Pension news

for defined benefit members

February 2022

Cummins UK Pension Plan

Welcome

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

I'm pleased to announce the launch of our new pensions video, which provides a four-minute overview of how the defined contribution (DC) Section works and the benefits of saving more. If you don't already save AVCs, which are invested on a DC basis, take a look to see how easy it is. Active members can find more details on the enclosed card.

We're currently in the process of recruiting a member-nominated Trustee (MNT) to replace Jack Finlay who stepped down in December 2021. We thank Jack for his hard work on behalf of the Plan's members. Once again, we've been delighted to receive such a strong group of candidates, and we'll confirm in the coming weeks who has been appointed on the Plan website.

Finally, the Plan actuary has completed the latest actuarial valuation of the Plan, looking at the position as at 1 January 2021, when the Plan had a funding level of 104%. You can read the results of the valuation and how the position has changed since the previous one in the summary funding statement on page 12.

Nichola Moore
Chair of the Trustees

In this issue

Plan noticeboard

Check your AVC investments

One of the great things about saving regular AVCs is that it happens automatically each month, so your AVC fund quietly builds up in the background. However, this means it's also easy to forget to check what's happening with your investments and make sure you're on the right track.

An annual review is good, especially as you get closer to your target retirement age, but if you're using the Plan's lifestyle investment strategy, here are the important milestones you must look out for.

The Plan's lifestyle strategy: key milestones

Time to retirement	Action
20 years	This is when automatic investment switching begins to gradually reduce risk. Is this right for you or do you want to select your own investments* instead?
10 years	It's time to think about how you'll want to take your money. If you've already decided, you can choose a targeted lifestyle strategy to match.
2 years	Make a plan for when you stop working. As well as your finances, it's good to start thinking about your new life in retirement, including your home, family and leisure time.

*Please note that if you select your own investments, you'll need to be checking them on a regular basis and not just once a year.

Look out for your benefit statement

Later this year, we'll be issuing your benefit statement. This is a useful measure of where you are in your financial planning for retirement. It gives you a snapshot of your pension value and explains, in today's money, how much your benefits could be by the time you retire.

Update your nomination

Following our nomination day campaign last July, many members have been reviewing and updating their nominated beneficiaries. If you still need to check yours, make sure you do it today. Simply go to the Plan website **www.cumminsukpensions.co.uk** and log in via **Manage my pension**.

In the pipeline…

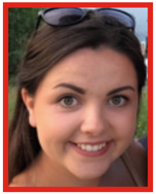
As reported in our October 2021 issue of *Pension news*, we'll be improving security when you log in to your online account. We're introducing multi-factor authentication to replace the memorable word currently in use. Each time you log in, you'll get an authentication code on your phone or by email. Please look out for further information about this in the coming months.

What's your view?

We're keen to know what you think about our Plan communications. Later this year, we'll be running a survey to find out more about your communication preferences and the way you like to receive information from the Plan.

Meet our new **MNTs**

We welcomed our newest member-nominated Trustees (MNTs) to the Trustee board in September 2021. Here, we find out a bit more about them.



Emily Chapman

Emily initially joined Cummins as a placement student and then returned as a finance graduate in 2018. In 2020, she moved into her current role as a financial analyst for Cummins Power Generation.

She's enjoying being an MNT and says, 'It's a great team to work with and I'm getting to interact with people across the Company and gain in-depth knowledge of a subject which will be useful throughout my life. There's a lot to learn, but the team is extremely supportive and there's a well-structured training programme. I've also joined a sub-committee which meets quarterly, but the meetings are planned for the year in advance so there's plenty of time to organise my workload.

Working in finance, I've always been aware of pension schemes, however, when I think about how much money everyone pays in each month, I realised that becoming an MNT would be useful not just for my own but for other members' future too. So far, I'm finding it a very interesting subject and am looking forward to developing my knowledge.'

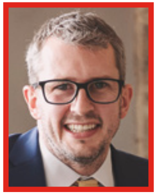
Ian Smith

Ian recently became a pensioner member of the Plan, having retired in 2020. He worked for Cummins between 1995 and 2000, as divisional finance director for Holset Turbos (Cummins Turbo Technologies). As a teenager, work experience in a small Chartered Accountants' office inspired Ian's career. He always wanted to work in a business that made 'things' and, because of his love of team sports, be part of a team.

'I'm thoroughly enjoying the role, and while Covid has restricted contact with other Trustees to Zoom meetings and telephone calls, I'm looking forward to being able to join face-to-face meetings when they resume. I've found that the Plan is in good hands with a very professional Trustee board.

Over my career, I accumulated both DB and DC benefits from previous employers, so when I retired, I had to think about what to do with each element – a process that presented me with some challenges and important decisions.

For me, retirement isn't about switching off, it's just a new phase of life. I volunteer as a Covid vaccinator and work in youth cricket and golf. Becoming an MNT has given me the opportunity to continue learning and share my pension journey for the benefit of all our members. Hopefully, my experience as a deferred member and then a pensioner will be useful and bring a different perspective.'



James Guyett

James has worked for Cummins since 2011 and is currently a senior demand planner. As a child, like most boys, he wanted to be a footballer but once he realised that wasn't going to happen, he wanted to be a pilot – but that's not materialised yet either!

'It's been great to join the team who've all been really welcoming and on-hand to give me background into certain areas I'm not sure on. One thing I've been pleased about is the amount of expert support the board gets from lawyers, actuaries and investment analysts to name a few. You don't have to know everything from all areas of pensions, and the information and feedback they give is invaluable.

The main reason I wanted to be an MNT was to educate our members, especially those just starting their careers, about pensions and the benefits of investing early, the tax benefits and thinking about the future. I know pensions can be boring to a lot of people, but a little bit of thought early on can have a huge impact.

Being an MNT doesn't take up as much time as I was anticipating. There's pre-reading before the meetings but completing that means the meetings run at a good pace once everyone is up to speed on things. There are a lot of finer details that I'm starting to learn about now, but it's been done in a well-structured way through the team. There's a toolkit from the Pensions Regulator that gives a great background to what being a Trustee means and the expectations.'

Running the **Plan**

The Plan is looked after by a Trustee board which has 14 directors: seven appointed by the Company and seven who are nominated by the Plan's members.

Anthony Waller
Bernadette Daley
Emily Chapman*
Gloria Griesinger
Ian Smith*
James Guilfoyle
James Guyett*
Lisa Thornton
Martin Bruniges*
Natalie Morton*
Nichola Moore, Chair
Paul Bennett
Stephen Coughlan*
vacancy*

*member-nominated Trustees

The Plan has three sub-committees which focus on communications, governance and investment.

- **Communications sub-committee (CSC):** provides clear, engaging pensions information to members. It includes members from most of the UK sites.
- **Governance sub-committee (GSC):** ensures that the Trustees' processes comply with the Pensions Regulator's expectations, legal requirements and good business practice.
- **Investment sub-committee (ISC):** advises the Trustees on strategic investment, risk management and covenant issues. It reviews the providers we use to help us.

Have you made **your will?**

If you're thinking, *I've got nothing worth leaving*, or *I'm not old enough*, you're mistaken. If the unthinkable happened tomorrow, what would be done with your bank accounts and savings, your possessions, your car and your property (if you own a home)? You don't have to be rich or old to make a will.

If we think about it at all, making a will is something many of us tend to put off. Maybe it seems complicated or, more likely, we don't want to think about our own mortality. However, if you make a will, you can decide what should be done with your possessions, money and property after you die. It makes things easier for the people who'll need to sort out your affairs, and you can also reduce the amount of inheritance tax that might be payable.

Where there's no will

If you were to die without a will, this is called 'intestacy', and the law then decides who inherits – which may not be the people you would choose. Everything becomes a lot more complicated at what is already a difficult time for your family and loved ones.

Writing a will

Writing a will can be simple. If your affairs are straightforward, you can do this yourself using DIY will-writing packages. To make sure it's legal, your will needs to be in writing, signed and witnessed. Alternatively, you can get a solicitor to write it for you, especially if your situation is more complicated.

Free wills month – March 2022

Free wills month is an annual campaign in England, Northern Ireland and Wales that takes place in March and October. A group of charities offer people aged over 55 the opportunity to get a simple will written or updated free of charge by one of the participating solicitors.

You can find more details and register for the next one (availability is on a first come, first served basis) at **www.freewillsmonth.org.uk**

Pensions **news**

Transfers & protecting members from scams

The Pensions Regulator has introduced new procedures for processing pension transfers, giving powers to pension scheme trustees to intervene, where a transaction looks suspicious. While not all scams can be prevented, these procedures will help the Trustee and Premier to identify high-risk transfers or stop potential scams.

The new regulations include checks to see if transfers meet the following conditions:

- the receiving scheme is either a public service pension scheme, an authorised master trust or an authorised collective defined contribution (CDC) scheme
- if the receiving scheme is not one of the above mentioned, additional checks must be carried out to assess the level of risk and for the presence of red and amber flags.

If there are red flags, there's no statutory right to transfer, and the Trustee can stop the transfer. If there are amber flags, the member must get guidance from MoneyHelper before the transfer can go ahead.

Have you had to work from home?

Almost 800,000 employees who worked from home during the pandemic have claimed tax relief on household-related costs, according to HMRC. The saving is worth up to £125 a year and eligible workers can claim the full year's entitlement if they've been told to work from home by their employer, even if it has been for one day during the tax year. HMRC will adjust backdated claims for up to four years. It's quick and easy to check if you're eligible and apply online. Go to **www.gov.uk** and search for 'Working from home tax relief'.

Dividend tax to rise

From April 2022, the government will increase the rate of tax paid by people who receive income from dividends paid through shares by 1.25%. However, shares held in individual savings accounts (ISAs) aren't subject to the dividend tax.

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.

Actuarial valuation as at 1 January 2021

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 assets that are held with the amount of money that it is expected will 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 below shows the results from the most recent formal valuation of the Plan as at 1 January 2021 and the previous valuation as at 1 January 2018.

	1 January 2021 £ million	1 January 2018 £ million
Value of assets*	1,713.2	1,450.6
Amount needed to provide benefits (liabilities)	1,650.2	1,377.0
Surplus	63.0	73.6
Funding level	**104%**	**105%**

*not including additional voluntary contributions or DC Section assets.

The main reason for the slight fall in the funding position over the three-year period since the 2018 valuation was an increase to future CPI inflation expectations, along with the introduction of a reserve that takes account of additional benefits that may be due in order to correct for the unequal gender effects of guaranteed minimum pensions. These factors were partially offset by differences between what actually happened to the Plan membership as a whole over the last three years compared to the actuarial assumptions adopted for the 1 January 2018 valuation, and a slight reduction in how long members are assumed to live.

Changes since the previous statement

Your previous summary funding statement showed the Plan to be in surplus, with a funding level of 106%. Therefore, there has been a fall of 2% over the year from 1 January 2020 to 1 January 2021, which was mainly due to the factors set out above in relation to the actuarial valuation as at 1 January 2021.

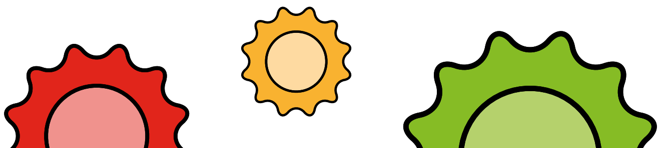
How is my pension paid for?

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 a 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 board manages on behalf of all the DB members.

How do you work out how much the Plan needs?

The Trustee board 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.



Summary funding **statement** (continued)

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 is a shortfall of assets, the Company will usually be required to pay more money into the Plan
- the target funding level may not turn out to be enough so that the Company will need to put more money into the Plan.

Company contributions in respect of future accrual

It was agreed that the Company will make 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 it 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 as 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.

This is higher than the figure shown on page 12, reflecting 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 90% of benefits for members who haven't yet retired 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 Section 179 (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 to the PPF had the Company become insolvent at 1 January 2021, in which case members would have received more than the PPF compensation.

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 Premier, the Plan administrator.

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

Email us:
cummins.helpdesk@premiercompanies.co.uk

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Blyth NE24 9DY

Plan website:
www.cumminsukpensions.co.uk

Have you recently moved house?

Remember to update your personal details online if you move house or there are any other changes you need to tell us about (active members should contact HR).

FSC Logo to go here