

# PENSIONS UPDATE

News for members of the Fenner Pension Scheme



## Chairman's Introduction

Welcome to issue 19 of Pensions Update, the newsletter for the Fenner Pension Scheme ('the Scheme'). The financial information shown is for the year ended 31 March 2017. If you would like to receive a full copy of the Trustee's Report and Accounts for the Scheme, please contact the Trustee Secretary (details provided at the end of the newsletter).

It continues to be a busy and ever changing time for the Scheme and pensions in general. The introduction of pension's freedom has led to many people accessing their retirement savings and taking advantage of the increased flexibility.

In April 2016 the tapered annual allowance was introduced and this forms part of your personal tax records. It is important that you understand if you are affected by this change.

Fenner PLC has been acquired by Michelin, one of France's biggest industrial groups. The sale was finalised in May 2018.

We hope you enjoy reading this issue of Pensions Update. We want to make it as useful and informative as possible, so if there are any items that you would like to see covered in future issues, please do not hesitate to contact Sharon Cairney, UK Pensions & Reward Manager – [sharon.cairney@fenner.com](mailto:sharon.cairney@fenner.com)

**Debra Bradbury**  
Chairman - Fenner Pension Scheme Trustee Ltd.



# A message from the pension scheme trustee regarding the takeover of Fenner PLC by Michelin

**You may have read that Fenner PLC has been acquired by Michelin, one of France's biggest industrial groups. You will all want to know what this means for you as members of the Fenner Pension Scheme (the "Scheme"), whether you are an active member, a deferred member, or retired and drawing your pension.**

Following detailed discussions held with Michelin's senior management team, your Trustee Board (the "Trustee") is satisfied that the Scheme will be well protected under the terms of the deal and that, as a result of guarantees put in place by Michelin at the Trustee's request, the Scheme's financial strength will, if anything, be enhanced going forward.

SCA Compagnie Générale des Établissements Michelin (to give Michelin its full name) is the world's second largest tyre manufacturer, with roughly 16% of the global market. Based in France, Michelin operates in more than 170 countries and has a workforce of around 110,000. It is a profitable company and is listed on the Paris stock exchange, with a current market value of over £20 billion. By contrast, the amount it has paid for Fenner (approximately £1.3 billion) represents around 6.5% of its own total market value. The Trustee is comfortable that the Michelin Group is able to fully support the Scheme.

The following paragraphs provide more detail about the work undertaken by the Trustee since the announcement of Michelin's approach and explain why the Trustee is comfortable about giving this assurance.

# The current financial position of the Fenner Pension Scheme

**With the help of external advisors, the Trustee is responsible for ensuring that the Scheme is on course to have enough money to pay members' benefits as they fall due over many years into the future. In order to do this, the Trustee has to make a number of assumptions about future events.**

Every three years, a detailed check is done on the financial position of the Scheme, known as an Actuarial Valuation. The last such valuation at 31 March 2017 showed that the Scheme had liabilities of £217m and assets of £173m. A shortfall of this magnitude is not at all unusual because the liabilities stretch out over many years, leaving plenty of time for the assets to grow in value through a combination of contributions of new money and investment performance.\*

Following consideration of the valuation results, the Trustee and Fenner PLC agreed a series of contributions of additional money by the Company to help in eliminating the shortfall. These contributions will amount to £3.5m annually until at least March 2023, when it is expected (but cannot be guaranteed) that the shortfall will have been eliminated.

In addition to the contributions to remove the current deficit, Fenner PLC and the active members of the Scheme will continue to pay regular contributions designed to cover the cost of benefits still being earned by members who continue to work within the Fenner Group.

The future funding position of the Scheme will depend on what happens in the years to come. Factors that will impact the funding position include the level of investment returns, the level of future pension increases (linked to price inflation) and the length of time members live and draw their pension. The Trustee believes it has made prudent and cautious assumptions about all of these unknowns.

The future funding position and in particular the aim of removing the shortfall by 2023 is, in part, dependent on Fenner PLC paying the agreed level of contributions as noted above. When the valuation result was signed off in February 2018, the Trustee was confident that Fenner PLC was a strong and profitable company which would be able to pay the agreed level of contributions and would stand behind the Scheme, thereby putting it in a strong position to be able to pay all members' benefits as they fall due over the coming years.

*\* The funding shortfall referred to in this paragraph is consistent with the second set of figures shown in the Summary Funding Statement, which accompanies this newsletter. The first set of figures in the Summary Funding Statement show a lower funding shortfall. This is because, for the figures shown here, the Trustee has used more cautious assumptions in valuing the Scheme liabilities. More information is given in the Summary Funding Statement.*



# Takeover of Fenner PLC by Michelin

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**In March 2018 Michelin announced a bid to acquire Fenner PLC. It has recently been confirmed that Fenner's shareholders have accepted the Michelin offer, and Fenner is consequently now owned and controlled by Michelin.**

The Trustee understands that Fenner employees will be provided with details of what that means for them as employees but, in this note, the Trustee Board wants to provide additional details about the impact of the bid on the Scheme.

The Scheme's Trustee Board is independent of Fenner PLC. Following the merger with Michelin, the Trustee Board remains in place and continues to be responsible for the security and payment of all pension benefits to be paid by the Scheme.

**When Michelin announced that they were bidding for Fenner, they made a number of commitments in relation to the Scheme:**

1. The rate of Company contributions agreed following the 31 March 2017 actuarial valuation (£3.5 million annually) would remain unchanged.
2. The current level of future service benefits would remain unchanged for at least 12 months from the date they acquired the Fenner Group; (benefits relating to past service cannot be reduced as a matter of law)
3. Future levels of Company contributions agreed between the Trustee and the Company would be guaranteed by Michelin's parent company.

**Following these announcements, the Trustee took a series of important steps:**

1. Mark Abrahams and Debby Bradbury (who have senior Company roles) stepped away from the Trustee Board on a temporary basis so as to avoid any real or perceived conflicts of interest.
2. A dedicated committee of Trustee Directors (described as the Corporate Events Sub

Committee, or "CESC") was set up to deal with the Michelin takeover and how it might affect the Scheme. Michael Robarts, an Independent member of the Trustee Board, was chosen to Chair the CESC in their discussions with Michelin.

3. The CESC met on a number of occasions with their advisors (the actuary, the lawyer and the covenant advisor) to consider what additional safeguards should be negotiated with Michelin.
4. The CESC and the advisors met with senior representatives of Michelin to gain a fuller understanding of their plans for the Scheme and for Fenner more generally.
5. As a matter of good governance, the Trustee contacted the Pensions Regulator to advise them of the position. (The Regulator has since confirmed that it intends to take no further action over this).

**In the light of those initial discussions with Michelin, the Trustee believes that Michelin are fully committed to supporting the Scheme. Michelin have now confirmed that:**

1. All historic benefits earned by members to date will remain unchanged (and as noted above these are protected under law).
2. The benefits being earned by current employees will remain unchanged for at least the next 12 months (as noted above).
3. To ensure continuity of knowledge and experience, there will be no significant changes in the membership of the Trustee Board without prior discussion.
4. A guarantee from the Michelin parent company will be provided in favour of the Trustee for all contributions to be paid by Fenner until March 2023. Thereafter, if the funding shortfall referred to above has not been removed by that time, additional contributions will be paid by Fenner, with those contributions again being guaranteed by Michelin capped, in certain limited circumstances, at £3 million per annum.
5. The Michelin guarantee will remain in place until at least 2043.

*Overall, the Trustee believes that the acquisition of Fenner PLC by Michelin will have no adverse impact on the Scheme's ability to meet its obligations to its members and that it will, if anything, strengthen its ability to do so.*



**Debra Bradbury**  
Chairman  
The Fenner Pension  
Scheme Trustee Limited



**Michael Robarts**  
Chairman  
Corporate Events Sub Committee

## Membership

The Scheme membership as at 31 March 2017 is shown below:

	2017	2016
Active Members	93	106
Deferred Members	531 (includes 31 members who have ceased accruing benefits but remain employed by the company)	546 (includes 39 members who have ceased accruing benefits but remain employed by the company)
Pensioners	1184	1485
<b>Total Membership</b>	<b>1808</b>	<b>2137</b>

## Analysis of Investments

As at 31 March 2017	%
Equities	42
Senior Secured Loans	18
Liability Driven Investment	29
Diversified growth/absolute return funds	10
Cash	1
	<b>100</b>

## Income and Expenditure

The table below shows the financial position of the Scheme as at 31 March 2017. Over the year, the value of the fund increased from £149m to £172m.

	£000s
Fund value at 31 March 2016	149,583
<b>INCOME</b>	
Members' and Employers' Contributions	4,824
Investment Income	2,660
Transfers in	0
Other Income	0
<b>TOTAL</b>	<b>7,484</b>
<b>EXPENDITURE</b>	
Pensions and Other Benefits	(9,694)
Transfers out, leavers, life assurance	(1,247)
Administration and investment expenses	(792)
Other payments	(10)
<b>TOTAL</b>	<b>(11,743)</b>
<b>INVESTMENTS</b>	
Increase in market value of investments	27,602
Fund value at 31 March 2017	172,926



# Flexible access of benefits

There are two main types of pension scheme:

## Defined Benefit schemes

(The scheme is a defined benefit Scheme)

These schemes pay a regular income for life, using a formula based on how much you earned and how long you were a member of the scheme. You can usually choose to take part of your benefits as a cash lump sum. The Fenner Pension Scheme is a Defined Benefit scheme.

## Defined Contribution schemes

These schemes work like an investment account. The amount you will get is uncertain and depends on how much is paid in, how your investments perform and how you take your pension.

## Trivial Commutation

HMRC allows “trivial commutation lump sums” to be taken where certain conditions are met.

Those conditions are:

- You are aged 55 or over when the payment is made.
- The total value of the retirement benefits from all the registered pension schemes you have been a member of is less than £30,000
- All the trivial commutation lump sum payments you are going to receive must be paid in a 12 month period
- The payment extinguishes your entitlement to benefits under the Scheme

You may also be able to take the whole of your pension as a small pot if:

- you're aged at least 55, or you are retiring at an earlier age because of ill-health; and
- the value of your pension arrangement does not exceed £10,000.

Unlike trivial commutation, you do not have to take into account any other pension benefits you may

have, when giving up a pension for a small pot. The Government will allow you to give up three pension arrangements under the small pots rule.

The Trustee recognises that members may prefer to have a one-off cash lump sum rather than receive a small monthly pension. As a result of changes made by the Government, this option can be offered to more members than was previously the case, and the Trustee has changed the scheme rules to permit this.

The lump sum would be calculated based on the value of your pension from the Scheme, including any future pension increases and any benefits payable on your death. This lump sum payment would extinguish all further benefit payments from the Scheme, and your dependants would not receive any benefits from the Scheme on your death.

The lump sum will be taxed using the PAYE system.

Over 300 pensioners have already taken advantage of these options. If you believe you are eligible and would like to consider receiving a one-off lump sum instead of your pension then please contact the scheme administrators. The Trustee recommends that you consider this option very carefully and consider taking financial advice on whether receiving a lump sum would be suitable for you.



## New laws came into effect in April 2015 making it possible to take Defined Contribution pensions more flexibly. The main options are:

- **Take all of your pension as a one-off cash sum**

25% of this could be paid tax free and the remainder may be taxed as income.

- **Use your fund to provide an income as you need it**

You can declare that your pension fund should be used to provide "income drawdown". At the time you make this declaration you can withdraw up to 25% of your fund tax free. Thereafter any income you draw would be subject to income tax.

- **Take a number of lump sums over the years**

You could take lump sums as often as you want (provided that the scheme you have transferred to allows this). You could take up to 25% a year tax free and any more than this may be taxed as income.

- **Buy a regular income**

You could use some or all of your savings to buy an annuity, which is a financial product that will pay you a regular income for life. You would be able to choose how it would increase each year and whether or not to have a pension paid to your dependants after you die.

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## Tapered Annual Allowance

**The Government sets a maximum amount of pension growth that is permitted in any year known as the "Annual allowance". In a Defined Benefit Scheme like the Fenner Pension Scheme it is the increase in the value (on a basis prescribed by the Government) of the pension that is compared to the Annual Allowance. The standard Annual Allowance is currently £40,000 and will not affect most people.**

The Government introduced the Tapered Annual Allowance from 6 April 2016 as a means to further reduce the Annual Allowance for high earners. It works by reducing a person's Annual Allowance by £1 for every £2 of 'adjusted income' earned over £150,000, up to a maximum reduction of £30,000 leaving a minimum Tapered Annual Allowance of £10,000.

Members with an 'adjusted income' of between £150,000 and £210,000 will be affected by the Tapered Annual Allowance from the 2016/17 tax year. Those with an adjusted income of over £210,000 will have a Tapered Annual Allowance of £10,000.

Members with a 'threshold income' of less than £110,000 will be exempt from the Tapered Annual Allowance.

As at present, any unused Annual Allowance from the three previous tax years can be carried forward and added to the individual's Annual Allowance. Where this Annual Allowance is reduced by the taper, the carry forward will be the balance of the tapered amount.

Broadly speaking an individual's 'adjusted income' is the total of all sources of taxable income in a tax year (including for example interest on savings and rental income) plus the value of any pensions saving in that year. This ensures that the restriction applies fairly and cannot be avoided, for example, through salary sacrifice.

An individual's 'threshold income' is, broadly speaking, their taxable income for the year ignoring the value of any pensions saving. Where the individual's 'threshold income' does not exceed the limit of £110,000 then they cannot be subject to the tapered Annual Allowance regardless of their level of 'adjusted income'. This means no one can be subject to the tapered Annual Allowance solely as a result of the value of their pension saving in the year.

**If you think you might be affected by this you may find HMRC's online Pension annual allowance calculator useful. It can be found at [www.tax.service.gov.uk/paac](http://www.tax.service.gov.uk/paac)**

**More detailed information from HMRC can be found in the Pensions Tax Manual at [www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100](http://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100)**



# Contacts

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## Nomination Form

It is important that consideration is given to completing a new Nomination Form whenever your personal circumstances change. A Nomination Form can be obtained from your Local Pension Contact or the Scheme Administrator.

## Data Processing

The Trustee and its advisers control and process personal data about you and other individuals on your behalf, both for the Scheme's administration and for other purposes related to the Scheme. You should note that as a Scheme member you are consenting to that data processing.

If you have any questions about the Scheme or your benefits, please contact your Local Pension Contact or the Scheme Administrator – Hymans Robertson.

## Pension Contacts

If you have any questions about the Scheme or your individual benefits you should contact the following:

### Whilst you are working with the Company:

**Head Office** - Sharon Cairney  
(sharon.cairney@fenner.com)

**Precision Polymers UK**  
(precision.UKpensions@fennerprecision.com)

**Fenner Dunlop** - Diane Quigley  
(marfleet.UKpensions@fennerdunlop.com)

**Hallite** - Lucy Coumbe  
(hampton.UKpensions@hallite.com)

**VIL** - (VIL.UKpensions@fennerdunlop.com)

## Scheme Advisers

### Scheme Actuary

John Burns, Xafinity, Leeds

### Administrator

Hymans Robertson (Glasgow)

### Investment Adviser

Redington

### Investment Managers

Invesco Perpetual Life Limited, M&G Securities Limited, Legal & General Assurance (Pensions Management) Limited, Pictet Asset Management Limited, Jennison - PGIM funds Plc, PIMCO Funds: Global Investors Series plc

### Auditor

RSM UK, Leeds

### Legal Adviser

Squire Patton Boggs

### Banker

Barclays, Glasgow

## Your Trustee Directors

Debra Bradbury (Chairman)  
Mark Abrahams  
Andrew Caley  
Peter Howell  
Richard Morello  
Michael Roberts  
Barry Wood  
Jamie Hancock (Trustee Secretary)

### All correspondence to the Trustee should be sent for the attention of the Trustee Secretary to:

Fenner Pension Scheme  
Trustee Limited  
Hesslewood Country  
Office Park, Ferriby Road  
Hessle, East Yorkshire  
HU13 0PW

### If you are retired or have left the Company, you should contact:

Fenner Administration Team, Hymans Robertson LLP, 20 Waterloo Street  
Glasgow, G2 6DB

**Email:** fenner@hymans.co.uk    **Tel:** 0141 566 7658

