice/monitoring and revision/availability/socially responsible disclosure to members/Occupational Pensions Schemes (Disclosure of Information) Regulations 1996/aspects of pension schemes to which disclosure regulations apply:
 - scheme details
 - trustees' annual report
 - SIP
 - trust deed and rules
 - benefit statements
 - transfer values
 - actuarial valuations
 - regulatory authorities
- Who is entitled to information and when:
 - to whom information should be made available
 - type and form of information to be disclosed
 - whether information is given automatically or on request
 - frequency of availability
 - whether or not a charge can be made
- Other member communications such as simplified annual report/benefits of membership/pre-retirement counseling
- Requirements for the appointment of Member Nominated Trustees (MNTs)
- Role of trustees in wind up
- Broad principles behind pensions splitting on divorce
- Regulatory matters:
 - functions of the regulator in relation to trustees
 - reporting to the regulator
 - notifying the regulator if notifiable breaches
 - whistle blowing
 - codes of practice and guidance
 - existence of Pension Protection Fund (PPF) and its purpose (DB only)

2.3 Summarise Disputes Resolution

- Internal Disputes Resolution Procedure (IDRP)/notification to membership/time limits of reply/who replies
- Role of The Pensions Advisory Service (TPAS)
- Role of the Pensions Ombudsman to investigate complaints of mal-administration over disputes of fact of law
- Role of the Financial Ombudsman service and its limits in relation to pension schemes

2.4 Demonstrate an Awareness of Internal Controls and Sound Administration

- Legal requirements for adequate internal controls to ensure that the scheme is administered and managed in accordance with
 - the scheme rules
 - the requirements of the law
 - the Data Protection Act
 - the responsibility under common law to hold accurate and up to date member information
- Legal and Regulatory requirements in relation to the sound administration of schemes, including accurate records of
 - contributions
 - member data
 - payments of pensions and benefits
 - other payments made by or on behalf of the trustees

2.5 Demonstrate an Awareness of Pensions Related Legislation

- Data Protection Act/ how compliance is met
- Financial Services and Markets Act 2000/ arrangement for financial advice
- Anti-discrimination legislation
- Civil Partnerships Act
- Employment legislation
- Proceeds of Crime Act and other anti-money laundering provisions

2.6 Demonstrate an Awareness of Taxation

- The current tax regime
 - Registration
 - UK Administrator
 - event reporting
 - lifetime allowance
 - annual allowance
 - consequences if allowances exceeded
 - benefits on death
 - income drawdown and flexibility
 - commutation – at vesting date/on grounds of triviality or serious ill health
- Overriding legislation
- Loss of privileges if scheme non-compliant with HMRC requirements

2.7 Demonstrate an Awareness of the State Pensions/Occupational Pensions Interface

- Basic State Pension
- Additional State Pension
- Financing basis/deferral
- Contracting out – reference scheme test (DB only)/ guaranteed minimum pension
- Pension Credit
- Effect on means tested benefits
- Forthcoming reforms
- National Insurance Contributions
- Rebates
- Interface with SERPS and S2P

2.8 Demonstrate an Awareness of the Pensions Regulator

- Constitution of the Regulator
- Powers
- Decisions
- Disclosure of information
- Duty to report breaches of the law
- Powers of the Regulator to intervene where trustees and employer are in disagreement
- Codes and guidance

2.9 Demonstrate an Awareness of the Requirement for Employers to offer a Qualifying Scheme for all Employees from 2012

- Proposed 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 powers of trustees to modify their scheme rules by resolution to meet the requirements for a qualifying scheme

2.10 Summarise Member Nominated Trustee/Director Requirements

- Key aspects of the member nominated trustee (MNT)/director (MND) requirements including, as appropriate
 - nomination processes
 - selection processes
 - the proportion of board members who are MNTs/MNDs
 - timescales
 - full participation by MNTs and MNDs
 - approval by sponsoring employer where appropriate
 - removal of MNTs or MNDs
 - the implications of being an MND and a member of a corporate entity

2.11 Summarise the Design of DB and DC Schemes

- CARE
- Final Salary
- DC Schemes

SYLLABUS AREA 2 : INVESTMENT AND FUNDING ISSUES FOR DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSIONS

Aim

To broadly cover the relevant part of the Pension Regulator's Trustee knowledge and understanding requirements as defined in its indicative syllabus.

Learning Outcomes

At the end of this syllabus area, candidates will be able to **demonstrate an understanding** of:

- investment and funding issues for DC and DB pensions

Syllabus

The learning outcomes are further broken down so that the candidate should focus on the headings in bold as any of these may be included in the assessment of this unit. In order to ensure full knowledge and understanding of all assessment areas each section it is advisable to have an understanding of all of the areas mentioned below.

Understand investment and funding issues for DC and DB pensions
1.1 Evaluate the Capital Market <ul style="list-style-type: none">• Medium for investment in government, business, industry• Economic cycles• Impact on investment return and performance
1.2 Demonstrate an Awareness of the Major Asset Classes <ul style="list-style-type: none">• Concept of risk/ reward• Risk characteristics of each asset class• Risk appetite of trustees and employer• Determining the preferred mix of assets within the risk appetite• Bonds, fixed interest and index-linked• Equities (shares in quoted companies)• Cash instruments• Property (real estate)
1.3 Evaluate Overseas Investments <ul style="list-style-type: none">• Reasons for investment (opportunities, diversification)• Implications of investments denominated in foreign currency• Currency risk reduction by hedging

1.4 Evaluate Specialised Asset Classes and Methods

- Packaged (or collective) investment products (unit trusts and other pooled vehicles)
- Derivatives (futures, options, swaps)
- Hedge funds
- Insurance policies (with profits)
- Infrastructure
- LDI
- Private unquoted equity (venture capital)
- Currency (non–sterling cash)
- Stock lending

1.5 Demonstrate an Awareness of With-Profit Insurance Arrangements

- Designed to smooth investment returns
- Nature of bonuses (reversionary and non- reversionary)
- Market value adjustments on surrender
- Interface between bonuses and statutory pension increases

1.6 Summarise the methods of Valuing Assets for Actuarial Valuations (DB only)

- Market value on valuation date
- Smoothed market value
- Actuarial method (by discounting future expected returns)

1.7 Demonstrate an Awareness of Principles of Funding Defined Benefit Liabilities (DB only)

- Defined benefits payable on retirement are based on salary and length of service
- Members benefit options (e.g. lump sums in lieu of part of pension)
- Contributions are paid by the employer and also in most defined benefit schemes by members
- The fund (a pool of assets made up of past contributions plus investment returns less outgoing of benefits and expenses)
- The fund must be sufficient to pay the defined benefits as they fall due
- The accrued (past service allowing for future salary increases) liabilities as valued at regular intervals by the actuary
- The difference between the values of assets and liabilities yields a surplus or deficit at the valuation date
- If a deficit past service contributions are then adjusted accordingly
- Most defined benefit schemes are balance of cost schemes (ie a funding deficit falls on the employer)
- future service costs are valued to determined future service contributions
- Total contributions take into account future service costs, the past service deficit(or surplus) and scheme expenses
- AVCs/additional pension funding

1.8 Demonstrate an Awareness of Non-Funded, but usually Insured Scheme, Benefits, sometimes called Risk Benefits

- Death-in-service benefits/disability benefits

1.9 Summarise the Different Types of Funding Measurers (DB only)

- Liabilities in the event of discontinuing the scheme or buying out the benefits (solvency or buy-out);
- Ongoing liabilities (including pensions already in payment)
- Liabilities expressed for corporate accounting purposes for inclusion in financial statements
- (IAS19/FRS17)
- Liabilities in relation to both accrued (ie past) service and future service
- Technical provisions
- The setting of contributions and recovery plans in the event of deficit

1.10 Demonstrate an Awareness of the Importance of Complete, Accurate and Up-To-Date Data and Calculations

- The need for complete and accurate data and the difficulties in achieving this without robust systems and processes. Explain the importance of (for example)
 - up-to-date records for every scheme member (including pensioner members)
 - reconciled membership lists eliminating duplications
 - calculation routines complying with scheme rules and overriding legislation;
 - independent verification
 - the impact of trustee decisions on the efficient administration of the scheme
 - effect of historical issues (e.g. data gaps, benefit entitlements)

1.11 Evaluate the Employer's Covenant

- Nature and strength of the employer's business
 - ownership of business
 - corporate structure
 - current and future profitability
 - stability of the business
 - financial obligations of business, debt etc
 - free assets of company compared with the size of scheme(s)
- Monitoring the employer's covenant
 - employer's audited accounts and published results
 - news and comment (press and other media)
 - market information (share prices, bond spreads)
 - publicly available analysts' reports
 - credit ratings
 - need for a employer/trustees dialogue, ie regular reports and disclosure of relevant information
 - report on employer from trustees- appointed expert
- Events which may weaken the employer's covenant and increase risks to scheme
 - changes of ownership
 - mergers, demergers or take-overs
 - bad publicity undermining reputation or business
 - corporate restructure
 - changes of business strategy or company management
 - poor business performance, bad results, profit warnings etc
 - increased employer debt
 - attempts by employer to evade obligations to scheme (eg a threat to wind up or terminate contributions)
 - other notifiable events to Regulator
 - abandonment
 - volatility of assets relative to liabilities
 - to meet an increased level of scheme deficit

1.12 Demonstrate an Awareness of the Determination of Contributions (DB only)

- Understanding the actuary's method and assumptions
 - maturity and shape of the liabilities (from proportions of pensioners, actives and deferred members)
 - profile of membership, age, sex, salary range, etc
 - sensitivity of the assumptions
 - are the financial assumptions consistent with the investment strategy?
- Understanding the setting of special contributions for past service as required
 - the assessment of the range of options recommended by the actuary/actuaries
 - the importance of the relevant powers of trustees and sponsoring employers
 - the importance of affordability and the requirements to reach agreement
 - processes for resolving the problem
 - recovery plans
 - notifying the regulator
- Managing the financing of a deficit
 - reference to the power of employer and/or trustees to determine contributions
 - process for dealing with the issue
 - funding targets
 - agreeing with the employer a recovery plan acceptable to the trustees in the light of the employer's covenant
 - is the recovery plan consistent with the investment strategy?
 - notifying the Regulator of the recovery plan or in the event of failure to agree

1.13 Summarise the Role of the Sponsoring Employer in the Calculation and Collection of Member Contributions (DC only)

- Reliance of the scheme on the sponsoring employer for
 - the correct calculation, deduction and timely payment of the correct contributions
 - access to the relevant parts of the sponsoring employer (eg payroll, HR, IT and treasury)
 - meeting its legal responsibilities in respect of all these matters
- Know the implications of pension funding by members including (where appropriate)
 - regular contributions
 - additional voluntary contributions (AVCs)
 - free standing additional voluntary contributions (FSAVCs)
 - concurrent personal pension/stakeholder arrangements
 - timeliness of payments to the scheme
 - the importance of complete, accurate and up-to-date member records
 - the importance of robust systems and processes

1.14 Evaluate Strategic Investment Allocation

- Understanding that this is the first order of investment risk
 - extent of mismatching of assets and liabilities
 - trade off between risk and reward
 - appetite for risk
 - tolerance of contribution and funding volatility (DB only)
 - marketability and liquidity
 - checking investment powers of the trust
 - volatility of assets relative to liabilities
- Agreeing the strategy after consultation with the employer
 - adopting the Statement of Investment Principles (SIP)
 - attention to Myners' Principles
 - second order asset allocation (e.g. regional allocation, credit limits) to determine the detailed investment benchmark
 - need to review strategy after an actuarial valuation or a change in the structure of scheme (DB only)
 - closure of scheme
 - cessation of accruals
 - major transfers in or out of liability
 - winding up
 - current contributions no longer sufficient for benefit payments
- Review strategy on an employer driven event
 - improvement or deterioration in the employer's covenant
 - changed appetite for risk
 - any sponsoring proposal for the buy-out of scheme liabilities

1.15 Demonstrate an Awareness of the Characteristics of alternative Asset Classes and Financial Instruments

- Understand the characteristics of alternative asset classes and financial instruments
 - alternative investments (such as hedge funds, private equity, active currency)
 - derivatives
 - the correlation between investment returns of different asset classes

1.16 Analyse the Use of Specialised Investment Techniques (DB only)

- Understand the use of specialised investment techniques, in particular liability driven investment arrangements including
 - interest rate and inflation swaps
 - longevity insurance/swaps
 - tailored bond portfolios

1.17 Summarise the Structure of Investment Portfolios

- Actively managed versus passively managed (tracker) funds
- Pooled funds versus segregated portfolios of individual shareholdings
- The combination of passive and active management (e.g. the use of core/satellite arrangements)
- The implications for cost, liquidity and governance of each major investment decision
- The extent to which asset allocation is delegated to the fund manager (e.g. tactical asset allocation)
- The importance of rebalancing a portfolio, especially where there are two or more fund managers
- Investment style (e.g. value or growth)

1.18 Summarise the Selection of Fund Managers

- The appointment and role of advisers
- Long listing, short listing and the 'beauty parade'
- The importance of investment style (value, growth or an amalgam of these) as outlined in the SIP
- Agreement on benchmarks and targets
- The costs of fund management and the costs of transition
- Investment management agreements
- Managing the transition in the event of a change in fund management
- The importance of internal controls in the event of a transition

1.19 Demonstrate an Awareness of Investment Mandates

- Understand the mandates given to all advisers and managers and any other individuals to whom investment functions have been delegated, including
 - the nature of the contract between the trustees and their advisers
 - the role of performance measurement and targets
 - fee structures and charges

1.20 Evaluate Investment Mandates

- The mandates given to all advisers and managers and any other individuals to whom investment functions have been delegated
- The nature of the contract between the trustees and their advisers, including the role of performance measurement and indices.

1.21 Summarise the Nature of Fee Structures

- The nature of the fee structures in place for all advisers and managers and why this set of structures has been selected

1.22 Summarise the Nature of Charges (DC arrangements only)

- The nature of the charging structures which apply to each fund option, including tracker funds

1.23 Demonstrate an Awareness of the Type of Investments undertaken

- The type of investments undertaken as a result of the mandates

1.24 Summarise Socially Responsible Investment and Corporate Governance

- The stance taken towards socially responsible investment and corporate governance

1.25 Summarise Measurements of Performance using Indices, Benchmarks and Targets

- Understand the use of indices, benchmarks and targets to measure performance, including
 - the implications of index selection to reflect alternative asset classes
 - the construction of a suitable benchmark to reflect the investment requirements of the trustees
 - the implications for fund managers of having to meet a benchmark
 - the significance of having realistic targets
 - limitations of indices and peer group comparisons

1.26 Summarise the Mechanisms for Monitoring Investment Arrangements and Fund Managers

- Reports from fund managers, including:
 - diagrams and graphs illustrating performance
 - the significance of timescales in reporting performance
 - the way charges are accounted for
 - the quarterly record of corporate governance decisions
 - changes within the fund manager organisation
 - compliance with the statement of investment principles (SIP)
 - the completeness and accuracy of records (DB and DC) and of calculations (DC only)
 - the calculation and impact of charges and fees
 - management of any transition of assets between investment managers or asset classes
 - robust processes and systems
 - calculation and apportionment of investment returns

1.27 Demonstrate an Awareness of the Importance of Sound Custody Arrangements

- Issues to consider when selecting a custodian
 - scheme specific requirements
 - the importance of a clear and structured selection process
 - transparency of fees and the place of benchmarking
 - legal advice on key provisions in custody agreements
 - agreed service standards and reporting requirements
 - incorporation of any operational issues, e.g. practice in recovering tax
 - level and frequency of relationship reporting
 - issues arising on transfer to new custodian, e.g. secure transition of assets;
 - the need for adequate monitoring and correct record-keeping.

1.28 Demonstrate an Awareness of the Importance of Responsible Ownership of Assets

- 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

1.29 Summarise the Myners Principles for the Governance of the Investment Decision Making Process

1.30 Demonstrate an Awareness of Defined Contribution Arrangements

- Understand the extent to which members need to know about investment risk, including:
 - asset classes
 - equities
 - bonds
 - cash
 - property
 - insurance policies (including 'with-profits' where applicable)
 - the nature of risk and the risk/reward profile of each asset class;
 - the concept of a member's own risk appetite; charges and their impact on fund growth;
 - the implications of a failure to take these matters into account;
 - the implications of trustee rather than member decision-making on investments.
- Additional pension funding by employees
 - principle of concurrency
 - Additional Voluntary Contributions (AVCs)
 - Free Standing AVCs (FSAVCs)
 - Personal Pensions
 - Stakeholder schemes
 - salary/ bonus sacrifice
- Targeting an accumulated "pot" at retirement
 - reducing investment risk as retirement approaches
 - factors affecting annuity rates (mortality, bond yields etc)
 - types of annuities (level, increasing, etc.)
 - open market options
 - income drawdown
 - members to take into account all other pensions/ savings arrangements held and personal circumstances
 - interface with state benefits
 - independent (i.e. not from trustees) financial advice
- The need for complete and accurate data and the difficulties in achieving this without robust systems and processes. Explain the importance of (for example):
 - up-to-date records for every scheme member (including pensioner members)
 - reconciled membership lists eliminating duplications
 - calculation routines complying with scheme rules and overriding legislation;
 - independent verification
 - the impact of trustee decisions on the efficient administration of the scheme

1.31 Summarise Transfers (DB only)

- Financial implications of individual transfers in and out of the fund
- Special factors of bulk transfers
 - financial implications of basis of the bulk transfer (ie impact on share of fund)
 - impact on shape of the liabilities, and hence the impact on investment strategy
- Obtain advice from the actuary
- Enhanced transfer values

1.32 Summarise Trustees' Discretionary Powers (DB only)

- Impact on funding and investment by the exercise of trustees' discretionary powers where they exist e.g. on transfer bases, augmentations, granting of rights to benefits, eligibility to membership, consent to early retirements, etc.)

1.33 Summarise the Nature and Status of Professional Advice

- The basis upon which advice is given
- The implications if your adviser is also advising the sponsoring employer
- The nature of agreements between the trustees and adviser, and what they cover

1.34 Demonstrate an Awareness of the Pension Protection Fund (PPF)

- Insolvency Events
- Assessment Periods
- Payable Rates
- Section 1.79 Evaluations
- Calculating the Levy

SYLLABUS AREA 3 : SCHEME MANAGEMENT ISSUES FOR DEFINED CONTRIBUTION AND DEFINED BENEFIT PENSIONS

Aim

To broadly cover the relevant part of the Pension Regulator's Trustee knowledge and understanding requirements as defined in its indicative syllabus.

Learning Outcomes

At the end of this syllabus are, candidates will be able to **demonstrate an understanding** of:

- a scheme's trust deed and scheme rules
- a scheme's Statement of Investment Principles (SIP)
- a scheme's Statutory Funding Objective (SFO) and Statement of Funding Principles (SFP) (DB only)
- other relevant scheme documents

Syllabus

The learning outcomes are further broken down so that the candidate should focus on the headings in bold as any of these may be included in the assessment of this unit. In order to ensure full knowledge and understanding of all assessment areas each section it is advisable to have an understanding of all of the areas mentioned below.

Understand a scheme's trust deed and scheme rules

1.1 Evaluate the Duties, Powers and Discretions of Trustees under a Trust Deed, Scheme Rules and Amendments

- Setting contributions
- Amending the trust deed and scheme rules
- Augmentation of benefits
- Power of delegation
- Power to terminate the scheme
- Power to wind up the scheme
- Transfers
- Investment
- Changes in power in response to specific events

1.2 Demonstrate an Awareness of the Nature of the Employer/Trustee Relationship and the Effect of the Scheme's Funding Level on the Sponsoring Employer

- The changes made in the Pensions Act 2004, including requirements for trustees, irrespective of scheme rules, to:
 - consult the sponsoring employer
 - takes responsibility for major decisions on contributions after taking professional advice
- The effects on the sponsoring employer of the disclosure of any deficit in the sponsoring employer's accounts

1.3 Evaluate the Balance of Power between Employer and Trustees and When it is Appropriate to Exercise various Trustee Powers (different for DC and DB Schemes)

- A scheme or employer is under threat
- A scheme in wind-up

1.4 Summarise Classes of Members in a Scheme

- The classes of members in the scheme including eligibility for membership

1.5 Summarise the Benefits Offered and the Circumstances in which they are Payable and How the Payments are made

- Pensions
- Lump sums
- Refund of contributions
- Transfers
- Death in Service
- Divorce

1.6 Summarise Decumulation of Pension Funds (DC only)

- Default option
- Open market annuity options
- Income drawdown

Understand a scheme's Statement of Investment Principles (SIP)

2.1 Summarise the Responsibilities for Decisions preparing a SIP

- The respective roles of the trustees, scheme actuary, investment consultant, fund manager and sponsoring employer when preparing the SIP

2.2 Summarise the Contents of a SIP

- The legal, regulatory and other requirements for the information that must be included in the SIP, e.g.:
 - investment objectives
 - managing investment risk
 - the implications of charges
 - the place of active and passive management
 - the nature and purpose of mandates
 - the limitations on investment imposed by the SIP (if applicable)
 - the implications of transaction costs (including soft commissions) and their disclosure
 - the trustees' attitude to corporate governance and socially responsible investment issues and how these are managed

2.3 Evaluate the Investment Objectives of a Fund

- The fund's investment objectives and the reasons for them
- The fund's investment objectives and the range of funds, including (as relevant):
 - the reason for the range (to suit the majority of members)
 - the number and various objectives of the funds in the range
 - the scope and objective of the pooled fund

2.4 Evaluate the Asset Allocation Strategy of a Fund

- The fund's planned asset allocation strategy and its appropriateness to its liabilities and other risks, including:
 - target investment returns on each asset class
 - how the strategy has been arrived at
 - volatility considerations
 - risk tolerance
 - risk mitigation

2.5 Demonstrate an Awareness of the Requirement to Monitor and Update a SIP as appropriate

- Understand the need for regular and frequent review and those matters which might prompt interim revisions of the SIP, including
 - any change in investment arrangements for the scheme
 - marked change in investment environment
 - change in the status of the scheme, e.g. closure to new members
 - any change in the sponsoring employer covenant

Understand a scheme's Statutory Funding Objective (SFO) and Statement of Funding Principles (SFP) (DB only)

3.1 Summarise a Scheme's SFO

- The scheme's SFO and the policy for meeting that objective, including
 - the actuarial method and assumptions used to calculate the scheme's - technical provisions
 - the risk associated with the SFO
 - how failure to meet the SFO is to be addressed

3.2 Summarise the Responsibilities for Preparing a SFP

- The respective roles of trustees, employer and scheme actuary in preparing the SFP

3.3 Summarise the Contents of a SFP

- The nature of the information that must be included in the SFP and the matters which must be agreed with the employer

3.4 Summarise the Need for Reviewing the SFP

- The circumstances when the SFP may need to be reviewed and, if necessary, revised, including changes to the status of the scheme

Understand other relevant scheme documents

4.1 Summarise the Principal Contents of a Scheme Booklet, Announcements and other Member Communications

- Basic member details
- Details of trustees
- Disclosure requirements

4.2 Summarise the Principal Contents of an Actuarial Valuation Report and any Annual Updates

- The principal contents of the most recent actuarial valuation and subsequent actuarial advice, including
 - The recommendations in the valuation and the reasons for accepting them

4.3 Summarise the Value of the Minutes of Previous Meetings

- The role and value of the minutes of meetings for the governance of the scheme including
 - decisions that impact on individual members benefits payable
 - policy discussions and decisions recorded in them

4.4 Summarise the Contents of Stewardship Reports

- The importance of receiving an appropriate report from all outsourced providers
- The need to
 - analyse and question the contents
 - identify the key issues
 - anticipate the implications for the immediate or longer term
 - cover any compliance issues and breaches.

4.5 Summarise a Schedule of Contributions (DB) and any Payment Schedule (DC)

- Know about the schedule of contributions (DB only) and any payment schedule (DC only) and how to monitor payments

4.6 Summarise the Contents of Internal Control Reports

- Understand nature of the document and the limitations of the information provided, as well as the importance of
 - checks on the adequacy and robustness of systems
 - accuracy in the calculations included in member communications
 - an action plan to rectify any issues identified
 - the place of the action plan in the scheme's business plan
 - the cost implications of exercises of this nature
 - risk management and the maintenance of a risk register
- Understand where all original documents are kept and the arrangements for their custody, safekeeping and access

4.7 Summarise the Principal Contents of an Annual Report and Accounts

- Know the principal contents of the annual report and accounts or audited statement of contributions for the scheme
- For schemes, this will include
 - trustees' report
 - financial statements
 - reports from fund managers
 - compliance statement
 - actuarial certificates (DB only)
 - auditors' report

4.8 Summarise the Principal Terms of any Significant Contract in Respect of Scheme Assets

- Know the principal terms of any significant contract in respect of scheme assets, including:
 - contingent assets and guarantees
 - in outline, the terms of any insurance policies and their consistency with the trust documentation

4.9 Summarise the Principal Contents of any Trustee Approved Procedures

- The internal disputes resolution (IDR)
- Arrangements for appointing all sub committees
- Appointing a Chair
- Delegated authorities
- Letters of appointment with professional advisers or suppliers
- Service level agreements
- Any subcontracting of activities

4.10 Summarise the contents of a Statement of Compliance with the Myners' Principles**4.11 Summarise the Principal Contents of the Memorandum and Articles of Association of a Corporate Trustee**

- The principal contents of the memorandum and Articles of the corporate trustee and that these are consistent with the trust deed, rules and MND procedure

4.12 Summarise the Principal Elements and Features of a Scheme Business Plan

- The principal elements and features of the following
 - business plan, including a skills audit (where applicable)
 - training plan
 - expenses budget
 - cash flow forecast
 - risk assessment and follow up
 - calendar of events

4.13 Summarise the Important Components of the Job Descriptions for the Chair and for other Trustees

- For the chair
 - ensuring sufficient meetings to manage the business of the scheme
 - approving the papers for the meeting in good time for distribution to the other trustees
 - taking steps to ensure meetings are properly recorded
 - ensuring the trustees have appropriate advice and sufficient information to fulfil their role properly
 - arranging for the induction of new trustees
 - helping trustees evaluate their performance
 - monitoring the work of sub-committees
 - carrying out any tasks delegated by the board
- For the other trustees
 - preparing for and attending meetings
 - keeping up to date with trust deed, and rules, legislation and other developments
 - ensuring they are satisfied with scheme's internal controls and administration
 - completing all necessary learning
 - participating fully in board discussions

4.14 Demonstrate an awareness of Pension Liberation Fraud

- Describe what it is
- Explain why it happens
- Explain what the Trustees' responsibilities are