ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Defined Contribution Pension Plan

2017

CATERPILLAR®

CATERPILLAR DC PLAN

A NEW PENSIONS LANDSCAPE

The Trustees have had another busy year, making sure that they maintain high standards of governance and ensuring that the Plan provides good value to members. Investment strategy has been a particular focus, following the introduction of pension freedoms.

The EU referendum resulted in a volatile few months for the financial markets. You may be concerned about what this increased volatility means for your pension account. We've highlighted a few of the key things you should think about before deciding whether to make any changes to your DC Plan investments – see page 8.

Following the introduction of pension freedoms for members of Defined Contribution ('DC') arrangements in April 2015, it is clear that people are taking advantage of these new options in increasing numbers. This is particularly the case as members approach retirement. We've provided a summary of your flexible retirement options on pages 4-5, as well as a checklist of some important things to consider before you make the decision to transfer.

Finally, we have included a summary of the financial transactions of the DC Plan, taken from the Trustees' formal Report and Accounts, showing you the payments into and out of the Plan over the year to 30 September 2016, which you can find on page 11.

If you have any comments or questions on the content of this newsletter, or have suggestions as to what you would like included in future issues, please get in touch using the contact details on the back cover.

Jan Nicholls
Chairman of the Trustees

Have you told us your wishes?

The DC Plan provides a generous death-in-service lump sum benefit on the death of an active member – but who gets the money?

These days, people's personal lives can be quite complicated – for example, a member may have separated from their spouse decades ago but never finalised the divorce; meanwhile they may have been living with someone else that entire time who is completely dependent on them financially. In cases like that, who should get the money?

The Beneficiary Nomination form helps to guide the Trustees in their decision, so they can take into account all your circumstances.

The Trustees' power is discretionary; this means they do not have to follow your wishes. However, the benefit of having discretionary power means the lump sum benefit can be paid out quickly and does not form part of your Estate so it's free from Inheritance Tax.

Please review your situation regularly and complete a new form if your personal circumstances change. You can ask Capita to send you a new form – simply email them at **caterpillar@capita.co.uk** or call them on **0114 229 7899**.

INSIDE THIS ISSUE

YOUR FLEXIBLE RETIREMENT OPTIONS

As a member of a Defined Contribution (DC) pension plan, you have a lot of flexibility and choice about how you use the money that has built up in your pension account.

You can access your pension savings from age 55 (or earlier, if you're suffering from ill-health), but it's important to remember that the earlier you take your benefits the longer the money has to last.

- You can use your pension account to buy an annuity (a pension income from an insurance company).
- You can cash in your whole pension account.
- You can leave your account invested and draw an income or lump sums from it (called 'income drawdown').
- You can use a mixture of all of these options.

Caterpillar has appointed a broker called Hargreaves Lansdown to help employees decide on the best retirement route for them, but here are a few key points to consider about the different options.

Annuity

- An annuity provides a guaranteed income for life, in exchange for a lump sum payment to an insurance company.
- Annuities are like any financial product – it pays to shop around for the best deal.
- You can buy an annuity that is tailored for your specific circumstances – for example, if you are married you can set up a joint life annuity that goes on paying an income to your spouse after your death. Or, you can set up an annuity that gets inflation-busting increases each year, to protect the buying power of your payments.
- Any extras you add to your annuity make it more expensive, which will reduce the size of the payments you receive.
- If you choose a single life annuity with no provision for payments after your death, then the insurance company will keep whatever's left of the money you paid to them.

Cash lump sum

- You can take your pot as a lump sum, 25% tax-free and the rest subject to tax.
- It's important to check whether taking a cash payment will push you into a higher tax bracket for that year, as you could end up paying more in tax than you wanted!
- If you have any debts (such as credit cards or loans), your cash lump sum will be available to your creditors if you don't keep up with your repayments.
- Also, if you or your partner receive any means-tested State benefits, your benefits may be reduced or stopped if you have assets or income above a certain level. You should check how this might affect you.
- The Caterpillar DC Pension Plan does not allow you to draw all your fund as cash, so you would need to transfer your fund to another provider.
- Finally, if you take a cash lump sum, the amount you can pay into a Defined Contribution pension each year in a tax-efficient way will be limited to £10,000 (£4,000 from April 2017). If more than this is paid in, you'll have to pay tax on the excess.

Income drawdown

- You can keep your pot invested and draw an income from it, as and when you need it.
- The Caterpillar DC Pension Plan does not offer income drawdown, so if you choose this option you will have to transfer your account to another provider who offers drawdown.
- Different providers will have different charges, so make sure you shop around and understand what each will charge you for say, investment switches or making withdrawals. Some providers may also limit the number of withdrawals you can make in a year.
- Under this option, your pension savings remain invested; there is therefore a risk that you will lose money if your investments perform poorly.
- Many people underestimate how long they will live so you will need to make sure that you don't run out of money later in retirement.

YOUR FLEXIBLE RETIREMENT OPTIONS CONTINUED

You need to start thinking about the options set out on the previous pages at least seven years before you plan to retire. That's because the default Lifestyle strategy, which is used by most members, will start to move your account into different investment funds at that point. If you do nothing, the default Lifestyle will assume that you want to buy an annuity at retirement and move your account into investments which support that. If you're planning something different, you need to let the Plan's administrator know.

Need advice?

The Treasury has announced that DC members of any age will be able to make up to three tax-free withdrawals worth £500 each, to pay for independent financial advice. The payment would be made directly from the pension plan to a regulated financial adviser. The legislation will be introduced in April 2017, subject to a consultation. We will let you know when this option is available within our plan.

BREXIT AND YOUR PENSION

On 23 June 2016, the UK voted to leave the European Union. The UK government has been involved in lengthy discussions both internally and internationally to determine how various issues will be tackled going forward.

As a member of the DC Plan you may have questions about what it means for your future benefits.

The initial reaction of financial markets was one of significant moves and the markets may continue to move around a lot over the coming months as the plan for Brexit becomes clearer. It's important to remember that pensions saving is a long-term game and that most members invest their pensions savings in Lifestyle strategies which are designed to gradually lower the amount of investment risk as members approach retirement.

We think that it's worth bearing in mind these points, depending on which part of your savings journey you are on:

- If you're a long way from retirement, then you shouldn't worry too much about any short-term investment falls because there is still plenty of time for your account to recover.

  Also, whenever there is a market dip, remember the positive side is that you can potentially gain in the future because your regular contributions will buy more while prices are low.
- If you are approaching retirement in the next few years and you are invested in a Lifestyle strategy (like the majority of members), then your savings will be in lower-risk assets compared to those members in their early years of saving. This is designed to lessen the impact of market movements on pension savings.
- If your retirement is imminent (eg, in the coming weeks or months) it is important to remember that any loss from a fall in the value of your investments is only incurred if benefits are taken. This means that decisions on switching, transferring and retiring should be taken carefully in times of significant market volatility like this.

Should you decide you need to review your own pension, then we would suggest you contact an independent financial adviser. You can find one at **www.unbiased.co.uk**

PLAN NOTICEBOARD

Delivering value for money to members

There's now a requirement for any trustee board running a Defined Contribution pension plan to include an annual statement signed by the Chairman in their formal report and accounts, confirming how the plan meets the governance standards set by the Pensions Regulator.

The statement has to include four key areas explaining how the Trustees are meeting the Regulator's good practice guidelines:

- Financial transactions – are contribution and benefit payments made accurately and on time?
- Value for money – does the Plan offer good value for members?
- The 'default' option – in which fund/investment strategy do the majority of the Plan's members invest and what does the Plan have in place for members who don't make a clear investment choice?
- Trustee knowledge – how do we keep on top of the latest pension and investment issues?

The Trustees are confident that the DC Plan offers good value for members. Not only is the annual management charge well below the default cap of 0.75%, the Company currently pays the administration fee on behalf of active members.

Members are offered a wide range of investment options, including two new Freestyle funds that were introduced in April 2016. Members also have access to a number of online resources, including a general pension website, www.mycatpension.co.uk. Recently, the Pensions Team added an online form to the website that employees can use to book a telephone-based pension surgery.

You can read the Chairman's statement on pages 2-5 of the 2016 Report & Accounts, which is available now on the member website, **www.caterpillarpensions.co.uk**

Fancy taking a lump sum from the DC Plan?

The Annual Allowance is a limit on the amount of tax-efficient pension savings you can make in a year. For most people, the Annual Allowance is £40,000 a year. However, if you take your benefits flexibly (eg, use income drawdown or take it as a cash lump sum), your Annual Allowance (called the Money Purchase Annual Allowance – MPAA) drops to £10,000 a year.

From 6 April 2017, the MPAA will be reduced further, to £4,000 – so please do think very carefully before you take a payment out of the DC Plan, as it can affect how much you can save into a pension in future. If you go over your Annual Allowance, you may be faced with a nasty tax bill too. You should note that if you want to access your pension account flexibly, you would have to transfer out the whole of your fund. It is not possible to take part of it from the DC Plan.

Does the Lifetime Allowance affect you?

The Lifetime Allowance was reduced again, from £1.25 million to £1 million, with effect from 6 April 2016. Anyone whose pension rights were already over £1 million at the time can apply to protect their benefits from this tax charge, either through Individual Protection 2016 or Fixed Protection 2016.

Full details are available at **www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance**.

Active members: Northern Ireland

From April 2017, the Company will increase its contribution from 5% to 6% – meaning that everyone gets the same minimum Company contribution no matter where they work.

THE TRUSTEE BOARD

The Caterpillar DC Pension Plan is run by a Trustee Board comprising eight Trustee Directors. Four Directors are appointed by the Company and another four are appointed by and from the membership of the DC Plan.

There were no changes to the Trustee Board during the year to 30 September 2016.

Company-Nominated Trustee Directors
Jan Nicholls (Chairman)
Barbara Henry
Adam Lambert
Robin Woodward

Member-Nominated Trustee Directors (MNDs)
Paresh Desai
Adrian Forrester
Anna Lee
Nick Morgan

You can read short biographies of the Trustee Directors on the Caterpillar member website: **www.mycatpension.co.uk**. Just click on 'About us' and follow the link to 'Trustees'.

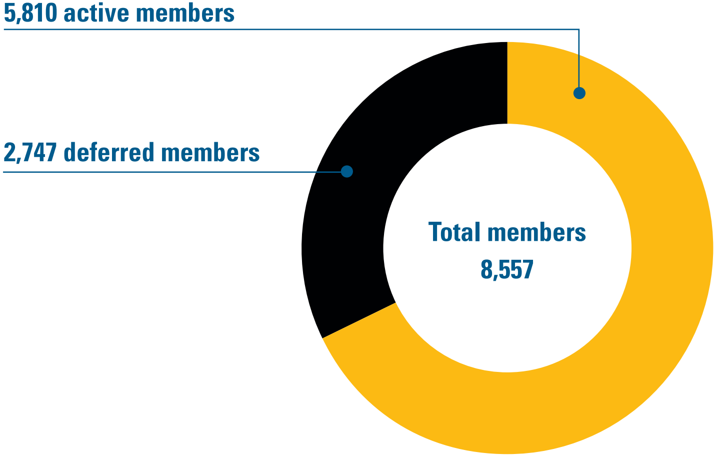
The Trustee Directors appointed specialist advisers to help them run the Plan. These include experts in pensions law, investments and administration, to make sure your plan is well run.

Administrator	Capita
Auditor	PricewaterhouseCoopers LLP
Legal adviser	Slaughter and May
Investment adviser	Mercer Limited
Bankers	HSBC plc Royal Bank of Scotland plc
Investment managers	Legal & General Investment Management

THE DC PLAN IN NUMBERS

DC Plan at the start of the year	**£263,351,000**
Company contributions	£24,884,000
Member contributions	£1,237,000
Transfer in	£7,877,000
Other income	£5,318,000
Total income	**£39,316,000**
Benefits paid	£5,377,000
Payments to leavers	£36,000
Transfers to other plans	£15,421,000
Other payments	£2,072,000
Investment management costs	£430,000
Administration expenses	£730,000
Total expenditure	**£24,066,000**
Increase in market value of investments	**£51,483,000**
Investment income	**£10,000**
DC Plan at the end of the year	**£ 330,094,000**

Just over 400 new members joined the Caterpillar DC Pension Plan during the year under review, so if you're reading this newsletter for the first time – welcome!



These figures are taken from the DC Plan's formal annual report, which is audited by PricewaterhouseCoopers LLP to ensure it gives a fair and true reflection of the DC Plan's financial position. Previous years' reports are available from the Pensions Team.

CONTACT US

You can contact the DC Plan's administrator, Capita, in any of the following ways:

by telephone on **0114 229 7899**

by email on **caterpillar@capita.co.uk**

by letter to **Caterpillar DC Pension Plan, Capita, Hartshead House, 2 Cutlers Gate, Sheffield S4 7TL**

For more information
www.mycatpension.co.uk

Important note
Please note that no part of this newsletter is intended to provide you with advice in relation to your specific circumstances. In particular, you should not rely on this newsletter for financial or legal advice. Every effort has been made to ensure the accuracy of this newsletter. This newsletter does not confer rights to benefits. Rights to benefits may only be conferred by the Trust Deed and Rules of the DC Plan as it may be amended from time to time. Statements as to tax matters are given in good faith but no representation is made as to the accuracy of any such statements.

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