

# ENGINEERING YOUR FUTURE

The newsletter for members of the Caterpillar Pension Plan

2021



**CATERPILLAR®**

CATERPILLAR DB PLAN



# WELCOME



When I last wrote to you in Spring 2020, I had hoped that things would be back to normal by the time the next newsletter rolled around!

But, unfortunately, the pandemic is still with us and the revised processes we had adopted, originally envisaged to be short-term measures, remain in place. When the UK first went into lockdown, the Trustee and its professional advisers moved quickly to address the impact of the pandemic on the Caterpillar Pension Plan (DB Plan) and our members. We successfully transitioned to working from home and one of the key priorities was to ensure that pensions and other benefits continued to be paid on time.

Although we find ourselves in extraordinary and challenging times, I am pleased to report that Plan business has continued as usual:

- If you're a pensioner, you'll know that your pension benefits have been and will continue to be paid as normal.

- If you're a member who is coming up to retirement or is interested in transferring your benefits elsewhere, your requests will continue to be processed as normal.

When we wrote to you last year, the Plan actuary was in the midst of the all-important triennial valuation, which looked at the funding position as at 30 September 2019. The results have been finalised, and I am delighted to report that the Plan had a funding level of 101% – which means its assets as at the valuation date were more than enough to cover all the pension promises to members.

The actuary carried out an update as at 30 September 2020 – six months after the initial market turmoil caused by the pandemic – and I am very pleased that our investments proved resilient to these huge pressures, with the funding level slightly higher than in 2019. You can read the details in the funding update on pages 8–9.



The Trustee is continuing to monitor the Plan's position closely to ensure the security of our members' benefits.

I hope the information provided in this report helps you understand how the Plan is managed on your behalf. If you have any questions or would like further information, please contact the Pensions Team at [ukpensions@cat.com](mailto:ukpensions@cat.com)

**David Goldspink**  
Chair of Trustees

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# DB PLAN HIGHLIGHTS

(YEAR TO 30 SEPTEMBER 2020)

As at 30 September 2020,  
the Plan was worth **£2 billion**.



The Plan has  
**11,297 members**.



During the year, the Company  
paid contributions into the  
Plan of **£5.5 million**.



During the year, the Plan  
paid **£55.5 million** in pensions  
to members.



# THE TRUSTEE BOARD

## **In this report we announce the retirement of five of our Trustee Directors.**

The first is David Goldspink. David was appointed as a Trustee in December 2011 and took on the Chair role from May 2012. Under David's leadership as Chair, the Board has made many improvements, including increasing the funding position from 69% to 102% (as at 30 September 2020) on a technical provisions basis, which is a great achievement. David has really enjoyed his role as a Trustee Director but feels the time is right to stand down. David stood down on 31 March 2021. He leaves the Plan in a strong position going forward.

Also retiring as at 31 March 2021 after long service on the Board are Mike Hirons (appointed in August 2012) and Gavin Padget (appointed in September 2014), as their terms of office as member-nominated Trustee Directors (MNTs) come to an end.

Jon Beardmore (appointed in February 2001) has also announced that after over 20 years of service on the Board he will be retiring from the Company and will stand down as Trustee Director in June 2021.

Tony Foster (appointed in August 2018) will be standing down as an MNT at the same time as Jon in June.

In addition to the changes in the Trustee Board, Jane Wilson retired as Secretary to the Plan in July 2020.

Due to the changes above, a review was undertaken in relation to the Board structure and who would assume the Chair role.

Currently, the DB Plan's Board of Directors is made up of four Company-appointed Trustee Directors and four MNTs. It was agreed by both the Company and Trustee to reduce the number of Trustee Directors from eight to six, split equally between Company-appointed and member-nominated Directors.

Due to the complex nature of the DB Plan, it was agreed that the Company would appoint a Professional Trustee, Adrian Kennett from Dalriada Trustee. Adrian, with Trustee approval, will assume the position of Chair.

We are pleased to announce that, following completion of an MNT election process at the beginning of 2021, two new MNTs joined the Board at the end of March 2021: Clive Heath and Roger Hagan, who are both recent retirees.

We would like to thank David, Gavin, Jon, Mike, Tony and Jane for their significant contribution to the Plan over the years and welcome our incoming Trustees.

Inside Pensions was also appointed as Secretary to the Trustee on 1 July 2020.

Our Plan Actuary, John Porteous, retired from Mercer in March, and we wish him well with his retirement journey and thank him for his long service. Alistair Lyon, who has been involved with the Plan for many years, has taken on the Actuary role.

To summarise, from 1 July 2021, your Trustee Board will therefore comprise:

### **Company-appointed Trustee Directors**

Adrian Kennett, Dalriada  
Trustee (Chair)  
Laurence Dobney  
Lisa Rodgers

### **Member-nominated Trustee Directors**

Roger Hagan  
Clive Heath  
Pete Moulard

## **Advisers to the Trustee Directors**

Running a multi-billion-pound pension plan is a complex task, so the Trustee Directors have appointed the following specialist advisers to help them.

### **Actuary**

Alistair Lyon, Mercer Limited  
(appointed 31/03/2021)

John Porteous, Mercer Limited  
(resigned 31/03/2021)

### **Auditor**

PricewaterhouseCoopers LLP

### **Bankers**

HSBC plc

### **Investment adviser**

Mercer Limited

### **Investment managers**

Legal & General Assurance  
(Pensions Management)

Northern Trust Company  
Royal London Asset  
Management

### **Custodian**

Northern Trust Company

### **Legal adviser**

Slaughter and May

### **Secretary to the Trustee**

Inside Pensions Limited  
(appointed 1 July 2020)

You can find out more about the Trustee Directors  
on the pensions website: [www.mycatpension.co.uk](http://www.mycatpension.co.uk)



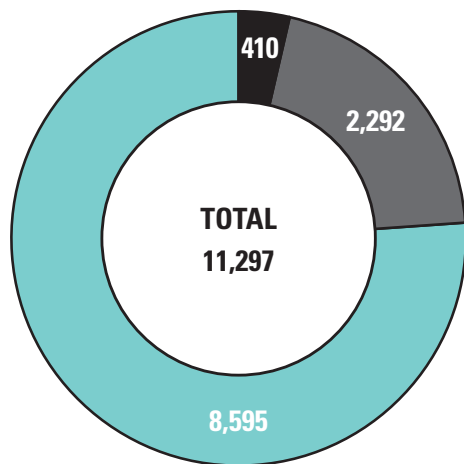


# WHO'S IN THE PLAN?

**On 31 December 2019, the DB Plan closed to future accrual so, as the chart shows, there are no longer active members building up benefits in the Plan.**

Our active members are now known as 'deferred active members', to indicate that they still work for the Company and retain certain rights while they are employed.

As at 30 September 2020, the membership included:



● DEFERRED ACTIVE MEMBERS    ● DEFERRED MEMBERS    ● PENSIONERS

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



# THE DB PLAN IN NUMBERS

As at 30 September 2020, the Caterpillar Pension Plan was worth £2 billion. Here is a summary, of the money paid into and out of the Plan during the year.

**DB Plan at the start of the year** **£2,205,642,000**

**IN** Total income **£5,794,000**

**OUT** Total expenditure **£248,249,000**

**+** Increase in market value of investments **£8,718,000**

**+** Investment income **£52,002,000**

**DB Plan at the end of the year** **£2,023,907,000**

## MONEY IN

Company contributions	£5,523,000
Member contributions	£223,000
Member voluntary contributions	£48,000
<b>Subtotal</b>	<b>£5,794,000</b>

## MONEY OUT

Pensions	£55,449,000
Tax-free cash sums at retirement	£10,168,000
Death benefits	£250,000
Transfers to other schemes	£175,945,000
Refund of members' AVCs and bonus sacrifice	£927,000
Administration expenses	£2,062,000
Taxation	£545,000
Investment premiums	£79,000
Investment management costs	£2,824,000
<b>Subtotal</b>	<b>£248,249,000</b>

# 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 2019, has been completed. It showed that the funding level improved between 2016 and 2019. As at 30 September 2019, the actuary estimated that the Plan was 101% funded on the ongoing basis

(up from 93% at the 2016 valuation). This means that the money in the Plan on that date (called the 'assets') covered all of the pension and benefit payments that have been promised to members (called the 'liabilities').

	Update 30 September 2020	Valuation 30 September 2019	Valuation 30 September 2016
Assets	£2,023.9m	£2,205.6m	£1,888.3m
Target level of assets to pay all pensions and benefits	£1,993.1m	£2,183.4m	£2,036.5m
Surplus / (Shortfall)	£30.8	£22.2m	(£148.2m)
<b>Funding levels</b>	<b>102%</b>	<b>101%</b>	<b>93%</b>



## **Why did the funding level improve between 2016 and 2019?**

The main reason for the improvement in the funding position between 30 September 2016 and 30 September 2019 was the level of investment return achieved by the Plan assets, which exceeded the rate assumed in 2016. The Company also made contributions towards the shortfall over the period, which improved the position.

## **How has the funding level changed since the 2019 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 2020 showed that the funding level had improved to 102%. This was despite the pandemic's impact on financial markets in the first quarter of the year. Investment returns since the valuation were higher than assumed, although this was offset by an increase in the value placed on the liabilities due to changes in financial markets. The Plan's funding level was also improved as a result of the high levels of transfer values paid by the Plan – £176m during the year under review – as this reduced the liabilities.

## **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 Trustee are thinking of winding up the Plan.

The Plan's actuary has estimated that, as at 30 September 2019, on a wind-up basis there was a shortfall of £265.7m (2016: £782.2m). This 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 2020, and the Pensions Regulator has not had to use its powers in connection with the Plan.

# PLAN NOTICEBOARD

## Planning your retirement soon?

Most of our members can take their Plan benefits once they reach age 55. Please be aware that the retirement process can take up to three months to complete – so it's best to start early. Here's what you need to do:

### Step 1

Contact the Pensions Administration Team in Peterborough to get the ball rolling.

### Step 2

We will send a retirement pack giving details of your pension options in the Plan.

### Step 3

Speak to an independent financial adviser, if you need to. You can find an IFA in your area on this website: [www.unbiased.co.uk](http://www.unbiased.co.uk)

### Step 4

If you decide to take your pension, fill out the forms provided within your Retirement Pack and return them to the Pensions Team. Please bear in mind it can take between 4 and 12 weeks for the team

to carry out the necessary checks and calculations to process your form. Please do send everything back as soon as you can, so that, where possible, we can have everything set up by your chosen retirement date. You will be required to send in your original ID verification such as a birth certificate or current passport. We advise that you send these to us via recorded delivery. We will return them to you by recorded delivery as soon as possible.

### Step 5

Your pension will be paid directly into your bank or building society account. If you retire part way through a payment period, you will receive payment of your pension on the next payment date for the number of days you have been retired.

### Step 6

Check your tax. Your pension is taxed as income under Pay As You Earn (PAYE). We will initially put you on an emergency tax code unless we have received your P45 or receive notification from HMRC of the correct tax code to use. If you are given a P45, it's important to send the relevant section to the Pensions Team as soon as possible. If HMRC adjusts your tax code, they will inform us. If you pay too much tax, you can claim it back through an annual Self-Assessment.

## Step 7

Remember to let us know if you move home during your retirement – for example, if you downsize. If the Pensions Team receives any returned mail from your address, your pension may be suspended until we are able to contact you. This helps to protect the Plan from pension fraud.

### Secretary to the Trustee

On 1 July 2020, the DB Trustee appointed Inside Pensions as Secretary to the Trustee. Inside Pensions is a specialist provider of executive and governance support to over 50 UK pension schemes, having been established in 2008.

The Caterpillar Team is Rachael Fortescue, Judith Codling, Lucy Blanchard-Burton and Chloe Taylor. Together they have nearly 75 years of pensions experience, which means they are able to help the Trustee to govern the Plan and make decisions for the benefit of the Plan's members.

## Think of your loved ones

If you are an active deferred member or recently started taking your Plan benefits (less than five years ago), please make sure your Beneficiary Nomination Form is up to date with your current circumstances. If you die within five years of starting to take your Plan pension, a lump sum may be payable to your beneficiaries. An up-to-date Beneficiary Nomination Form means that the Trustee can identify quickly and easily anyone you would like to receive any benefits that are due.

You can request a new form from the Pensions Administration Team in Peterborough, using the contact details on the back page. Remember, if you have benefits in the DC Plan, you'll need to complete a separate form for each plan.



# PLAN NOTICEBOARD (CONTINUED)

## Investment statements

Recent legislation requires that the Trustee make available to the member an 'Annual Implementation Statement'. The statement is designed to cover the Plan year to 30 September 2020, and the purpose of this statement is to demonstrate to the member how the Trustee has discharged its investment responsibilities. It:

- details any reviews of the Statement of Investment Principles (SIP) the Trustee has undertaken, and any changes made to the SIP over the year as a result of the review
- sets out the extent to which, in the opinion of the Trustee, the Plan's SIP has been followed during the year
- describes the voting behaviour by the Trustee, or by our investment manager on our behalf, over the year
- sets out the extent to which, in the opinion of the Trustee, the engagement policy under the SIP has been followed during the year.

For those who want to understand better how the Trustee is discharging its investment responsibilities, it is recommended that you read the Annual Implementation Statement, which can be found on our website alongside the SIP.

## Making difficult decisions

The Retirement Benefits Liaison Council (RBLC) comprises five groups that work with the Trustee to make decisions about the payment of death and ill-health benefits. They also comment on pension communications, help with pension projects, and assist members to find out more about their Plan. The RBLC groups meet on a quarterly basis.

The groups cover the following cities and regions:

- Peterborough
- Leicester
- North East
- West of England
- Northern Ireland



# PENSIONS NEWS

## Move from RPI to CPIH

The Government will change the way inflation is calculated, by replacing the Retail Prices Index (RPI) with the Consumer Prices Index that includes owner-occupiers' housing costs, known as CPIH. The way the two indices are calculated has meant RPI has been on average around 0.75% higher than CPIH over the past 10 years, although the actual difference varies year on year. The Trustee and its advisers will assess the impact of the proposed change on Plan members and update you in a future newsletter. It is not expected that the changes will take effect before 2030.

## Looking ahead at the LTA

The Lifetime Allowance (LTA) is the maximum amount of pension savings you can have at retirement from all pension schemes without incurring an additional tax charge. For the last three years, the LTA has risen annually with inflation as measured by the Consumer Prices Index and was due to increase again in April 2021. However, in the March Budget, the Chancellor announced that the LTA will be frozen at its current level (£1,073,100) until at least April 2026.

## How much are you going to need in retirement?

Check out [www.retirementlivingstandards.org.uk](http://www.retirementlivingstandards.org.uk), a website created by the Pensions and Lifetime Savings Association (PLSA) to help people understand what they need to save to achieve a basic, moderate or comfortable retirement.

The PLSA's research shows that only 23% of people understand how much they need to save. As part of their research, they asked consumers for their views on how much they would need to live on in retirement. This suggested that a single person will need £10,000 each year as a minimum income, £20,000 for a moderate standard of living and £30,000 to be comfortable. For couples, the equivalent numbers are £15,000, £30,000 and £45,000 each year.

# PENSIONS NEWS (CONTINUED)

## Pensions dashboards

Last year, Covid-19 halted progress of the new Pension Schemes bill through Parliament as emergency health measures needed to be hurried through. However, the bill has now become law (February 2021) and includes long-awaited rules for the proposed pensions dashboards, which will allow people to access their pensions information online, securely and all in one place. Dashboards, now scheduled for 2023, aim to provide clear information about an individual's multiple pension savings, including the State Pension and help people locate any lost pensions.

## Minimum pension age to increase?

The Government has launched a consultation over its plans to increase the minimum pension age (the earliest age at which you can draw your pension unless you are in ill health) from age 55 to age 57 in 2028. This increase to the minimum pension age would be in line with the increase in State Pension Age to 67. In the consultation, the Government says it believes that schemes should be free to decide how and when to move to the new minimum pension age – meaning some schemes could increase the minimum age before 2028. However, how this would work in

practice, especially for schemes that have different historic minimum pension ages for different members, is not yet clear.

## GMP equalisation

In last year's newsletter, we told you about a High Court ruling on Guaranteed Minimum Pensions, commonly called GMPs. GMPs were accrued at different rates for men and women and were payable at different ages, reflecting the State Pension Age for men and women at the time. It may affect you if you were an active member of the Plan between 17 May 1990 and 5 April 1997.

The guidelines that we have been waiting for on how GMPs should be equalised have now been released, and we are working with our advisers on the complex process of checking and adjusting benefits.

You do not need to take any action as we will contact you if this affects you.



## Overseas pensioners

If you are a Plan pensioner living in the EU/EEA, and you have been advised by your bank that the account which receives your pension has been closed, please contact the Pensions Administration Team with updated details so they can ensure your pension continues to be paid without disruption.

## Think twice before transferring

If you're thinking about transferring your benefits out of the Plan, you will receive a letter written by The Pensions Regulator (TPR), warning you that it may not be in your best long-term interests.

Since 2015, pensions freedoms have given scheme members more flexibility in how they can access their pension. Many have taken advantage of this flexibility and in 2019 £34 billion was transferred from schemes like ours. Last year, the Trustee paid out £176 million in individual transfer values from this plan. However, with Covid-19 causing market volatility and uncertainty for businesses and personal finances, pension members could be at risk of making knee-jerk decisions which impact their pensions.

The letter highlights the importance of making sure that any decision to transfer-out is taken very carefully and with the benefit, where appropriate, of independent advice.

The Regulator's letter will also point you towards free, impartial guidance available from The Pensions Advisory Service. The Financial Conduct Authority also has useful information on how to avoid pension scams:

[www.fca.org.uk/scamsmart/how-avoid-pension-scams](http://www.fca.org.uk/scamsmart/how-avoid-pension-scams)



# CONTACT US

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

**Call us:**  
01733 584777

**Email us:**  
ukpensions@cat.com

**Website:**  
[www.mycatpension.co.uk](http://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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