

# ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Pension Plan

2015



**CATERPILLAR**<sup>®</sup>

CATERPILLAR DB PLAN



# HELLO, AND WELCOME!

**I am pleased to send you *Engineering Your Future*, the newsletter from the Trustee Directors of the Caterpillar Pension Plan.**

**We hope it will help keep you up to date with information about the Plan and news about pensions.**

The last year has seen extraordinary changes in UK pensions, which you may have heard about in the news. The pension rule changes introduced by the Government aim to give people more freedom on how they can take their defined contribution (DC) pension benefits. Although the Caterpillar Pension Plan is a defined benefit (DB) arrangement, and so not directly affected by the changes, you will be able to access these new freedoms if you wish to do so. Have a look at page 6 for more information.

We have also been busy finalising and discussing with the Company the findings of the latest actuarial valuation. During a valuation, a specialist adviser called an actuary compares the Plan's current assets with the money that needs to be paid out as pensions over the next 30, 40 or even 50 years (called the Plan's 'liabilities'). If there is a shortfall between what we need and what we have, the

Company may be required to put in more money. However, the valuation also helps us (the Trustee Directors) consider what we can do to help improve the Plan's funding position – by, for example, changing the investments, if that is appropriate.

The good news is that the 2013 valuation showed a significant improvement in the funding position. The details are given on pages 10 to 11.

I hope you enjoy reading this newsletter. We welcome your feedback on how we can help you understand your pension and the Plan better, so please get in touch with the Pensions Team using the contact details on the back page.

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

## PLAN HIGHLIGHTS

THE PLAN'S FUNDING POSITION HAD IMPROVED FROM **71%** (IN 2010) TO **92%** (IN 2013).

BY 30 SEPTEMBER 2014, THE PLAN'S ACTUARY ESTIMATED THAT THE FUNDING LEVEL HAD IMPROVED FURTHER TO **95%**.

THE PLAN HAS ALMOST **£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 2014, the Caterpillar Pension Plan was worth **£1.465 billion** – an increase of **£174 million** over the previous year. Here's how the numbers break down:

<b>Plan at the start of the year</b>	<b>£1,291,392,000</b>
<b>IN</b> Total income	£73,934,000
<b>OUT</b> Total expenditure	£66,402,000
<b>+</b> Increase in market value of investments	£133,644,000
<b>+</b> Investment income	£32,513,000
<b>Plan at the end of the year</b>	<b>£1,465,081,000</b>

## IN

Company contributions	£70,869,000
Member contributions	£1,733,000
Member voluntary contributions	£665,000
Payments from insurance companies	£667,000

## OUT

Pensions	£45,464,000
Tax-free cash sums at retirement	£7,886,000
Death benefits	£839,000
Transfers to other schemes	£3,469,000
Refund of members' contributions, AVCs and bonus sacrifice	£867,000
Investment management costs	£5,260,000
Administration expenses	£2,333,000
Payments to insurance companies	£284,000

# WHO'S IN THE PLAN?

**The Caterpillar Pension Plan provides benefits to over 14,700 members. These include:**

## **1,358 active members**

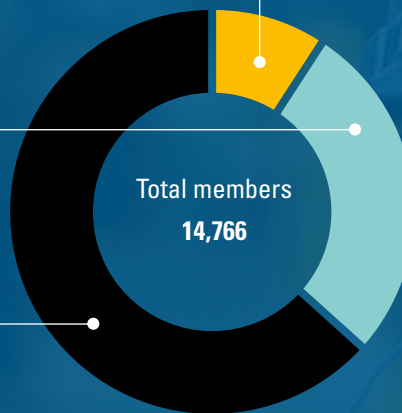
These members work for Caterpillar and pay contributions into the Plan.

## **4,093 deferred members**

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

## **9,315 pensioners**

These members are receiving a pension from the Plan and include people receiving a spouse's or child's pension.



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.



# FLEXIBILITY AND 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.**

## **Giving up a small pension for a one-off lump sum**

If the cash value of your Caterpillar pension is less than £30,000 (and it is the only pension you have), or under £10,000 (if you have more than one pension), then you may be able to give it all up for a one-off cash lump sum.

One-quarter (25%) of the lump sum would be paid out tax-free and the rest would be taxed as earned income. When you get close to retirement age, the Pensions Team will let you know if it is possible to give up all of your pension for a lump sum.

## **Drawing a bigger pension as a one-off lump sum or as a series of lump sums**

A big change is that you are now able to give up your whole pension for:

- a one-off cash lump sum, or
- a number of cash lump sums.

Again, only 25% of each payment would be tax-free and the rest would be taxed as earned income.

If you wanted to take advantage of this flexibility, you would need to transfer the full value of your Caterpillar pension out of the Plan and into a private defined contribution arrangement, such as a personal or stakeholder pension that offers these options. Please note that you will not be allowed to transfer your fund into the Caterpillar Defined Contribution Pension Plan.

By law, if your benefits are valued at £30,000 or more, you must take financial advice before transferring your pension away from a defined benefit (DB) scheme like ours. We will ask for proof before allowing a transfer to go ahead.

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 their new 'Pension Wise' service. More details can be found on the Pension Wise website: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

The Pension Wise service will only provide very generic advice and will not be tailored to your specific circumstances. The planned changes mean that it is particularly important you get proper independent financial advice before taking any decisions on transfers and retirement. You can find a local independent adviser on this website: [www.unbiased.co.uk](http://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.**



### **Minimum pension age**

It's a long way off, but the Government has decided to increase the earliest age anyone can draw a company or private pension. Under the proposals, it will increase from 55 to 57 in April 2028.

# PLAN NOTICEBOARD

## Pension increases

If you are receiving a pension from the Plan, it receives an annual increase that is linked to the rise in the cost of living. The measurement used by the Plan is the Retail Prices Index (RPI), but different sections base their increases on the RPI figure in different months. Pensioners will receive a letter detailing their increase just before it is due.

The increases for 2015 are as follows:	2015	2014
Perkins (increase due on 1 May)	3.00%	3.00%
Cat UK/ Cat Management / Turners (increase due on 1 April)	2.30%	3.20%
Cat North East (increase due on 1 April, paid end of April)	2.30%	3.20%



**The Plan Rules have been updated, to allow for a change in the law that says occupational pension schemes in England and Wales must provide the same statutory minimum benefits for same-sex spouses as for civil partners.**



# THE TRUSTEE BOARD

**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.**

In September last year, two of our Trustee Directors – Richard Palmer and Neil Anderson – resigned from the Trustee Board. Neil will continue to chair the North-East RBLC (formerly known as LAC) and Richard will continue his involvement with the Plan in his role as Pensions Finance Manager.

Their excellent work will be continued by the two new Trustee Directors who have replaced them: Gavin Padget is a retired Six Sigma Master Black Belt from Peterborough, and Russell Arnott is a Finance Manager in the Financial Products Division based in Solihull.

## **Company-Nominated Trustee Directors**

David Goldspink (Chairman)  
Jon Beardmore  
Laurence Dobney (retiree)  
Lisa Rodgers

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

Russell Arnott  
Mike Hiron (retiree)  
Pete Moulard  
Gavin Padget (retiree)

**The Trustee Directors appoint specialist advisers to help them run the Plan.**

**These include:**

**Actuary** JohnPorteous, Mercer Limited

**Auditor** PricewaterhouseCoopers LLP

**Legal adviser** Slaughter & May LLP

**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  
Wellington Asset Management

# 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.**

We are delighted to report that the funding level improved between 2010 and 2013. As at 30 September 2013 (when the last valuation was carried out), the actuary estimated that the Plan was 92% funded on the ongoing basis. This means that the money in the Plan on that date (called the 'assets') covered 92% of all the pension and benefit payments that have been promised to members (called the 'liabilities').

	30 September 2013 Full valuation	30 September 2012 Last update	30 September 2010 Full valuation
Assets	£1,291 million	£1,068 million	£872 million
Target level of assets to pay all pensions and benefits	£1,400 million	£1,495 million	£1,231 million
Surplus/ (shortfall) in assets	(£109 million)	(427 million)	(£359 million)
<b>Funding level</b>	<b>92%</b>	<b>72%</b>	<b>71%</b>

## Why did the funding level improve between 2010 and 2013?

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 will we remove the Plan's shortfall?

Caterpillar has agreed to contribute £53 million in lump sums between 2015 and 2019 to pay off the funding shortfall. From 1 November 2014, Caterpillar will also contribute 31.1% of employees' pensionable salaries to the Plan in each pay period.

## 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. This has particularly been the case since the 2007/8 financial crisis.

## Payments to Caterpillar

There have been no payments from the Plan to Caterpillar over the 12 months to 30 September 2013, and the Pensions Regulator has not had to use its powers in connection with the Plan.

## 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**

### 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 DB 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.



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