ENGINEERING YOUR FUTURE

2015

The newsletter for members of the Caterpillar Defined Contribution Pension Plan

CATERPILLAR®

CATERPILLAR DC PLAN

HELLO, AND WELCOME!

As you can see, this newsletter from the Trustee Directors of the Caterpillar Defined Contribution (DC) Pension Plan has a fresh new look.

We hope that you find it easy to read and that it helps you understand more clearly your benefits in the Plan and how the Plan is managed.

As you may have heard in the news, the Government has changed the way that people like you can use your DC pension savings. You still have to wait until you're 55 to draw the money out, but there are now a lot more options available to you than simply buying an annuity with your pension pot. We have included the key points for you on pages 4-5.

The pension rule changes mean that the Trustee Directors have also reviewed the investments that are offered by the Plan. We have decided to change some of the Plan investments to make sure there is an option there for everyone, no matter how you plan to use your pension savings. We will send you more details soon, but in the meantime we have summarised your new investment options on pages 6-7.

We hope you enjoy reading this newsletter. We'd love to hear what you think, so please drop us an email or call us, using the contact details on the back page.

Jan Nicholls
Chairman of the Trustees

PLAN HIGHLIGHTS

The Trustee Directors will increase the number of lifestyle investment strategies from one to three, targeting **cash withdrawal**, **annuity purchase** and **income drawdown** – the three main options available to you from April 2015.

815 the number of new members who were automatically enrolled into the Plan in the 2013/14 Plan year.

76 the number of new members who opted out of the Plan (less than one in ten).

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FLEXIBILITY & CHOICE IN PENSIONS

From 6 April 2015, the pension rules on how and when you can draw your pension will change. You must be at least 55 in order to access your pension in the way described here, and these changes will only apply to people who have not yet started to draw their pension.

You no longer have to use your DC pension account to buy an annuity when you retire. An annuity is an insurance product that allows you to convert your pension savings into a regular income for the rest of your life. Many people will still want the security that an annuity provides.

You can take all the money in your pension account as cash – either as a one-off lump sum or gradually over time (called 'drawdown'). 'Drawdown' is where you keep your account invested and gradually take an income from it. The Trustee Directors have decided not to offer drawdown directly through the DC Plan, so if you want to access this option you will have to transfer your pension savings to another DC arrangement.

The minimum pension age (which is the earliest you can take your pension benefits without tax penalties) is going up – from 55 to 57 in 2028.
If you're under 40, this will probably affect you.

You will still (under current tax rules) be able to take 25% of your pension savings as tax-free cash, and you will pay tax on the rest, as if it was income.

By the time you retire, there will probably be new retirement products in the market – so watch this space!

Once you reach the minimum pension age, you might be tempted to draw out some of your pension savings – perhaps to buy a new car or put down a deposit on a second property. However, you should think very carefully before taking money out of the Plan, as it may affect how much you can put into the Plan in future. Once you start to access your pension savings, the amount you can save into a pension plan in a tax-effective way will be restricted – to £10,000 a year. (The 'normal' Annual Allowance is currently £40,000.)

You might also lose your valuable Death in Service or Income Protection benefits if you access your funds before you leave the Company, even if you start saving into the Plan again.

Also, it's important that you review how your pension account is invested, to make sure it's appropriate to the way that you plan to use your pension savings. There is more information about your investment options – which are changing – on the next page.

INVESTMENT CHANGES

To reflect the greater choice you will have of how you spend your pension savings, the Trustee Directors are changing the Plan's default investment strategy ('lifestyle'). This is where most of our members' pension accounts are invested.

Lifestyle

The current lifestyle strategy works by assuming that you will take 25% of your pension account as tax-free cash and use the rest of it to buy an annuity. Because of the pension rule changes, we expect that some of our members won't want to buy an annuity when they retire – so this investment approach may no longer be suitable.

In April, we will replace the current lifestyle strategy with three new lifestyle strategies. Up until 15 years before your normal retirement date, your account will be invested in a blended equities fund. From 15 years, your pension savings will gradually be moved into a bespoke diversified growth fund, which invests in a wide variety of assets. Then, from eight years before your normal retirement date, what happens next depends on how you want to use your savings:

1. If you think you will want to take your pension savings as cash, your account will gradually move into cash investments.
2. If you think you will want to use your account to buy an annuity, then your account will gradually move into fixed-income investments (75%) and cash (25%).
3. If you think you will want to use a drawdown product, then 75% of your account will gradually move into a retirement income multi-asset fund (RIMA), which is aimed at people who are looking to drawdown income from their pension account. The remaining 25% will be moved into a cash fund.

If you don't tell us your choice, then we will assume that you will want to buy an annuity (option 2) and will invest your fund accordingly.

For 'freestyle' members (who choose to make their own investment decisions), the Trustees have added one more fund to the range.

Freestyle

Some members make their own investment decisions – investing their savings across the 13 funds that are available through the Plan. The Trustees have added a 14th fund to the range – a retirement income multi-asset fund (RIMA), which is aimed at people who are looking to drawdown income from their pension account.

If you're within 15 years of normal retirement date, we will contact you in April with more information about the investment changes and what you need to do.

THE PLAN IN NUMBERS

At 30 September 2014, the Caterpillar DC Pension Plan was worth £241 million – an increase of around £36 million over the previous year. Here's how the numbers break down:

	Plan at the start of the year	**£206,008,000**
IN	Total income	£23,760,000
OUT	Total expenditure	£8,009,000
+	Increase in market value of investments	£20,163,000
+	Investment income	£8,000
	Plan at the end of the year	**£241,930,000**

IN

Company contributions	£18,711,000
Member contributions	£1,316,000
Transfer in	£1,666,000
Other income	£2,067,000

OUT

Annuities bought	£1,752,000
Tax-free cash sums at retirement	£772,000
Death benefits	£597,000
Payments to leavers	£2,274,000
Investment management costs	£339,000
Administration expenses	£508,000
Payments to insurance companies	£1,767,000

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

WHO'S IN THE PLAN?

The Caterpillar DC Pension Plan provides benefits to over 7,000 members. These include:

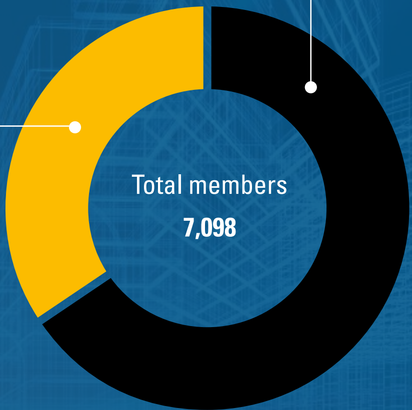
4,583 active members

These members work for Caterpillar and pay contributions into the DC Plan.

2,515 deferred members

These members stopped working for Caterpillar or chose to opt out of the DC Plan, but they haven't yet started to receive their pension.

There are no pensioners in the DC Plan, because when members retire they typically use their pension savings to buy an annuity (an insurance product that provides a guaranteed income for life).



Auto-enrolment

If you were automatically enrolled into the DC Plan, welcome!

We hope you see the benefits of remaining in the Plan and we are delighted that only a very small percentage of employees who were automatically enrolled have so far decided to opt out.

Remember, if you do opt out, we may need to re-enrol you in August 2016, if you meet the criteria at that time – this is something the Government says we must do every three years.

HELP WITH YOUR RETIREMENT CHOICES

The Government has said that people retiring with DC benefits will be guaranteed free and impartial financial guidance at the point of retirement, which will be provided through the new 'Pension Wise' service. More details can be found on the Pension Wise website: www.pensionwise.gov.uk

The Pension Wise service will only provide very generic advice and will not be tailored to your specific circumstances. If you want proper independent financial advice, you can find a local independent adviser on this website: **www.unbiased.co.uk**

A financial adviser will usually charge you for their time, so it's important to be aware of any costs before you go down this route.

Also remember that, as a member of the Plan, you can access the Hargreaves Lansdown Retirement Service. Hargreaves Lansdown was appointed by the Trustee Directors to help members get the best possible deal when converting their pension savings into an annuity. From 6 April, their Retirement Service website will include a new pension planner, which allows you to work out how much might be left in your pot to use as drawdown after you have bought an annuity. You can find out more at: **www.retirementservice.co.uk/cat**

BEHIND THE SCENES

The Plan is looked after by a group of people called the Trustee Directors. Some of the Trustee Directors are appointed by Caterpillar and some are nominated by the members. Regardless of how they joined the Board, the Trustee Directors all have the same purpose: to look after the benefits that have been built up by members.

Since the major changes to the Plan in 2012, three of our long-serving Trustees have left the Board. Colm Maguire left the Company with the sale of the Logistics Group, Louise Duncan chose to take advantage of one of the VSP programmes, and Dave Entwistle moved to Peoria on an overseas assignment.

In their place we have welcomed two new Member-Nominated Directors in Nick Morgan, Site Services manager for the Peterborough site, and Anna Lee who is Supplier Quality Manager, also based at Peterborough. The Company also invited Barbara Henry to join the Board as a Company-Nominated Director; Barbara works as HR Policy Manager in the Human Services Division and is based in Caterpillar Northern Ireland's offices in Larne.

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

The Trustee Directors appoint specialist advisers to help them run the Plan. These include:

Administrator	Capita
Auditor	PricewaterhouseCoopers LLP
Legal adviser	Slaughter & May LLP
Investment adviser	Mercer Limited
Bankers	HSBC plc
Investment managers	Legal & General Investment Management

Contact details

You can contact the 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**

Looking after your data

Some personal data for Plan members (such as date of birth and salary) is required for the running of the Plan, including paying out the right benefits. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Act). Data controllers would include the Trustee of the DC Plan, and, in certain circumstances, professional advisers to the Plan.

Please note that this Bulletin does not confer rights to benefits. Rights to benefits are conferred only by the Trust Deed and Rules of the Plan, as from time to time amended.

Track your pension

Remember, you can also visit **www.caterpillarpensions.co.uk** for basic details about the Plan and how it works, or to login securely to your own pension account information. You can also access it through cat@work – go to Compensation & Benefits, then Pay & Financial Security.

The website links through the Plan administrator's secure online system, so you can see how much money has been paid into your pension, where it is invested and how the investments are doing.

If you want to change your investments, or need to update your nomination form, you can find all the relevant forms on the site.

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