Autumn 2023

Cummins UK Pension Plan

Pension news

For defined benefit (DB) members

Welcome

Welcome to the autumn issue of *Pension news*, the newsletter for defined benefit (DB) members of the Cummins UK Pension Plan.

Our new Plan website is about to be launched. It includes everything you need to know about the Plan and saving for your retirement. As well as a great new design, there's a dedicated section for DB members so you can understand how your final salary benefits work, find out how to give your pension a boost as well as plan ahead for a successful retirement. Please see the enclosed leaflet for more details.

We're pleased to confirm that our new drawdown transfer offer is now available as one of the options you can select when choosing how to take your AVCs (if you have them). Provided by Legal & General, it's called the L&G Mastertrust Pension Access Scheme, and you can read more about this on page 4.

The Plan actuary has provided an annual funding update of the Plan's position as at 1 January 2023, which you can read in the summary funding statement on page 12. This follows an overview of the Plan's finances on page 9.

Finally, thank you to everyone who reviewed their nomination of beneficiaries as part of this year's Nomination Day in July. Knowing who's important to you is important to us, and it's excellent news that more than half our membership has an up-to-date nomination in place. If you haven't reviewed yours yet, you can do so at any time by logging in to your account via **Manage my pension**. It only takes a few minutes. If you're having problems logging in, please contact Isio (the new name for Premier – see page 4) using the details on the back page.

Nichola Moore
Chair of the Trustee

In this issue

Plan noticeboard

Premier becomes Isio

In last autumn's issue of ² Řů'Ygéů ůŘ`` 'Y, we told you that Premier, the Plan administrator, had become part of Isio, and that you may start to see new branding on some of the communications you might receive directly from them.

From 1 October 2023, Premier became known as Isio. Nothing has changed in terms of the administration team looking after the Plan, and you'll continue to receive the same levels of service that you're used to. The change is simply to the name of the administrator and their branding. We've updated the contact details shown on the back page of this newsletter to reflect the new name. Aside from this, it's business as usual.

Flexible access to your AVCs

In our spring newsletter, we told you that a new drawdown transfer offer would soon be available to members at retirement. We're pleased to confirm that this is now one of the options you can select when choosing how to take your AVCs.

Flexible income drawdown is an investment arrangement designed specifically for pension savers. It lets you dip into your retirement savings and take out money when you need to, while keeping the rest invested. The new drawdown transfer option, provided by Legal & General, is called the L&G Mastertrust Pension Access Scheme. While the Trustee isn't recommending this over any other option, it might be suitable for you if you're thinking about investing your AVCs in a drawdown arrangement but don't want to make your own choice from the market.

You can find out more at **bit.ly/3G8aVTh**

Cyber risk and resilience

Cyber-attacks can affect individuals, companies and even governments – and the pensions world is not immune. Pension schemes hold large amounts of data and assets which can make them a target for criminals and fraudsters. You may have seen media reports of recent breaches at a number of well-known company pension schemes following a cyber-attack on Capita, a third-party pensions administrator.

As you know, Capita was our former Plan administrator before we moved to Premier in January 2020. Unfortunately, the data for a small group of our pensioner members was compromised in the recent data breach. These members have been informed and action has been taken to protect them from the implications of this attack.

We are, however, thankful to report that no active or deferred members of the Plan, and no pensioners who have retired since 1 January 2020 have been affected, as no historic data for these members was held by Capita following the transfer of administration services to Premier.

The Trustee takes cyber security extremely seriously and includes cyber risk on its risk register, which is reviewed and updated regularly. The Plan has internal controls in place to identify and minimise the risk of a cyber incident occurring.

Benefit statements

Your annual benefit statement was issued to you over the summer. Please remember to take a look at this important document, which provides a snapshot of your pension value and explains in today's money how much your pension will be by the time you retire. You can also check your pension value at any time online by logging in via **Manage my pension**.

TCFD report published

New rules require the UK's largest companies and financial organisations to report on their climate-related risks and opportunities, as part of the government's commitment to making the UK financial system the greenest in the world.

As a long-term investor, the Trustee is acutely aware of the Plan's climate change responsibilities and has produced its first climate change report, describing how the Plan identifies, assesses and manages the opportunities and risks presented by climate change.

If you'd like to see the report, you can find it on the Plan website.

In the pipeline

Normal minimum pension age

We mentioned in our autumn 2022 newsletter that the government is raising the minimum pension age from 55 to age 57 with effect from April 2028. While this is still some way off, it may affect some of our members who are approaching this age and have plans to retire early. We'll be writing to you with further details in the coming months if this change will impact you.

Pension matters

Changes to pensions tax allowances

Increase in the annual allowance

Paying into a pension scheme is a tax-efficient way of saving for retirement. However, the government places a limit on the amount of pension contributions you can make in a year that get tax relief. This is called the annual allowance (AA) and, in April 2023, it increased from £40,000 to £60,000. There are some exceptions to this standard AA:

- If you have an annual income over £200,000, with an adjusted income of more than £260,000, your AA may be reduced and it could be as low as £10,000. This is called the tapered annual allowance (TAA).
- If you've already accessed any pension savings flexibly, you'll have a restricted AA called the money purchase annual allowance (MPAA). From April 2023, this increased from £4,000 to £10,000.

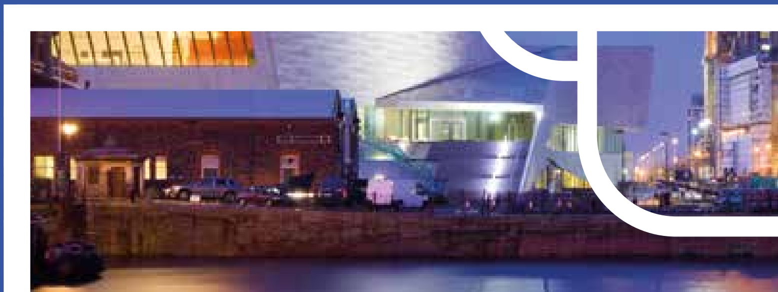
Removal of the lifetime allowance

The government has previously placed a limit, called the lifetime allowance (LTA), on the total amount of tax-free pension savings you could build up over your lifetime. From April 2023, the tax charge for exceeding the LTA has been removed, and the LTA itself will be abolished in April 2024, subject to legislation.

Thinking of taking some tax-free cash at retirement?

When you take your benefits, you can choose to take a tax-free cash lump sum of up to 25% of the value of your pension pot. A limit of £268,275 now applies to this lump sum.

In some circumstances, the value of your tax-free lump sum limit may be higher than this if you've previously applied to HMRC (before March 2023) for 'pension protection'.



Early pension release scams

Pension scams often involve attractive offers that aim to persuade you to transfer your pension pot (or release funds from it). You should be very wary of any scheme offering to help you release cash from your pension before you're 55. It's almost certainly a scam.

Generally, you can only take money from your pension when you're 55 (rising to 57 in 2028) or older, except in certain cases such as poor health. Offers to access your pension early may be called 'pension liberation' or a 'pension loan', as the scammers often claim you can borrow money from your pension fund. **You can't**.

If you take up the offer, your pension savings will be transferred into a scheme set up by the scam, which will often be based abroad. You may be 'loaned' an amount (often around half of your pension), with the company involved taking a fee, sometimes as much as 30%.

You could also face a tax bill of 55% on what you withdraw, even if:

- you didn't realise you'd broken the tax rules
- you put the money back in your pension
- you've paid fees or charges to the company involved
- you've spent all the money.

Once you've paid the fees and tax, any money remaining will then be invested in high-risk products or projects, like overseas property developments. Sometimes it's simply stolen outright.

To find out more about pension scams and how to protect yourself, see the Financial Conduct Authority's website at **www.fca.org.uk/scamsmart**.

Dashboard delay

The government has announced a further delay to the pensions dashboard project which is now not expected to launch until October 2026. Staging dates for pension schemes to join the complex programme will be set out in guidance rather than by legislation, allowing the government and the pensions industry to work together more flexibly.

Running the Plan

The Plan is looked after by a Trustee board, which has 13 directors: some are appointed by the Company and some have been nominated by the Plan's members. The Trustee has three sub-committees, focusing on the key areas of communications, governance and investment.

Your current Trustee directors

Anthony Waller

Emily Chapman*

Gloria Griesinger

Ian Smith*

James Guilfoyle

James Guyett*

Lisa Thornton

Martin Bruniges*

Natalie Morton*

Nichola Moore, Chair

Paul Bennett

Stephen Coughlan

Stuart Stubbings*

*member-nominated directors (MNDs)

Accounts and amounts

The year at a glance...

As at 31 December 2022, the Plan was worth **£1 billion**

The Plan paid benefits to members worth **£41.6 million**

Financial highlights

	2022 £'000	2021 £'000
Plan value at the start of the year	**1,787,223**	**1,722,597**
Money in less money out	(28,709)	(8,230)
Change in market value	(713,009)	72,856
Plan value at the end of the year	**1,045,505**	**1,787,223**

Money in

	2022 £'000	2021 £'000
Contributions	3,666	22,957
Transfers and other income	466	449
Investment income	16,535	14,077
Total	**20,667**	**37,483**

Money out

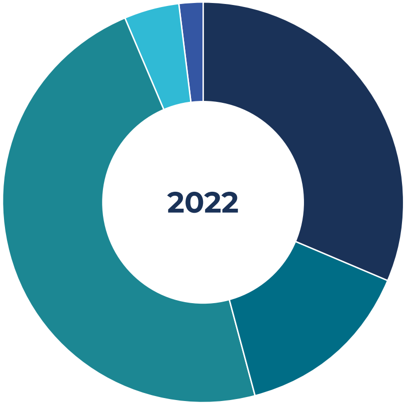
	2022 £'000	2021 £'000
Benefits paid to members	(35,516)	(33,603)
Payments to leavers	(6,081)	(3,905)
Transfers out	(5,316)	(5,390)
Administration expenses	(2,851)	(2,749)
Transfers from the DC Section	388	(66)
Total	**(49,376)**	**(45,713)**

Who's in the Plan?

	2022	2021
Active members	**548**	566
Deferred members	**1,179**	1,260
Pensioners	**4,342**	4,397
Total members	**6,069**	6,223

Where are the assets invested?

The chart shows the allocation of the Plan's assets as at 31 December 2022.



	2022	2021
Equities	0.0%	12.1%
Real estate	0.0%	0.9%
Private equity	31.4%	16.3%
Fixed income	14.5%	11.2%
Liability matching	48.0%	51.6%
Alternatives	4.4%	7.0%
Cash	1.8%	1.2%

Figures may not sum to 100% due to rounding.

Summary funding statement

This statement explains the funding that supports your benefits in the DB Section of the Plan. It tells you about the longer-term outlook for the DB Section and the substantial financial support the Company provides.

The latest position

A full valuation of the Plan is usually carried out every three years, with annual updates being completed in the intervening years. The valuation compares the value of the Plan's assets with the amount of money that's expected to be needed to provide members' benefits. Any shortfall between the amount held and that which is needed is then met by the payment of extra contributions from the Company.

The table shows the results of the most recent formal valuation of the Plan as at 1 January 2021 and the subsequent annual updates as at 1 January 2022 and 2023.

	Update 1 January 2023	**Update 1 January 2022**	**Valuation 1 January 2021**
Value of assets*	£1,034.5m	£1,776.2m	£1,713.2m
Amount needed to provide benefits (liabilities)	£1,009.2m	£1,619.9m	£1,650.2m
Surplus	£25.3m	£156.3m	£63.0m
Funding level	103%	110%	104%

*Not including additional voluntary contributions or DC Section assets.

Changes since the previous statement

The funding level reduced during the year from 1 January 2022 to 1 January 2023, mainly because there was a greater reduction in the Plan's assets compared with the reduction in the liabilities. The value of both the assets and liabilities fell due to the significant rise in government bond yields in 2022. However, the fall in the Plan's liabilities was not as great as the fall in the assets, in part due to recent high levels of inflation, which have led to greater pension increases than expected.

How is my pension paid for?

The Company pays regular contributions into the Plan to meet the cost of pensions and other benefits that will become due in the future – for example, as and when people retire. Active members are also required to contribute to the cost of their benefits by making contributions directly from their pre-tax pay or via SMART (the salary sacrifice arrangement). The Plan has both a DB Section and DC Section. Unlike the DC Section, members of the DB Section don't have individual accounts. Instead, the money paid into the Plan is held in a common fund which the Trustee manages on behalf of all the DB members.

How do you work out how much the Plan needs?

The Trustee obtains regular formal valuations of the Plan to estimate the value of the benefits that members have earned up to the date of the valuation. Using this information, the Trustee comes to an agreement with the Company on the levels of contributions that need to be paid to help ensure that the Plan has enough funds available to pay the benefits promised to members when they are due.

The importance of the Company's support

One of the Trustee's main objectives is to have enough money in the Plan to pay pensions both now and in the future. However, the success of the Plan relies on the support of the Company because:

- the Company will be paying the future cost of running the Plan on an annual basis
- the funding level can fluctuate and at times when there's a shortfall of assets, the Company will usually be required to pay more into the Plan
- the target funding level may not turn out to be enough so the Company may need to put more money into the Plan.

Company contributions in respect of future accrual

The Company made a payment of £65 million during February 2023 to cover the cost of future benefit accrual, ongoing running costs of the Plan and the cost of PPF levies over the period from January 2022 to December 2024. In addition, the Company will also pay any contributions that are due in respect of members participating in SMART pensions and any life assurance premiums (paid directly to the insurer, rather than through the Plan).

The Company continued making contributions to cover the above costs in line with the 2018 valuation agreement up to 31 December 2021 (where future benefit accrual was equivalent to 53.6% of pensionable salaries). The contributions will be reviewed at the next full actuarial valuation, which must take place no later than 1 January 2024.

Payments to the Company

In accordance with legal requirements, we can confirm that there have not been any payments to the Company out of Plan funds since the last summary funding statement, nor has the Pensions Regulator used any of its powers in relation to the funding of the Plan or benefits provided by it.

What would happen if the Plan was wound up?

Please note that we've included this information because we're required to do so by law – it shouldn't in any way be taken to imply that the Company is intending to wind up the Plan. It's both the Trustee's and the Company's intention that the Plan should be continued on an ongoing basis, with pensions being paid in full to members as and when they reach retirement. In the unlikely event that the Plan was wound up, benefits would be secured by buying insurance policies with an insurance company.

The solvency position

The valuation at 1 January 2021 also looked at the position of the Plan if it had been wound up and the benefits secured by buying annuity policies with insurance companies. If this were to be the case, the estimated shortfall at 1 January 2021 was around £247 million. At 1 January 2023, the estimated shortfall had reduced to £58 million. This shortfall reflects the fact that insurers are obliged to take a more cautious view of the future and need to make a profit.

There's also a safety net that provides some level of compensation for members who are in the unfortunate position of being in a pension scheme that's being wound up with insufficient assets. Very broadly, the safety net, which is known as the Pension Protection Fund (PPF), provides members who haven't yet retired with 90% of their expected benefits and 100% for anyone who is over normal retirement age. Future increases to pensions are also at a lower level in the PPF.

As the Plan's assets are likely to have covered the PPF liabilities as at 1 January 2021 but were less than the estimated cost of securing benefits with an insurer, the Plan would probably not have qualified for entry into the PPF had the Company become insolvent at 1 January 2022, in which case members would have received more than the PPF level of benefits.

Further information and guidance are available at **www.ppf.co.uk**

Get in touch

If you have a question about the Plan or your benefits, please get in touch with Isio, the Plan administrator.

Call us:
0800 122 3266
+44 (0)203 3722 113 (from overseas)

Email us:
cummins.helpdesk@isio.com

Write to us:
Isio
PO Box 108
Blyth NE24 9DY

Plan website:
www.cumminsukpensions.co.uk

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