

# ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Pension Plan

2016



**CATERPILLAR®**

CATERPILLAR DB PLAN



# A(NOTHER) YEAR OF CHANGE

**It certainly has been a busy year since I wrote to you last. In 2015, choice and flexibility were the buzzwords; now, in 2016, it looks like the focus is on tax relief and tax allowances.**

As Trustee Directors who run the Plan, it is vital that we keep up to speed with all of the changes that are taking place in the pensions industry. We're lucky to have excellent advisers who can give us guidance on the changes and how they might impact both the pension scheme and you, its members. But we also want our members to be able to get the latest news when it happens – rather than waiting for an annual newsletter like this one.

That is one of the reasons we have set up a dedicated pension website for members, [www.mycatpension.co.uk](http://www.mycatpension.co.uk). You can find out more about the website on page 8 – and once you've had a look online, please do let us know what you think. Don't worry though, we will continue to send out our annual newsletter.

This year's report includes the usual summary of the Plan's financial transactions during the year, taken from the Trustee's formal Report & Accounts. The funding update on page 10 provides you with a summary of the Plan's assets, liabilities and (depending on the ratio between the two) its funding surplus or shortfall. As at 30 September 2015, the funding position had improved slightly, compared with the 2013 valuation results; the reasons are given on page 10.

I hope this newsletter helps you understand a little better how the Plan is managed. If you have any comments or suggestions for what we might include in a future issue, please get in touch with us using the details on the back page.

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

## PLAN HIGHLIGHTS

THE PLAN'S FUNDING POSITION HAD IMPROVED FROM **92%** (IN 2013) TO **94%** (IN 2015).

OUR NEW PENSION WEBSITE WAS LAUNCHED IN MARCH:  
**WWW.MYCATPENSION.CO.UK**

THE PLAN HAS OVER **£1.5 BILLION** IN ASSETS; THIS MONEY IS INVESTED BY THE TRUSTEES TO PROVIDE ONGOING SECURITY FOR YOU AND YOUR BENEFITS.

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# THE PLAN IN NUMBERS

**At 30 September 2015, the Caterpillar Pension Plan was worth £1.580 billion – an increase of £115 million over the previous year. Here's how the numbers break down.**

<b>Plan at the start of the year</b>		<b>£1,465,081,000</b>
<b>IN</b>	Total income	£50,255,000
<b>OUT</b>	Total expenditure	£65,618,000
<b>+</b>	Increase in market value of investments	£95,679,000
<b>+</b>	Investment income	£34,485,000
<b>Plan at the end of the year</b>		<b>£1,579,882,000</b>

<b>IN</b>	
Company contributions	£46,911,000
Member contributions	£1,649,000
Member voluntary contributions	£1,214,000
Payments from insurance companies	£481,000
<b>OUT</b>	
Pensions	£47,038,000
Tax-free cash sums at retirement	£6,610,000
Death benefits	£603,000
Transfers to other schemes	£4,047,000
Refund of members' contributions, AVCs and bonus sacrifice	£448,000
Investment management costs	£4,837,000
Administration expenses	£1,870,000
Payments to insurance companies	£165,000



# WHO'S IN THE PLAN?

**The Caterpillar Pension Plan provides benefits to over 14,300 members. These include:**

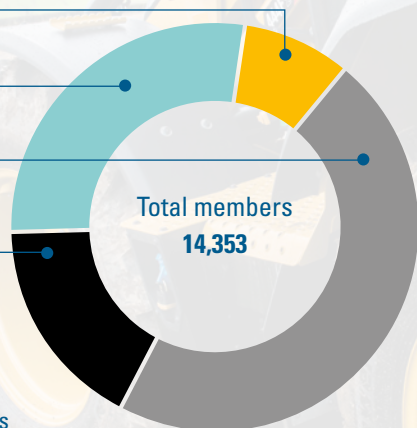
**1,218 active members**

**3,968 deferred members**

**6,723 pensioners**

**2,444 dependant pensioners**

These figures are taken from the Plan's formal Annual Report, dated 30 September 2015, 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.



## Have you told us your wishes?

The Plan provides a valuable death benefit for members, paying a substantial lump sum if you die whilst you are still employed by Caterpillar. It is very important that you let us know who you want to receive this money; the Trustee does not have to follow your wishes but they must take them into account when paying out this lump sum. By allowing the Trustee discretion over this payment, it can be made free of inheritance tax. So please make sure your Beneficiary Nomination form is updated whenever your personal circumstances change – if you get married, divorced or have children for instance. You can ask the Pensions Team to send you a new form whenever you need one:

Email: [ukpensions@cat.com](mailto:ukpensions@cat.com)

Tel: 0845 601 4777 (option 1, option 6, option 1)

# 2016 PENSIONS CHANGES

**April brought with it more changes to pension rules and regulations. We have summarised the key points here for you...**

## **End of contracting-out means higher National Insurance (NI) contributions**

For active members, 6 April marked the end of contracting-out. If you were contributing to the Caterpillar Pension Plan before then, you paid a lower rate of NI contributions. You typically paid NI at the rate of 10.6% on earnings between £155 and £815 per week (£672 and £3,532 per month). From 6 April 2016, the Government increased employee NI contributions to 12%. Employers' NI contributions also increased. The good news is that, unlike many companies, Caterpillar is not going to increase your contributions or reduce your pension benefits in order to offset its increased costs as a result of this change. The Company has written to all active members, who are the ones affected by this change.

## **Why is this happening?**

Until 6 April 2016, there were two parts to the State pension – a basic State pension (currently £119.30 per week) and an additional earnings-related part (which can pay up to about £100 per week). For people reaching State pension age on or after 6 April 2016, there is only one State pension, generally worth £155.65 a week. You may not get the full amount if you were ever contracted-out, or if you have less than 35 years of qualifying NI credits.

Before 6 April 2016, while you are an active member of the Caterpillar Pension Plan, you were contracted-out of the earnings-related part and paid lower rate NI. In turn, the Caterpillar Pension Plan had to agree to provide a pension at least equivalent to this earnings-related part for you when you retire. From April 2016, all employees pay full rate NI (at 12%) and build up entitlement to the new State pension.

**Want to know more about the new State pension?**

**Go to: [www.gov.uk/new-state-pension](http://www.gov.uk/new-state-pension)**

## Changes to pensions tax allowances

As an active member of the Plan, you receive tax relief on any pension contributions you pay at your highest marginal rate. This means that on earnings on which you would otherwise pay tax, you save that tax on any pension contributions you make. So if you are a basic rate tax payer, it only costs you £80 to contribute £100 to your Caterpillar pension.

## How much can I pay into my pension each year?

There is no limit on the amount of pension that you can build up each year. However, the maximum amount that can be saved tax-efficiently in each tax year is restricted to an Annual Allowance. This is currently £40,000.

Most people's pension savings are a lot less than £40,000 a year. However, from 6 April 2016, the Annual Allowance was changed to a tapered allowance which could be as low as £10,000. The changes will only affect some employees who have annual income over £110,000 (including income from investments, buy-to-let property and private businesses, but excluding any pension contributions).

## What is the maximum pension I can build up during my lifetime?

There is no limit on the amount of pension you may build up. However, there is a restriction on the amount of pension savings you may build up in a tax-favoured environment. This limit, known as the Lifetime Allowance, is the total of all your pension arrangements, apart from the State pension.

From 6 April 2016, the Lifetime Allowance was reduced to £1 million. This is equivalent to a total pension of about £50,000 per year. If you exceed the Lifetime Allowance, you may face a tax charge.

You can apply for HMRC protection of your combined pension savings, if you think they will be higher than the Lifetime Allowance. There are two types of protection available: Individual Protection 2016 and Fixed Protection 2016. You can find out more at [www.gov.uk](http://www.gov.uk) (search for 'pension schemes newsletter 74').

# YOUR CAT PENSION – NOW ONLINE

**Our new pension website has just been launched, providing a one-stop shop for all Caterpillar's current and former employees who want to find out more about their pension and retirement.**

The website has been designed using the latest technology, which means you can browse it from your tablet or smartphone, on the go or at home, as well as on a PC.

The great thing about the new website is that you only need to remember one address: **www.mycatpension.co.uk** – from there, you can easily get to your own DB member area, where you can log in to view your personal pension information. You can still access your DB member site from Cat@work if you wish.

The site is packed with loads of useful resources, helping you to **LEARN** about your Plan, **MANAGE** your individual account, and **PLAN** for the future. As well as a library of documents and forms, the website also has links to videos that explain more about pensions basics.

And we're planning more updates in the months to come, to keep the site interesting and useful. Things we are considering include a budgeting tool, to help you work out what sort of income you should be aiming for when you stop working, a simple planner to help you understand how you could save more towards your retirement, and links to sites with ideas for planning for your retirement.



**www.mycatpension.co.uk**



# THE TRUSTEE BOARD

**The Trustee Directors are responsible for managing the Plan so that it can continue to pay the benefits that have been promised to members. The Trustee Board is made up of Company-Appointed Trustee Directors as well as Member-Nominated Trustee Directors.**

There were no changes to the Trustee Board during the year to 30 September 2015.

## **Company-Appointed 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 find out more about your Trustee Directors on the new Caterpillar pension website:**  
**[www.mycatpension.co.uk](http://www.mycatpension.co.uk)**

Running a £1.5 billion pension scheme is no easy task, and it involves many different areas that require specialist expertise – investment, administration, legal and regulatory, to name just a few. The advisers to the Trustee Directors are experts in their respective fields and help to make sure the Plan is well run in every way:

**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

# FUNDING UPDATE

**The Plan's actuary carries out a full valuation of the Plan at least every three years, as well as an 'actuarial report' each year to give an indication of the trend in financial position on an estimated basis.**

The actuarial report compares the Plan's assets with its liabilities. The ratio of assets to liabilities is known as the 'funding level'.

As at 30 September 2014, it was estimated that the Plan was 97% funded on the ongoing basis. However, a further actuarial report showed that the funding level had deteriorated slightly since 30 September 2014, with the Plan being 94% funded on an ongoing basis as at 30 September 2015.

	30 September 2015	30 September 2014	30 September 2013 Full valuation
Assets	£1,580 million	£1,473 million	£1,291 million
Liabilities	£1,678 million	£1,521 million	£1,400 million
Surplus/ (shortfall)	(£98 million)	(£48 million)	(£109 million)
<b>Funding level</b>	<b>94%</b>	<b>97%</b>	<b>92%</b>

## Why has the funding level changed since 30 September 2013?

The overall funding position of the Plan increased between September 2013 and September 2014. This was due to a strongly positive return on the fund, which, combined with the additional contributions paid by the Company to reduce the shortfall, led to an increase in the Plan's assets. However, the Plan's liabilities also increased in value over the year to 30 September 2014, largely as a result of a fall in bond yields. Overall though the increase in the Plan's assets over the year was greater than the increase in the Plan's liabilities, leading to an improvement in the Plan's funding level. The position has changed since 30 September 2014, as bond yields have fallen further.

This has increased the value placed on the Plan's liabilities, which despite the overall increase in Plan's assets has increased the shortfall. However, despite this increased shortfall, the position remains improved from September 2013.

## How will we remove the Plan's shortfall?

The Company is continuing to pay contributions at the rates agreed when the 2013 valuation was completed. This means a further £23m will be paid by Caterpillar between 2017 and 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 2013, there was a shortfall of £596 million. This shortfall is much greater than the £109 million shortfall 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. Lower-risk assets will usually have lower returns.

## Payments to Caterpillar

There have been no payments from the Plan to Caterpillar over the 12 months to 30 September 2015, and the Pensions Regulator has not had to use its powers in connection with the Plan.

The Plan's actuary will soon start working on the 2016 actuarial valuation, which will look at the Plan's funding position as at 30 September 2016. We will let you know the results once they have been agreed, although it is not likely to be before the end of 2017.

## Contact details

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 on:

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, including how to manage them in a tax-efficient manner, 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.moneyadviceservice.org.uk**, also has lots of information about personal pensions.

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.

## Pension transfers

You have a legal right to transfer your pension benefits to another registered pension scheme if you so wish, and the Caterpillar Pensions Team can provide a quotation on request. However, please note these two important points if you are considering transferring your benefits:

- **Pension scams.** If someone contacts you claiming to be able to help you 'release' or 'free' your pensions savings before age 55, please be very careful. Many people have lost all their pensions savings to these scammers – and have had to pay a huge tax penalty as well. Find out more by visiting **www.pension-scams.com**
- **Transferring your benefits overseas.** If you transfer your Plan benefits to an overseas pension scheme that is not recognised by HMRC as being a 'qualifying' scheme, then you face an additional tax charge. HMRC has made it the transferring scheme's responsibility to check whether the overseas scheme is a 'qualifying' scheme and so, if the Caterpillar Pensions Team cannot adequately identify it as such, they have been instructed by the Trustee not to proceed with the transfer.



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[www.workshop.co.uk](http://www.workshop.co.uk)