

ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Pension Plan

2018



CATERPILLAR®

CATERPILLAR DB PLAN



WELCOME

This newsletter, sent to you by the Trustees of the Caterpillar Pension Plan, covers a wide range of topics, from data protection to State benefits. It also provides an update on the Plan's latest full valuation, which looked at the funding position as at 30 September 2016.

The 2016 valuation showed that the funding level of the plan was 93% (on an 'ongoing' basis). However, since the 2016 valuation was finalised, the Plan's funding position has improved and, based on informal figures, the Plan is currently fully funded (on an 'ongoing' basis), which is great news. This leaves the Plan in an excellent position and as you will know, not many Defined Benefit pension plans in the UK are fully funded on this basis. Of course, the funding position can change over time and is primarily dependent on how markets perform. The current position has been achieved by successful investment decisions made by the Trustee Directors, in conjunction with our advisers, and continued support from the Company to fund the Plan.

We hope you find these updates from the Trustees useful in helping you understand how your pension works and what you can do to make sure you have the retirement you want. We welcome any ideas for what you might like to see covered in a future issue. Please get in touch with us; our contact details are on the back page.

David Goldspink
Chairman of the Trustees

DB PLAN HIGHLIGHTS

THE PLAN IS WORTH £1.9 BILLION, AS AT
30 SEPTEMBER 2017

THE MOST RECENT VALUATION SHOWED THAT
THE PLAN HAS A FUNDING LEVEL OF 93%

YOU ARE ONE OF MORE THAN 13,400 MEMBERS
OF THE PLAN

DURING THE YEAR TO 30 SEPTEMBER 2017,
£58.8 MILLION WAS PAID IN BENEFITS
TO MEMBERS

INSIDE THIS ISSUE

The DB Plan in numbers

Page 4

Funding update

Page 6

Plan noticeboard

Page 8

Your pension options

Page 10

Pensions tax allowances

Page 12

Pensions news

Page 14

The Trustee Board

Page 15

Contact us

Page 16

THE DB PLAN IN NUMBERS

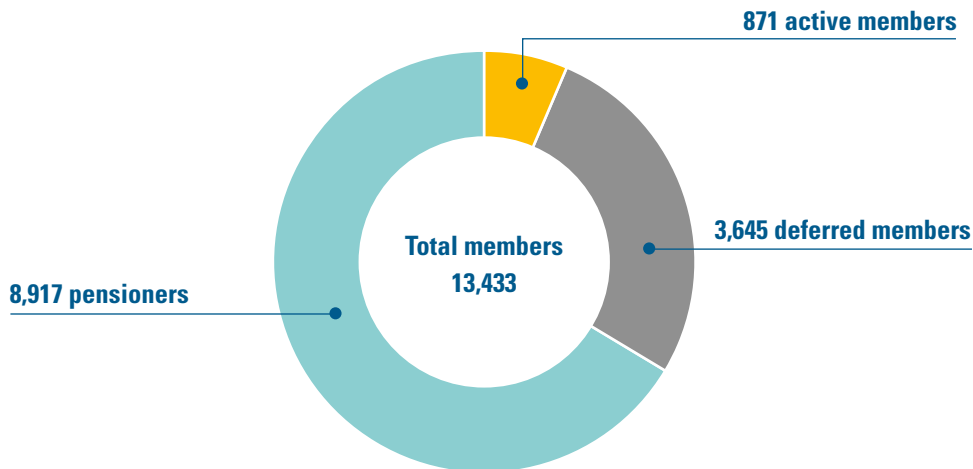
At 30 September 2017, the Caterpillar Pension Plan was worth £1.9 billion. Here is a summary of the money into and out of the Plan during the year.

DB Plan at the start of the year		£1,886,424,000
IN	Total income	£26,743,000
OUT	Total expenditure	£85,021,000
+	Increase in market value of investments	£10,177,000
+	Investment income	£39,558,000
DB Plan at the end of the year		£1,877,881,000

IN	
Company contributions	£24,849,000
Member contributions	£1,205,000
Member voluntary contributions	£470,000
Payments from insurance companies	£219,000
OUT	
Pensions	£50,582,000
Tax-free cash sums at retirement	£7,796,000
Death benefits	£440,000
Transfers to other schemes	£20,954,000
Refund of members' AVCs and bonus sacrifice	£519,000
Investment management costs	£3,051,000
Administration expenses	£1,461,000
Payments to insurance companies	£218,000

WHO'S IN THE PLAN?

**You are one of over 13,400 members of the Caterpillar Pension Plan.
As at 30 September 2017, the membership included:**



The information on these pages has been taken from the Plan's formal Report and Accounts for the year to 30 September 2017. These have been audited by PricewaterhouseCoopers LLP, who confirm they give a true and fair view of the Plan's financial position. If you would like to see a copy of the full report, you can request one from the Caterpillar Pensions Team.



FUNDING UPDATE

The Plan's actuary carries out a full valuation of the Plan at least every three years. The Trustee Directors and Caterpillar use this assessment to decide how much needs to be paid into the Plan to make sure there is enough money to pay all current and future pensions in full.

The latest valuation, looking at the position as at 30 September 2016, has been completed. It showed that the funding level improved between 2013 and 2016. As at 30 September 2016, the actuary estimated that the Plan was 93% funded on the ongoing basis (up from 92% at the previous valuation). This means that the money in the Plan on that date (called the 'assets') covered 93% of all the pension and benefit payments that have been promised to members (called the 'liabilities').

	30 September 2016 Full valuation	30 September 2013 Full valuation
Assets	£1,888.3m	£1,291.4m
Target level of assets to pay all pensions and benefits	£2,036.5m	£1,400.4m
Shortfall	£148.2m	£109.0m
Funding level	93%	92%

Why did the funding level improve between 2013 and 2016?

The main reasons for this are the extra payments into the Plan from the Company and also the strongly positive returns on the Plan's investments.

How has the funding level changed since the 2016 valuation was carried out?

The Plan actuary also reviews the Plan's funding level in the years between valuations. These updates provide a quick estimate of how the funding level has changed over the year. The annual update as at 30 September 2017 showed that the funding level had improved to 99% (on an 'ongoing' basis) and an informal Q1 2018 update showed the Plan as currently fully funded due to the contributions being received from the Company and investment-related factors (although this could, of course, change).

How will the Plan's shortfall (identified in the 2016 valuation) be addressed?

Based on the result of the September 2016 valuation, Caterpillar agreed to make payments of £23.2m a year between 2018 and 2021 inclusive, which together with investment returns were expected to address the shortfall by 2021. The 2017 funding update showed that the Plan was fully funded (ahead of target) but this could change. The position will be reviewed when the next full valuation is carried out as at 30 September 2019.

What if the Plan was wound up?

By law, as part of every full actuarial valuation, the Trustee Directors must also obtain an estimate of how much money an insurance company would require in order to take on the future pension payments of the Caterpillar Pension Plan.

The estimate must be for paying all pensions in full. This gives an idea of how much would be needed in the unlikely event that Caterpillar became insolvent and the Plan had to be 'wound up'.

The inclusion of this information does not imply that either the Company or the Trustees are thinking of winding up the Plan.

The Plan's actuary has estimated that, as at 30 September 2016, on a wind-up basis there was a shortfall of £782.2m (2013: £596m). This shortfall is much greater than the £148.2m shortfall (at 30 September 2016) for the Plan on an ongoing basis. The difference is mainly because the law requires insurance companies to invest in very low-risk assets so that they can guarantee to pay pensions in full.

Payments to Caterpillar

There have been no payments from the Plan to Caterpillar over the 12 months to 30 September 2016, and the Pensions Regulator has not had to use its powers in connection with the Plan.

PLAN NOTICEBOARD

Looking after your data

In May this year, new rules governing data protection come into force. The General Data Protection Regulation (GDPR) is being introduced throughout the EU and will continue to apply in the UK after Brexit. It brings data protection law up to date for use in the digital age.

In order to run the Plan and pay members the correct benefits, the Trustee needs to hold and process some personal data for members, such as your name, date of birth, National Insurance number and salary.

What will it mean for you?

In terms of our Plan, the GDPR places stricter requirements on the Trustee in its role as a 'data controller' about how your personal data is held, processed and shared with others, such as the Plan administrator and other professional advisers like the Plan actuary.

The GDPR also requires the Trustee to be transparent about the data it holds about you, which means you can ask to see the data we hold and for inaccuracies to be corrected.

Please see the letter enclosed with this newsletter for an explanation of what this means for you. You can also find more detailed information about how we look after your personal data in our Data Privacy Notice on the Plan website, www.mycatpension.co.uk (in the Library section). We would encourage you to read the Data Privacy Notice, as well as check it from time to time for any updates.

Looking ahead – the Plan closure to future accrual

As you know, at the end of next year, the DB Plan will be closing to future accrual. (This means you will stop building up benefits in the Plan.) All active members of the Plan at that time will change category and become deferred active members and their benefits preserved until they reach retirement. Active members will then be automatically enrolled in a defined contribution (DC) pension arrangement (the Caterpillar Defined Contribution Pension Plan) and begin building up DC benefits.

For active members – introducing DC

In preparation for this, we are planning a series of presentations to provide you with all the information you need about joining the Caterpillar Defined Contribution Pension Plan from 1 January 2020.

Nearer the time, your HR representative will confirm the dates for your area.

From June 2018	Reminder of the consultation outcomes and what you can do to start planning now – delivered by Skype and a video recording will be available
January – September 2019	Face-to-face presentations to inform all members about the Caterpillar Defined Contribution Pension Plan
July – September 2019	You will be issued with your DC pack and the relevant forms
1 January 2020	You will be automatically enrolled into the Caterpillar Defined Contribution Pension Plan
January 2020	You will be issued with your Caterpillar Defined Benefit Pension Plan statement as at 31 December 2019

YOUR PENSION OPTIONS

A reminder about pension freedoms

The pension freedoms introduced in 2015 apply to people with DC savings. If you would like to access these flexibilities, you would need to transfer your DB benefits out of the Caterpillar Pension Plan into a DC pension arrangement (which means you would no longer be a member of the Plan).

In a DC arrangement, you can currently take up to 25% of your pension pot as a tax-free, cash lump sum and then take the remainder in one of the following ways, subject to income tax. You can:

- buy an annuity (a pension), which provides a regular income for life
- take income from a 'drawdown' arrangement, where you withdraw flexible amounts as and when you need to
- take a cash lump sum
- take a mix of the above options.

Thinking about transferring your pension?

We have recently had several requests from members about transfers out. As a member of a DB scheme, there are a number of risks involved that you should be aware of before you proceed.

Transferring from a guaranteed DB pension plan might not be in everyone's best interests because you would also be giving up a number of valuable benefits from the Plan, such as a regular income for life, a dependant's pension, annual pension increases in line with RPI, possible death lump sum benefits and ill-health early retirement benefits.

Things to consider:

- If your pension in the Plan is valued at over £30,000, you are legally required to take independent financial advice before a transfer can proceed, and the Trustee must check that you have done so.
- DC pension flexibilities are normally only available from age 55.

- Please note you do not have a statutory right to transfer out your DB benefits if you are within one year of your Normal Retirement Date.
- The Pensions Regulator's view is that it is likely to be in the best financial interests of the majority of members to remain in their DB scheme.
- You can currently take up to 25% of your savings from a DC arrangement as a tax-free, cash lump sum. Anything above this amount will be taxed as income in the year that you receive it. Depending on your other income, this could mean paying a higher rate of income tax.
- It can take time to process transfer applications, with requests for guaranteed transfer values often taking up to three months to complete.

If you are thinking about transferring out of the Plan, please make sure you fully understand the risks and the possible benefits that you are giving up. Once you transfer out, you will no longer be a member of the Plan.

Getting advice

Neither the Company nor the Trustees are allowed to give financial advice.

To find an independent financial adviser (IFA) in your area, go to **www.unbiased.co.uk** or visit **www.moneyadvice.service.org.uk**

If you're aged over 50, you can also get free and impartial guidance about DC options from the government's information service, **www.pensionwise.gov.uk**



AN UPDATE ON TAX ALLOWANCES

The Annual Allowance (AA) is a limit on the tax-relieved pension savings you can build up in one tax year. The standard AA is currently £40,000. The Money Purchase Annual Allowance (MPAA) applies if you have withdrawn any pension benefits flexibly. The MPAA is lower than the standard AA; with effect from April 2017, the MPAA stands at £4,000.

There is also a Tapered AA that applies to high earners. So, if you have taken any of your benefits using the pension freedoms, or if you're a high earner with an annual income of £110,000+, you need to keep a close eye on how much you're saving into your pension each year. (When working out your AA, remember to include all your pensions, not just your Caterpillar pension.)

If you exceed your AA, you can in most cases use any unused AA from the previous three years to avoid paying a tax charge. If a tax charge is inevitable, you can also, in some cases, request that the Plan pays for it on your behalf (called 'Scheme Pays'), where you exceed the standard £40,000 AA and face a tax charge in excess of £2,000). The Pensions Team will write to people who

exceed the standard £40,000 AA, asking if they wish to pay the tax by reducing their pension benefits. These letters are usually posted by 6 October each year. Your pension from the Plan would be reduced if you went down this route.

However, if the Tapered AA applies to you, any tax bill incurred on excess payments of between £10,000 and £40,000 has to be declared on your Self-Assessment tax return and paid by you by 31 January. This cannot be paid through 'mandatory' Scheme Pays referred to in the paragraph above.

The Pensions Team has produced an explanatory factsheet, available on www.mycatpension.co.uk (in the Library section).



To find out more general information about pensions tax allowances, go to: **www.gov.uk/tax-on-your-private-pension**

For more specific guidance on the Tapered AA, go to:
www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

You can find a local independent financial adviser through the unbiased website: **www.unbiased.co.uk**

PENSIONS NEWS

Pension scams – have you been cold called?

The rise in the number of people taking advantage of pension flexibilities has brought with it an increase in pension scams. Scammers know you can access your savings in new ways and they are after your pension pot. According to a recent survey, almost one fifth of people aged over 50 (1.5 million individuals) were targeted by pension scammers between April and June last year.

If someone contacts you unexpectedly, claiming to be able to help you access your pension before the age of 55, it's likely to be a scam. The Pensions Regulator has published a list of warning signs to be aware of:

1. a free pension review
2. the promise of guaranteed returns on your investment
3. low tax/tax-free rates, including tax-free lump sums
4. exotic-sounding and/or overseas investments
5. pressure to sign up quickly to avoid missing out

Find out more about pension scams, including what to do if you think you are being targeted, at www.pension-scams.co.uk

Changes to State pension age

The government has announced that it is to bring forward plans to raise the State pension age to 68. Originally set to be introduced between 2044 and 2046, the increase to 68 will now take place seven years earlier between 2037 and 2039. People born between 6 April 1970 and 5 April 1978, currently aged between 39/40 and 47/48, will be affected by this change.

Get to know your State pension

A new government campaign is encouraging people to find out how much State pension they could get and when. There is a website which provides easy access to online forecasts and calculators, offering tailored information to people at different stages in life. It can help you to:

- get a forecast of your State pension entitlement
- check if there are any gaps in your National Insurance record
- trace lost pensions
- learn about the benefits of a workplace pension

Visit the 'Get to know your pension' website at www.yourpension.gov.uk

THE TRUSTEE BOARD

The DB Plan is run by a Board of Directors which includes four Company-appointed Trustee Directors and four member-nominated Trustee Directors. You can find out more about each of the Trustees on the member website.

Company-appointed Trustee Directors

David Goldspink (Chairman)

Jon Beardmore

Laurence Dobney

Lisa Rodgers

Member-nominated Trustee Directors (MNDs)

Russell Arnott – resigned 9 February 2018

Mike Hirons

Pete Mouland

Gavin Padget

The Trustee Directors have appointed the following specialist advisers to help run the Plan.

Actuary

John Porteous, Mercer Limited

Auditor

PricewaterhouseCoopers LLP

Legal adviser

Slaughter and May

Investment adviser

Mercer Limited

Bankers

HSBC plc

Investment managers

Legal & General Assurance (Pensions Management)

LSV Asset Management (to August 2017)

Majedie Asset Management (to August 2017)

McKinley Capital Management (to August 2017)

Northern Trust Company

Primecap Management (to August 2017)

Royal London Asset Management

CONTACT US

If you have any questions about the information in this newsletter or your benefits in the Plan, please get in touch with the Caterpillar Pensions Team:

Tel: **0845 601 4777** option 1, option 6, option 1

Email: **ukpensions@cat.com**

Website: **www.mycatpension.co.uk**

When making any decisions about your level of contributions into the Plan or the investment of your account, we would recommend that you consider seeking independent financial advice from an independent financial adviser. If you do not have a financial adviser, the government's Money Advice Service provides free and impartial information on choosing a financial adviser and links to details of financial advisers. The Money Advice Service website, www.moneyadvice.service.org.uk, also has lots of information about personal pensions and choosing investments. All information in relation to taxation, National Insurance and the State pension scheme have been provided in good faith as at the date of publication of this newsletter, but no representations are given as to its accuracy. It is recommended that you check any information before relying on it. Please note that this newsletter 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.



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