

# PLAN AHEAD

Eaton UK Pension Plan  
August 2020

## Inside...

Pensions and Covid-19

Beware of scams!

Your view – 2019 survey results

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

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# Welcome to the 2020 Plan Ahead

I hope this finds you and your families safe and well.



With lockdown easing, the full effect of Covid-19 on our lives has still to become apparent. Due to Covid-19, the Trustees have worked virtually much more this year. As ever our main focus has been on protecting the Plan and its members.

**Helping you:** Our administrators, Willis Towers Watson, have contingency plans that have worked well. However, they will be working from home for some time yet, and are still prioritising critical work. Please allow more time for replies if you do need to get in touch!

**Beware of scams:** Scammers are using Covid-19 as an opportunity to cheat people out of their pension savings and there are more reports of attempted pension scams. So, please be on your guard! You can find more information on page 15.

The Trustees suspended transfers out of the Plan for a couple of months, when investment markets were at their most turbulent. This suspension is now lifted, but please continue to be wary of cold calls and 'too good to be true' returns. We want you, not a scammer, to benefit from the Plan.

**Investment volatility:** Like many pension plans, after a good year for investments in 2019, the value of the Plan's assets was hit in March. However investment falls are nothing new and the Plan invests for the long term. It is managed to account for some volatility in its day-to-day running including careful cash management, so Plan pensions continue to be paid in full.

Pensions being earned by current Plan members are linked to your salary and years of membership, so are also not directly affected by market falls. If you have AVCS, an MPA or an IMA from Aeroquip Vickers service, your account value may have fallen, and we comment on this later in this update.

**Rachel Brougham,**  
BESTrustees Limited  
Chair of Trustees

**Plan funding check ongoing:** As part of the running of the Plan the Trustees carry out regular reviews of its financial position. Currently a full valuation, comparing the Plan's assets with the cost of providing benefits, is underway as at 31 December 2019. We will let you know the results in the next Plan Ahead.

**Changes to the Board:** Our Trustee Board said goodbye to Angela Hayes-Sinclair, who stepped down as a Trustee at 31 December 2019. We also bid farewell to Bill Wright who stepped down as a Trustee as at 4 October 2019. I would like to thank both Angela and Bill for their contribution to running the Plan and their work on behalf of all members of the Plan.

If you have any feedback about Plan Ahead or any questions for the Trustees then we would very much like to hear from you. Please contact us via the administrators whose details are on the back page.

**New Trustees:** I am pleased to welcome Simon Vargeson (appointed by the Company) and Russell Thorneycroft (appointed by our members) to the Board. Visit [www.eatonukpensionplan.co.uk](http://www.eatonukpensionplan.co.uk) to meet Simon and Russell and find out more about the Trustees.



Simon Vargeson



Russell Thorneycroft

**The results are in:** Thank you to all of you who took part in our survey last year. See page 12 for the results!

# Talking about Plan funding

– interview with Richard Akroyd



## What's your role as the actuary to the Plan?

My main role is to help the Trustees manage the Plan's finances. For example, I advise the Trustees on the Plan's funding position so that they can agree with Eaton how much it should pay in to cover the pensions being earned by members today, and to make sure there is enough money to pay pensions now and in the future.

I also support the Trustees in many aspects of the day-to-day running of the Plan, such as helping to set the terms for early or late retirement, for exchanging pension for cash, or transferring Plan benefits.

## How long have you been advising the Plan?

I've been advising the Trustees of the current Eaton UK Pension Plan and some of the Plans which form part of it for over 20 years.

## How has Covid-19 affected Plan finances?

Like many UK pension schemes, the value of the Plan's assets fell as the effect of Covid-19 was felt in the investment markets, although at the time of writing (the middle of June) most of this loss has been recovered. But you have to remember that the Trustees are investing for the long-term and the pensions and other benefits the Plan pays each year is only a small proportion of its overall assets.

## How's the 2019 valuation looking?

We are still working on this and are at the stage of discussing the preliminary results with the Trustees and the Company, and what this means for the future funding.

Because we are in the middle of the valuation, Plan Ahead doesn't include a funding update this year. The valuation should be completed later this year or in early 2021 and I will be able to say more about this in next year's Plan Ahead.

## Will it take into account this year's crisis?

Yes, we will be thinking about how the Covid-19 crisis will affect the Plan. However, remember that it is still early days and society is still working towards a return to full normality. What will be more important for the Plan funding is how the economy recovers from the crisis, and hence the return the Trustees' get on the Plan's assets in the future. The Trustees and Eaton will be considering different future scenarios as they consider the valuation results.

## How do you see the strength of Eaton's support of the Plan?

Over the 20 years I have worked with the Trustees of various Eaton Plans, what has always struck me has been the interest shown by Eaton's senior management in Cleveland in supporting Eaton's UK pension Plans and the investment of their assets. This includes:

- maintaining benefits for members when the Plan closed to new employees,
- making additional contributions to improve the funding over many years,
- providing a funding guarantee arranged through one of Eaton's companies separate from its UK businesses, and
- active participation in the Trustees' Investment Committee.

## Will the sale of the Vehicle sites, and the proposed sale of Hydraulics to Danfoss affect the Plan?

Not materially. These members still have a pension based on their service in the Plan up to leaving, although some may now decide to retire early or transfer their benefits to their new pension arrangement. However, you must remember that there are over 9,000 Plan members, of whom nearly half are already receiving their pension so these membership changes do not have a significant impact on the member profile.

# Interested in saving more for retirement?

Additional Voluntary Contributions (AVCs) are a tax-efficient way to save extra for your retirement.

You pay AVCs as a percentage of your monthly salary into an account which you invest. AVCs benefit from the same tax relief as ordinary contributions and are subject to the same tax rules as well.

You can take use your AVCs at retirement and use them in the same way as the remainder of your Plan pension benefits (to buy more pension or as tax-free cash).

Log on to [www.standardlifepensions.com/eaton](http://www.standardlifepensions.com/eaton) to find the value of your AVCs or MPA.

To start paying AVCs, or to move existing funds, please contact the Plan's administrators at [eatonpensions@willistowerswatson.com](mailto:eatonpensions@willistowerswatson.com)

Find out the performance of the AVC funds at [www.eatonukpensionplan.co.uk](http://www.eatonukpensionplan.co.uk)

## Other savings you may have under the Plan

You may also have a Money Purchase Account (MPA) if you were a member of the Eaton UK Retirement Benefits Plan before 1 January 1989.

You may be aware that money purchase benefits can be taken more flexibly than a final salary type pension. In order to access this flexibility, you must transfer your money purchase benefit (AVC or MPA) out of the Plan. The administrator can explain your options at the time that you are considering retirement.



# Dan's got a plan...

## Additional Voluntary Contributions explained

Dan is aged 50. His last child recently left home and he's just paid off a car loan, so his bank balance is now in the black most months. He's been thinking how to best use his 'spare' cash and how big his pension will be when he retires.

Dan's pension will be worked out using his salary close to retirement and the number of years he has been a Plan member. He checks his latest benefit statement and decides he might benefit from saving a bit more for retirement. Dan's salary is £40,000 and he aims to retire in 15 years' time at age 65.

Dan pays an extra **1%** of salary as AVCs into the Lifestyle strategy

**£400 a year**

Currently AVCs benefit from tax relief at your highest rate

**Cost to Dan**

**£320 a year**

**At age 65 in current money terms his AVC pot could be higher by around**

**£6,700**

**Which could buy extra pension of around £150 a year**

The AVC pension shown was estimated using the Statutory Money Purchase Illustration (SMPI) assumption at 6 April 2020.

We've assumed Dan's pension:

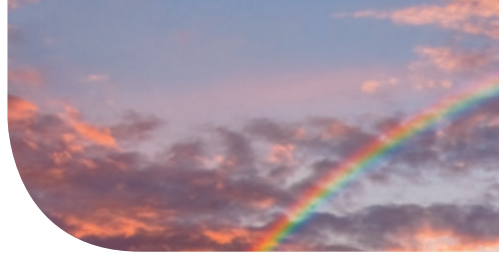
- increases in payment to offset the effects of inflation
- provides 50% of his pension to his spouse on his death.

The SMPI assumptions used are available at <http://www.eatonukpensionplan.co.uk/documents/ima-pension-assumptions.pdf>

Dan can use his AVC pot towards his tax-free cash. At retirement, tax rules allow members to take up to 25% of the value of pension benefits as tax-free cash. The Plan allows Dan to use his AVC pot for tax-free cash first, keeping more of his pension to provide a regular income.

Dan realises that his actual AVC pension will be higher or lower than shown, depending on the investment returns, his actual salary increases, the pension he buys and the cost of buying a pension when he retires.

# Looking after the Plan's investments



Your benefits are linked to your salary near retirement and years of service in the Plan. This means investment performance does not directly affect your pension, although the better the Plan's investment performance against the value of the benefit promises made, the more secure your pension will be. Investment performance does, however, directly affect any defined contribution investments you may have (AVCs, MPA and IMA). The Trustees, with the help of their advisers, monitor the markets closely and manage the Plan's assets accordingly.

## A good year for markets, but trouble around the corner

Over 2019 most major asset classes produced positive returns. This was in part due to low interest rates set by central banks. Investment returns were also helped by reduction in the political instability seen in 2018 (for example the easing of trade tensions between the US and China and the decisive December UK general election result).

The US stock market passed a significant milestone with yet another positive year marking its longest ever rise. Other regional equity markets also performed strongly.

While somewhat behind their US and European counterparts, UK equities delivered their best calendar year return in the last 6 years. With the UK continuing to enjoy low but positive economic growth and wage inflation, the Bank of England held the Base Rate steady while indicating its willingness to act should that be necessary.

That changed, much for the worse, in early 2020, as Covid-19 quickly spread across the globe and many countries imposed strict quarantine measures. Both supply and demand collapsed across multiple industries, and asset markets swung wildly. At the time of writing, we are awaiting further policy response in the UK and beyond.







## How this affected the Plan

2019 was a good year for the Plan's assets, seeing them produce a double-digit return and exceeding that of the benchmarks against which they are measured.

The Plan's equity investments benefited from the aforementioned strength founded on easier monetary conditions and hopes for improvements in the political and trade outlook.

The exposure to UK government and corporate bonds was also a major positive contributor. This reflected not only the maintenance of the low Base Rate but also the pushing back of the likely timing of any future rate rises and continued high demand from risk-averse investors for safe-haven assets. The Covid-19 outbreak sent the equity investments down sharply. However, safe-haven bond assets continued to rise, and this has provided some cushioning to date.

## Spreading our investments

Last year we reported that the Trustees had decided to diversify the investment strategy by funding three 'real asset' funds; a 'long-lease' property fund managed by Legal & General Investment Management, and two global infrastructure funds, managed by IFM and J.P. Morgan.

These investments have now been completed and will provide the Plan with different sources of returns over the long term.

The Trustees continue to work with their advisers and the Company on developing the investment strategy as both the Plan matures and the outlook changes.

## Investing responsibly

Responsible investment is the consideration of environmental, social and governance (ESG) factors as well as how well companies and investments are managed; it aims to improve returns and/or reduce risks.

Over the last few years, responsible investment has become increasingly high profile. The Trustees attended a training day to discuss and agree the Plan's responsible investment policy and their Statement of Investment Principles was updated accordingly.

The Trustees continue to monitor the Plan's investment managers in this regard, and review funds offered elsewhere which may enable them to better implement their beliefs in future.

# GMP equalisation

## What is it about?

Between April 1978 and April 1997 scheme members were contracted-out of the state pension and instead built up a Guaranteed Minimum Pension (GMP) as part of their pension benefits under the historic Plans.

## Why is it happening?

Since May 1990 schemes had to provide equal benefits to men and women. Whilst this has been done for total benefits, it was not clear until recently that GMPs, as an element of pension, also had to be 'equalised'. GMPs are different for men and women in two main ways:

- Women earned GMP at a faster rate than men.
- Women can take their GMP from age 60, but men can only take their GMP from age 65.

## Is my pension being checked?

If you were in the Plan between 17 May 1990 and 5 April 1997, we will be checking your pension to see if it needs to be equalised.

## When will any adjustments be made?

The calculations are complex for most people, so it will be some time before we can tell you what the effect is on your benefits – for some people there will be no impact. We hope to be able to confirm any changes by late 2021.

## Protection for Individual Member Accounts

If you worked for Aeroquip Vickers, you may have an Individual Member Account (IMA). This account has a minimum level of pension (known as an underpin) that the Trustees have to provide regardless of the value of your IMA. This underpin is also linked to a GMP so it will also have to be reviewed as part of the equalisation process.

The complex nature of this underpin has implications for when and how you can put your IMA benefit into payment. The administrators will explain these to you when you request a retirement quote.

# Help us to protect your dependants

Last year the Trustees had 18 deaths where benefits were due to be paid to a member's dependants or other beneficiaries. A number of these cases did not have an up-to-date Expression of Wish form. While the Trustees make the best decisions they can, there are still some each year that are so complex that they take a long time for us to resolve.

If you stop to consider how complex families can be, then you can appreciate how helpful it is for the Trustees to have an up to date Expression of Wish form. It enables us to decide benefits smoothly; and it also removes stress from the process for your loved ones.

Whilst the Trustees are guided by your Expression of Wish form, they are not bound by it and will, at their discretion, decide to whom your benefits are paid. This legal nuance helps to ensure that benefits can be paid free of inheritance tax.

## A recap of benefits under the Plan

Your benefits include a spouse's pension\*, a lump sum (if you die in pensionable service or within the five years after you have retired) and the value of any Additional Voluntary Contributions (and any MPA or IMA funds) in the Plan.

\*The Plan's definition of spouse includes same-sex partners as well as civil partners.

These valuable benefits are explained in more detail in the Plan Booklet which can be found at [www.eatonukpensionplan.co.uk/documents/eaton-uk-pension-plan-booklet.pdf](http://www.eatonukpensionplan.co.uk/documents/eaton-uk-pension-plan-booklet.pdf)

Where there is no surviving spouse the Trustees can use their discretion to determine if there are other dependants who have been financially reliant on the member to whom these benefits can be paid.

Your Expression of Wish form is really important to us in determining those who will receive these benefits.

Please download a form ([www.eatonukpensionplan.co.uk/documents/eaton-exp-of-wish-form.pdf](http://www.eatonukpensionplan.co.uk/documents/eaton-exp-of-wish-form.pdf)), complete it and return it to us so that we can look after your dependants should the worst happen.



# What you told us...

Thank you to everyone who took part in last year's survey on how we communicate with our members. The results are in!

Of the responses received we had broadly equal representation from our active, deferred and pensioner members.

## The positives:

- **80%** of you understand how your pension works & how Additional Voluntary Contributions (AVCs) work.
- **63%** have visited the website [www.eatonukpensionplan.co.uk](http://www.eatonukpensionplan.co.uk)
- **72%** found the annual pension statements helpful.
- **80%** of you told us that Plan Ahead is helpful

## The opportunities to improve:

- Only **47%** found the retirement packs helpful.
- **20%** of you told us you don't know what an Expression of Wish form is. See page 11 to find out more!

There were some common themes in the comments section including a need to improve the information and support we provide as you approach retirement.

You also asked for more information on tax implications and online access to your pension information too. These are both on our to do list and we'll keep you updated.



*Once again thank you to everyone who responded to this survey.*



## New and improved!

We are looking to move more information online in the future to provide you with easy access to your pension information, help the environment and reduce administration costs.

We will provide further information as this project progresses, but in the meantime, we have already started working on a couple of improvements:

### ON THE HORIZON

#### Mapping the road to retirement

We are also working on a project to provide more support for people approaching retirement. Retirement is a complex process to navigate and we will be improving our support for people approaching, and thinking ahead to, retirement.

### ON THE HORIZON

#### Online support for members

As part of our move online we are looking at introducing a member portal called ePA. This will enable you to access your benefits online. Watch out for more details.

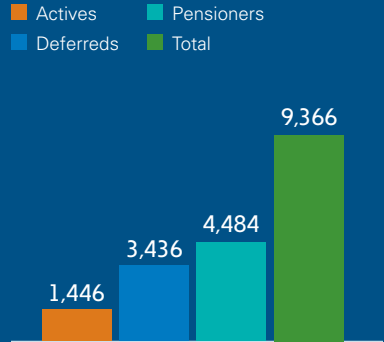


# The Plan's finances

## Plan accounts

<b>Funds at 31 December 2018</b>	<b>£752.5m</b>
	+
Total contributions	£30.7m
Change in value of investments	£110.8m
	-
Total outgoings	(£30.4m)
	=
<b>Funds at 31 December 2019</b>	<b>£863.6m</b>

## Plan membership at 31 December 2019



## Protecting your data

The Trustees are committed to protecting your data and privacy. The Plan's Privacy Notice can be found on our website. It outlines the data we store about members to administer the Plan, as well as how we use this data.

### Keeping the Plan well run

Defined contribution pension schemes must publish illustrations of how investment charges can affect members' savings. If you have Additional Voluntary Contributions, a Money Purchase Account or an Individual Member Account then you can find more information at [www.eatonukpensionplan.co.uk](http://www.eatonukpensionplan.co.uk)

# Beware of pension scams!

Recent events have been a fantastic opportunity for scammers looking to con people out of their savings. There have been many stories in the press about this recently. Scammers will use fear of a falling market to pressurise you; do not engage with anyone whom you have not approached.

Now more than ever we urge you to be vigilant. The only person or organisation you should trust is an independent financial adviser authorised and regulated by the FCA.

Here are some top tips to help you protect yourself from scams:

- Cold calling about pensions is illegal. Simply hang up.
- Does it sound too good to be true? Then it is. Be extremely suspicious of any investments offering 'guaranteed high returns'.
- Don't be rushed! Scammers will often subtly pressurise you into making a decision.
- Is your adviser FCA regulated? Check that your financial adviser is registered on the Money and Pension Service's website (and follow the links to the Money Advice Service): <https://moneyandpensionservice.org.uk>
- You should ensure that your financial adviser is independent and experienced in giving advice on pensions.
- Do not let anyone talk you into it! Don't fall for a scam because it has been recommended by a friend.

If you believe you have signed something which, upon reflection, you are not sure about, contact the Plan's administrators immediately and report your suspicions to Action Fraud on **0300 123 2040** or visit [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart) to find out more.



# And finally...

## Want to know more

If you have a question on your benefits, please check [www.eatonukpensionplan.co.uk](http://www.eatonukpensionplan.co.uk)



If you need help with your pension, or would like a copy of any Plan documents, then please contact the administration team at:

@ [eatonpensions@willistowerswatson.com](mailto:eatonpensions@willistowerswatson.com)

☎ 01707 607603

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