

# ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Pension Plan

2017



**CATERPILLAR®**

CATERPILLAR DB PLAN



# PUTTING A VALUE ON THE SCHEME

**The Trustees have been focussing on the Plan's funding position, managing the risks and making investment decisions accordingly. At the same time, they continue to ensure they maintain the high standards of governance needed to protect members' benefits.**

The EU referendum resulted in a volatile few months for the financial markets (and there's more about Brexit on page 10). However, the Trustees, with advice from our advisers, had prepared for this volatility and therefore the DB Plan's assets have grown despite the market conditions.

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. This is particularly the case as members approach retirement. We've provided a summary of your options on page 9.

The Trustees are required to carry out a formal valuation of the DB Plan every three years, and annual updates in the years between valuations. The valuation as at 30 September 2016

is currently under way, so we don't have to provide you with a funding update in this year's newsletter. We are required to complete the valuation within 15 months of the valuation date – so, by 31 December 2017, at which point we will update you on the actuary's findings.

The Trustees and the Company will also need to agree a new Recovery Plan and Schedule of Contributions, if the valuation shows that the DB Plan has a shortfall.

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 page.

**David Goldspink** (Chairman of the Trustees)

## DB PLAN HIGHLIGHTS

THE DB PLAN HAS 13,895 MEMBERS,  
INCLUDING 990 ACTIVE MEMBERS.

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ACTIVE MEMBERS WILL CONTINUE PAYING  
CONTRIBUTIONS UNTIL 31 DECEMBER 2019,  
WHEN IT HAS BEEN AGREED THE DB PLAN  
WILL CLOSE TO FUTURE CONTRIBUTIONS.  
PENSIONS WILL CONTINUE TO BE PAID.

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BY 30 SEPTEMBER 2016, THE VALUE OF THE DB  
PLAN HAD GROWN TO ALMOST £1.9 BILLION.

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HAVE YOU VISITED THE CAT PENSION  
WEBSITE YET? YOU CAN FIND IT AT:  
[WWW.MYCATPENSION.CO.UK](http://WWW.MYCATPENSION.CO.UK)

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# THE DB PLAN IN NUMBERS

Over the year ending 30 September 2016, the DB Plan's assets increased by £306.5 million. Here's how the numbers break down.

<b>DB Plan at the start of the year</b>	<b>£1,579,882,000</b>
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<b>IN</b>	Total income	£30,043,000
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<b>OUT</b>	Total expenditure	£77,214,000
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<b>+</b>	Increase in market value of investments	£317,470,000
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<b>+</b>	Investment income	£36,243,000
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<b>DB Plan at the end of the year</b>	<b>£1,886,424,000</b>
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## IN

Company contributions	£27,111,000
Member contributions	£1,400,000
Member voluntary contributions	£883,000
Payments from insurance companies	£649,000

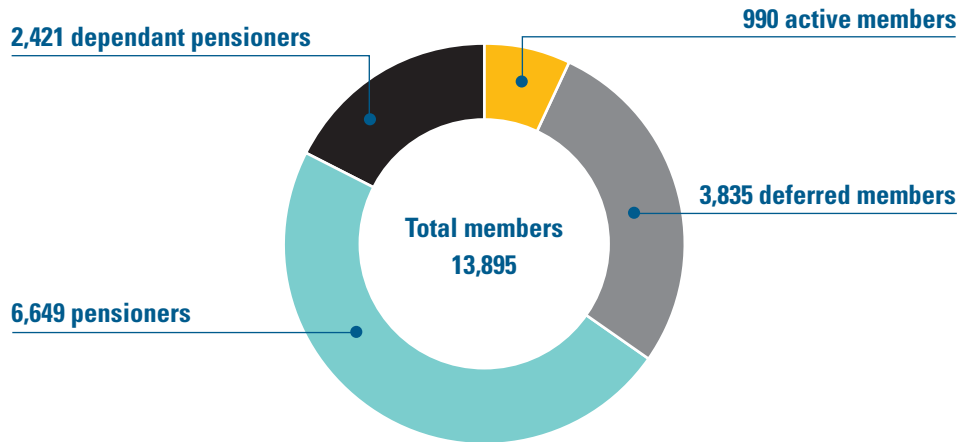
## OUT

Pensions	£49,020,000
Tax-free cash sums at retirement	£11,819,000
Death benefits	£914,000
Transfers to other schemes	£9,692,000
Refund of members' AVCs and bonus sacrifice	£1,042,000
Investment management costs	£2,812,000
Administration expenses	£1,700,000
Payments to insurance companies	£215,000



# WHO'S IN THE PLAN?

During the year under review, the DB Plan's membership dipped below 14,000 for the first time. The number of active members now stands at 990, which is 228 lower than last year.



The figures shown on pages 4-5 are taken from the Plan's formal Annual Report, dated 30 September 2016, which is audited by PricewaterhouseCoopers LLP to ensure it gives a fair and true reflection of the DB Plan's financial position. You can ask the Pensions Team for a copy of the 2016 Annual Report.



# PLAN NOTICEBOARD

## Important: have you told us your wishes?

The DB Plan provides generous death benefits, which include:

- A death-in-service lump sum paid on the death of an active member at the discretion of the Trustees
- A spouse's or financial dependant's pension (where applicable) – this is paid in accordance with the DB Plan Rules. See the box on the right for more information about this benefit.

If a member dies, the Pensions Team look to see if the member has completed a Beneficiary Nomination form. If this form is on file, it makes it clear to the Trustees where the member would like their death-in-service lump sum to be paid.

The Trustees' power is discretionary; this means they do not have to follow the member's 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.

Despite these advantages, many members have not yet completed a Beneficiary Nomination form.

**Help the Trustees in making their decision and complete your Beneficiary Nomination form today so they can consider all your circumstances.**

## Spouse's or financial dependant's pension

It's worth noting that payment of this benefit can be complicated. For example, there may be a spouse from whom the member has been separated for many years but is still legally married to. What would happen if the member had been living with a new partner for several years? The Plan Rules will determine who should get the pension – and it should not be assumed that this will be paid to the current partner. Legal requirements must be adhered to and financial dependency checks carried out prior to any benefits being paid.

Please review your situation regularly and complete a new form if your personal circumstances change. You can request a form from the Pensions Team by emailing them on [ukpensions@cat.com](mailto:ukpensions@cat.com) or calling **0845 601 4777** (option 1,6,1).

### **FAQ: Changes to Guaranteed Minimum Pension (GMP) increases**

**Q:** I have pre-1988 service in the Plan. Why is the GMP relating to that service no longer being increased?

**A:** The government has decided to stop providing increases on pre-1988 GMPs as part of the design of the new State Pension, in relation to people who reach State Pension Age from April 2016. Your pre-1988 GMP (without increases) is part of the benefit provided under the Plan. Before April 2016 the government paid increases on this. Under the new State Pension scheme design the government will stop paying such increases.

### **Fancy taking a lump sum from the DB Plan?**

The Annual Allowance is a limit on the amount of tax-efficient pension savings you can build up in a year. For most people, the Annual Allowance is £40,000 a year. However, if you take your benefits flexibly from a Defined Contribution (money purchase) arrangement (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.

This £10,000 only relates to future contributions into Defined Contribution (DC) plans, but if you have both DC and DB pension savings then the amount of pension savings you can build up in the DB Plan will also be reduced. The amount you can build up in your DB pension over the same pension input period would be £30,000. If you have previously unused Annual Allowance, you can put that towards your DB savings but not towards your DC savings.

The government intends to reduce the MPAA further, to £4,000, from 6 April 2017 – so please do think very carefully before you take a payment out of the 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.

# PLAN NOTICEBOARD CONTINUED

## 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](http://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance).





# YOUR RETIREMENT OPTIONS

**Unless you are within 12 months of your normal retirement date, you have a legal right to transfer your pension benefits to another registered pension scheme if you so wish.**

Once you have transferred your benefits out of the DB Plan, you can use the pension flexibilities introduced in April 2015 for people with Defined Contribution pension savings. These include:

- Taking the value of your benefits as a lump sum payment
- Keeping the money invested and withdrawing money as and when you need
- Using the money to buy an annuity – a guaranteed income for life which can be tailored to meet your circumstances
- Any combination of the above.

Under all of the above options you can take up to 25% of the value of your benefits as a tax-free cash sum lump sum (an option which is also available within the DB Plan).

The Caterpillar Pensions Team can provide a transfer value quotation on request. However, before you decide to proceed with the transfer, please remember these important points:

- If your transfer value is greater than £30,000, you are legally required to take independent financial advice.
- Once taken, neither you nor your dependants will have any claim on the DB Plan for benefits in the future. The transfer extinguishes any rights to benefits you have in the Plan.
- You need to be very aware that scammers will try to con you out of your money, so always do your homework before agreeing to any sort of transaction, no matter how reputable the companies appear. You can find out more about pension scams on this website: **[www.pension-scams.co.uk](http://www.pension-scams.co.uk)**
- Even if you transfer your pension savings to an approved pension arrangement, you need to understand what charges will apply to your account. For example, the provider may charge you every time you make a withdrawal, or for switching investments.
- If you spend your money too quickly, or if your investments perform poorly, you could run out of money before your retirement ends!



# 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 the first member state to vote to withdraw from the union, the UK will need to put in place alternative arrangements for a host of legal and trade operations, and extricate itself from the complicated agreements it has with the EU.

Although it is too early to know exactly how events will unfold over the coming years, it is recognised that there will be a certain period of volatility in the financial markets around the world, arising from the uncertainty surrounding the situation. This expectation has already been borne out in the movement of the pound since the result of the referendum was announced, and such volatility is likely to continue for some time as the UK negotiates its exit from the EU.

The Trustees take professional investment advice and regularly monitor market conditions and investment performance, making strategic changes as necessary. The DB Plan has a diverse portfolio of investments in markets around the world, which helps reduce the impact of unexpected fluctuations in individual markets, interest rates and inflation. However, ultimately it is the Company that would be required to fund any shortfall in the DB Plan resulting from the market volatility or poor investment performance.



# THE TRUSTEE BOARD

**The DB Plan is run by a Board of Trustees, comprising Company-appointed Trustee Directors and member-nominated Trustee Directors. Each director is appointed for a six-year term of office.**

During the year to 30 September 2016, there were no changes to the Trustee Board.

## **Company-Nominated Trustee Directors**

David Goldspink (Chairman)

Jon Beardmore

Laurence Dobney (retiree)

Lisa Rodgers

## **Member-Nominated Trustee Directors (MNDs)**

Russell Arnott

Mike Hirons (retiree)

Pete Mouland

Gavin Padget (retiree)

You can read short biographies of the Trustee Directors on the Caterpillar member website: [www.mycatpension.co.uk](http://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.**

**Actuary** John Porteous, Mercer Limited

**Auditor** PricewaterhouseCoopers LLP

**Legal adviser** Slaughter and May

**Investment adviser** Mercer Limited

**Bankers** HSBC plc

## **Investment managers**

Legal & General Investment Management

LSV Asset Management

Majedie Asset Management

McKinley Capital Management

Northern Trust Company

Primecap Management

Royal London Asset Management

# GET IN TOUCH

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

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

Email: **ukpensions@cat.com**

Website: **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 DB 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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