

# Trustee toolkit downloadable



## Introducing pension schemes

Extra resource: Scheme documents glossary

The trustee toolkit includes a number of 'extra resources' providing you with practical tools to help you transfer the learning to your own scheme or to illustrate key learning points.



This extra resource is linked to the **Important documents** tutorial.

The Pensions  
Regulator

## **Actuarial valuation** (DB only)

A valuation, required to be conducted at least once every three years by an actuary, whereby the actuary values the assets and liabilities of the scheme. Where there is a funding shortfall, the trustees and employer are required to agree a recovery plan and a schedule of contributions. You can learn more about these in the modules **Funding your DB scheme** and **DB recovery plans, contributions and funding principles**.

## **Actuarial report** (DB only)

An annual update on the value of the assets and liabilities on the scheme measured in accordance with the statutory funding objective.

## **Announcements**

Any communication with members about matters affecting the scheme, eg changes to the scheme and updates about funding status (for DB members) or changes to investment fund options (for DC members) etc.

## **Annual report and accounts**

In defined benefit (DB) schemes, and most defined contribution (DC) schemes, the trustees must deliver an annual report and accounts (which are usually put together as one document) within seven months of the end of each scheme year.

This document contains information which is to show a true and fair view of how the scheme has been managed, any changes that have occurred, the value of the scheme assets at the end of the scheme year, and the liabilities of the scheme other than liabilities to pay pensions and benefits. These might include changes to the benefits the scheme provides and the personnel involved in running it. Normally the annual report is written on behalf of the trustees and usually signed off by the chair of the board. The accounts are usually prepared by the scheme administrator, and audited by an external auditor appointed by the trustees. The report and accounts also contains an auditor's statement indicating whether or not the contributions have been paid in line with the schedule of contributions (DB)/payment schedule (DC).

Many DC schemes, and DC sections of hybrid schemes, also need to include a chair's statement in their annual report and accounts. This is signed by the chair of trustees on behalf of the trustees and explains how they have met specific legislative governance standards over the scheme year.

## **Amending deeds**

Amending deeds may be required for a number of reasons. Where scheme rules are being changed an amending deed will be drawn up to give legal effect to the changes.

## Auditor's statement

Trustees must ensure that they obtain a statement from the scheme's auditor which sets out whether, in his opinion, contributions have been paid in accordance with the schedule of contributions (DB schemes) or payment schedule (DC schemes), and if that statement is negative or qualified, a statement of the auditor's reasons for that conclusion. This statement must be obtained within seven months of the end of each scheme year.

## Benefit statement

DB members may receive an annual statement setting out the details of the benefits they are entitled to from the scheme. DC members must receive an annual benefit statement showing an estimate of the benefits their pot could buy now and at retirement (in today's terms). This is often known as a statutory money purchase illustration (SMPI).

## Chair's statement

A document that must be produced by certain DC schemes and DC sections of hybrid schemes that sets out how specific legislative governance standards have been met (see the Occupational Pension Schemes (Charges and Governance) Regulations 2015). It must also contain the statement of investment principles for the default arrangement.

The chair's statement must be signed by the chair of trustees on behalf of the trustees and be included in the scheme's annual report

Trustees must declare whether they have complied with the requirement to produce this statement when they complete their scheme return. Trustees that have not complied with the requirement to produce the chair's statement will be fined between £500 and £2000.

## Conflicts register

A register of trustees' interests, and in particular of any such interests that could give rise to conflicts of interest for the trustee. Any gifts or hospitality offered to the trustees will be recorded in the conflicts register. Any actual conflicts declared by the trustee will be recorded, together with the action taken to deal with the conflict.

## Covenant review (DB only)

The support of a 'healthy' employer is crucial to members receiving the benefits they were promised. A review may assess the strength of the employer covenant. You can learn more about this document in the module: **How a DB scheme works**.

## Insurance policy

Your scheme may choose to hold some or all of its investments in an insurance policy. Additionally, it may choose to insure some specific benefits, for example death in service benefits. If any of this applies to your scheme, you should be aware of the principal terms of the policies.

## Internal dispute resolution procedure (IDRP)

A written procedure setting out how trustees will handle disputes with members, specifying the process that will be followed, timescales, and appeals procedures. It must include contact details for The Pensions Advisory Service, and the Pensions Ombudsman. View the code at [www.tpr.gov.uk/code11](http://www.tpr.gov.uk/code11).

## Investment reports

Trustees receive regular reports of the performance of the scheme's investments, and need to understand the content of these.

## Job descriptions

In many schemes trustees and the chair of trustees have a job description. Where job descriptions exist it is essential that job holders understand their own job description. Trustees should also be aware of the job descriptions of other members of the trustee board.

## Memorandum and Articles of Association

Trustees do not have to be individuals. They can also be companies and many pension schemes operate in this way.

Some trustee boards consist of just one corporate trustee. The individuals, who would have been trustees are directors of the trustee company.

Alternatively, you may find that one of the trustees on your trustee board is a professional trustee company. Although the same individual will come to your meetings each month, it is the company which is the trustee.

A corporate trustee will have a Memorandum and Articles of Association. The Articles of Association govern the working of the trustee company. For instance, they specify how directors are appointed and removed. This must be consistent with pensions legislation (eg on member nominated directors). Typically articles also specify how many directors it takes to make a valid decision and set out arrangements for majority voting and written decisions.

## Minutes of past meetings

These are important because they provide a record of policy discussions and decisions. Trustees may want to refer to past minutes so they can make informed decisions about current issues. Minutes may also contain precedents that the trustees need to bear in mind.

## **Pension Protection Fund levy invoice** (DB only)

The levy to be paid by the pension scheme to the Pension Protection Fund (PPF) to fund the PPF's operations. This comprises a risk-based levy and a scheme-based levy.

## **Recovery plan** (DB only)

Where a DB scheme is not fully funded in accordance with the statutory funding objective, a recovery plan must be agreed between the trustees and the employer setting out the steps to be taken to meet that objective, and the period within which the scheme is expected to become fully funded.

This plan is required by law to be agreed within 15 months of the date of the actuarial valuation. A 'recovery plan return' setting out the key details of the scheme's recovery plan must be filed with the regulator.

## **Risk register**

A record of the operational, financial, funding, regulatory and compliance risks identified by the trustees, informed by guidance contained in regulatory **Code of practice 09: Internal controls** which can be viewed at [www.thepensionsregulator.gov.uk/codes/code-internal-controls](http://www.thepensionsregulator.gov.uk/codes/code-internal-controls). The risk register will identify the extent of each risk identified, and the steps taken by the trustees to mitigate the risk.

## **Schedule of contributions** (DB only)

Where a DB scheme is not fully funded in accordance with the statutory funding objective, a schedule of contributions must be agreed between the trustees and the employer(s) unless the scheme rules give trustees a unilateral power to set the scheme's contribution rate. (Where the trustees have a unilateral power to set the contribution rate, they are however required to consult with the employer in relation to the schedule of contributions.) This specifies the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme, and the dates on or before which such contributions are to be paid.

The schedule of contributions must be certified by the scheme actuary as being consistent with the statement of funding principles, and as setting out amounts which are expected to ensure that the statutory funding objective is to be met by the end of the period specified in the recovery plan.

## **Scheme booklet**

The scheme booklet is a document for scheme members that contains a summary of the main pension benefits payable under the pension scheme. This includes eligibility for membership of the scheme, contributions payable, benefits on retirement or leaving, benefits for dependants, and details of how to obtain more information.

## **Scheme return and other reports to the regulator**

A scheme return is a form capturing various pieces of information required to be filed with the regulator to enable it to maintain its register of pension schemes.

The regulator requires various other pieces of information to be provided to it at various times by employers and / or pension scheme trustees. For example, a recovery plan return and a document informing the regulator that an event has occurred of which the employer or trustees is required to inform the regulator, known as a 'notifiable event'.

## **Significant agreements and contracts**

These include agreements and contracts with professional advisers employed by the scheme, and their letters of appointment (commonly referred to as 'engagement letters').

They can also include a service level agreement and schedule of services where the administration of the scheme has been delegated to an external provider.

A similar arrangement may apply where the administration of the scheme is performed by the sponsoring employer.

## **Statement of compliance with Myners principles**

Trustees are expected to be familiar with the Myners principles for the governance of the investment decision-making process. If the scheme has a formal statement of the way in which the trustees comply with the Myners principles, the trustees need to be familiar with it.

## **Statement of funding principles (DB only)**

This sets out the trustees' policy for ensuring that the scheme's statutory funding objective is met. This includes the methods and assumptions to be used in calculating the scheme's technical provisions, and the period within which, and manner in which, any failure to meet the statutory funding objective is to be remedied. For example, by the payment of a specified value of deficit reduction contributions on specified dates from the employer, and by specified sums generated from returns on the scheme's investments.

This statement must be prepared within 15 months after the effective date of the scheme's first actuarial valuation, and it must be reviewed, and if necessary revised, within 15 months after the effective date of each subsequent actuarial valuation.

The principles underlying the funding strategy must be agreed between the trustees and the sponsoring employer, and must set out details of the funding payments.

## **Statement of investment principles (SIP)**

Under the Pensions Act 1995, the statement of investment principles (SIP) is prepared by the trustees. It includes the trustees' policy on their scheme's investment strategy and the reasons why they have adopted that strategy. This SIP needs to be reviewed regularly, at least every three years, and also after any significant change in investment policy.

When trustees review or update their SIP they must obtain and consider the written advice of a person with appropriate knowledge and experience of the management of investments of such schemes, and consult with the employer. Legislation prescribes some minimum content in respect of a statement of investment principles, eg the trustees' policies on the balance between different kinds of investments.

For certain DC schemes a statement of the investment principles governing decisions about investments for any default arrangements must also be produced. The law does not specify that this statement for the default arrangement and the scheme's overall statement of investment principles under the Pensions Act 1995 must be in either one document or multiple documents.

## **Stewardship reports**

Stewardship reports provide information about the way in which the scheme's providers of services have discharged their responsibility of care in the stewardship of the funds or processes allocated to them. In practice, the term is normally taken to mean reports from investment managers and custodians. They should be provided regularly, and trustees need to be aware of and understand the information they provide contents.

## **Summary funding statement (DB only)**

A report on the up-to-date funding position of the scheme. A summary funding statement has to be sent to members every year, and within three months of the completion of an actuarial valuation.

## **Terms of reference of sub-committees**

If the trustees have established any sub-committees (eg investment, funding, administration, communications), all trustees need to be aware of how these committees are constituted, and their terms of reference.

## **Training log**

A log identifying trustee training needs or training completed. The log may include details of particular relevant skills of trustees.

## **Trust deed and rules**

The trust deed sets up the trust under which the scheme operates, and sets out the duties of the trustees and their powers.

## **Trustee's business planner**

A document setting out the matters that the trustees intend to address during the period covered by the plan. Trustee's business plans are often updated each year, but they may incorporate actions over a longer period, in order to pick up items such as valuations, ending of member-nominated trustee appointment periods, planned adviser reviews, etc.



**[www.trusteetoolkit.com](http://www.trusteetoolkit.com)**

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