

# Reflections

Your newsletter from the ZF UK Pension Plan • December 2023



ZF UK Pension Plan

## New Trustee Executives

Welcome to our new Trustee Executives, Mike Smaje and Chris Parrott.

## Track your pension online

Barnett Waddingham is responsible for all aspects of the day-to-day administration of the Plan. This includes ensuring the details it holds about you are accurate and secure, benefits are paid correctly and on time, and that relevant information and documents are provided to you.

## Latest Actuarial Funding Valuation

At least every three years the Trustee is required to undertake a formal actuarial valuation to assess the financial health of the Plan. The last formal three-year actuarial valuation was carried out as at 31 March 2021 and was finalised a year ago, and the actuary has carried out their annual interim report as at 31 March 2022.

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Comments

If you have any comments about this newsletter or our other communications we'd be grateful. Contact us on **0330 135 9988** or **+ 44 121 828 0217** (from overseas), email us at: **ZFUKmembers@Barnett-Waddingham.co.uk**

# A change to the Trustee of the Pension Plan (the Plan)

## A message from ZF (the Company)

Last year, ZF completed a review of the governance of our UK defined benefit (“DB”) pension arrangements.

This review concluded that it was important for a number of factors to be considered about the Plan’s future governance:

- The regulatory burden on UK DB pension schemes (like ours) continues to increase significantly and like most of ZF’s global DB schemes, the Plan is primarily a legacy arrangement with limited relevance to ZF’s current business activities.
- ZF has only a small in-house team that provides support to the Trustee.
- In addition, there have been difficulties in obtaining nominations for member directors of the Trust Company; and a problem with finding suitably qualified people with the available time to act as employer-nominated directors.

### A new approach to the Plan’s governance

There has been a recent trend for sponsors of schemes like the Plan to move to appointing a Professional Corporate Sole Trustee to act as the sole trustee for UK DB plans and research showed that there are now several reputable professional independent trustee firms that have specialist centralised teams to support “sole trustee” clients in this growing market.

The Company concluded there were positive reasons why this approach would be an improvement, and a benefit to both the Company and Plan members like you. These were such things as increasing the efficiency of decision making, resource required to run the Plan, improving pensions expertise and experience, removing conflicts of interests, reducing the reliance on advisers and hence the costs and, finally, to ensure decisions are made quickly to support members’ benefits now and in the future.

As a result, ZF Group’s Corporate Pensions Committee and the Principal Employer, ZF Pension Sponsor UK Limited, agreed to appoint a Professional Corporate Sole Trustee to replace ZF UK Pensions Trust Limited as the Trustee for the ZF UK Pension Plan. After a competitive tender exercise, BESTrustees Limited has been appointed as the new Trustee. You can read more about the new Trustee on page 3.

The Plan’s contact details are unchanged and can be found on the back page of this newsletter.

Yours faithfully



**Steve Batterbee**

**Director**

ZF Pension Sponsor UK Limited

# Meet the Trustee

## Your new Trustee

Founded in 1992, BESTrustees is one of the UK's leading providers of independent professional trustee services.

Members of the team are 30 senior pensions professionals who come from all areas of financial services, consulting and HR. They provide professional and focused trustee services.

It is an entirely independent business, wholly owned by its employees, which means they are free to concentrate on doing the right thing for their clients, without outside influences.

Two of BESTrustees' Trustee Executives, Mike Smaje and Chris Parrott, attend most of the meetings and make most of the decisions for the ZF Plan. The Plan also benefits from the collective experience of all 30 of their pensions professionals if called upon.

## Your new Trustee Executives



### Mike Smaje

"I have over 30 years of pensions experience, working previously as a consulting actuary and investment consultant before becoming a professional trustee in 2020. I specialise in funding and investment matters and sit on six other pension trustee boards across a range of industries. It's fair to say I've encountered most pensions issues during my career."



### Chris Parrott

"I have over 40 years' experience managing large UK and Ireland pension schemes, most recently as Head of Pensions & Benefits for Heathrow Airport (which included management of the legacy British Airport Authority pension arrangements)."

Both Mike and Chris are members of the Association of Professional Pension Trustees.

## The role of the Trustee

The Trustee looks after the Plan and its assets, which are held under trust and kept separate from the Company. Trustees have four key duties, under law.

### They must:

- act in line with the trust deed and rules;
- act prudently, responsibly and honestly;
- act in the best interests of the members and potential members of the Plan (including dependants); and
- act impartially.

### In addition, the Trustee:

- monitors the Plan's funding position. It reviews whether the Plan's assets are sufficient to meet the benefits that have been built up in the Plan;
- reviews and agrees the contributions to be paid to the Plan by the Company;
- invests the contributions that are paid to the Plan and monitors the performance of the Plan's assets; and
- administers the Plan and pays benefits to members in line with the Plan's Trust Deed and Rules.

To carry out its duties successfully, the Trustee meets regularly and receives help and assistance from its advisers and the Company in-house pensions team.

# Merger with the WABCO Automotive UK Pension Scheme

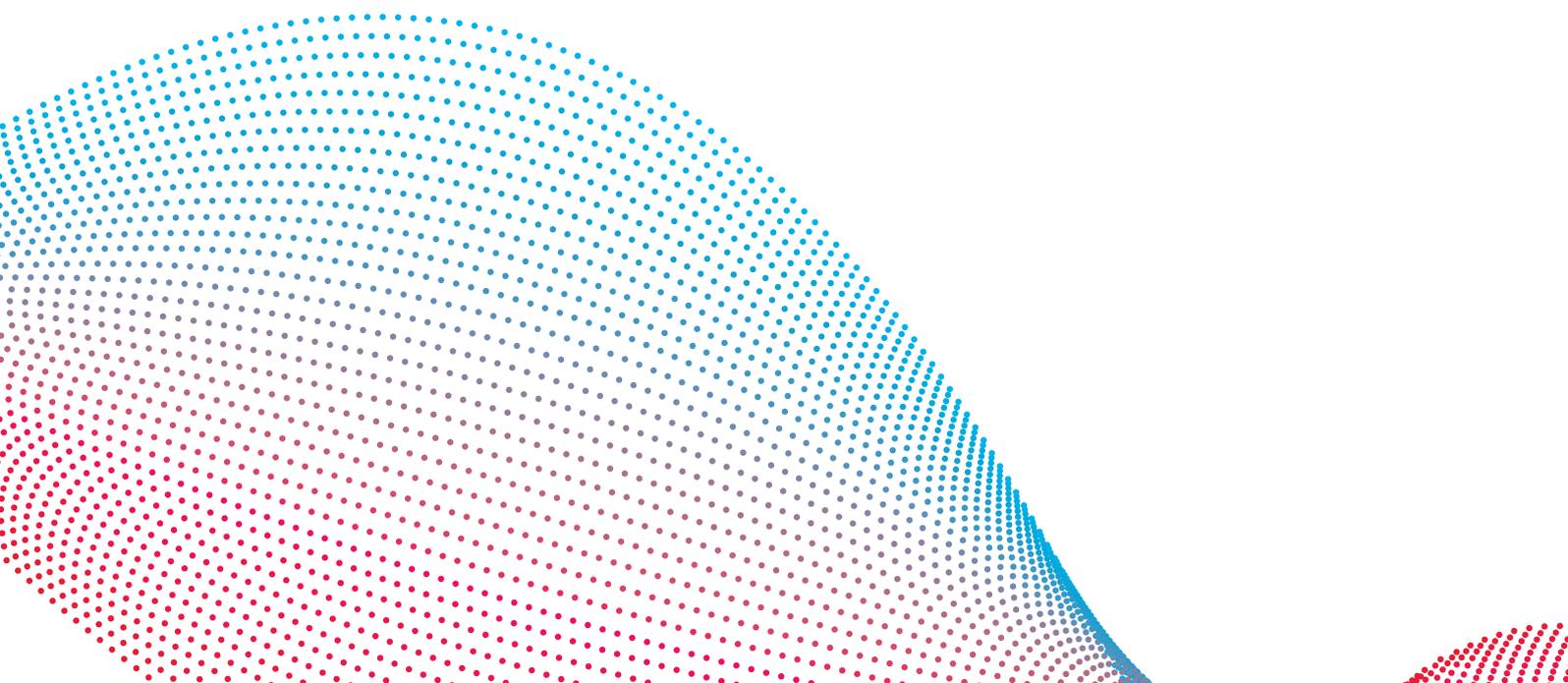
In 2020, ZF acquired WABCO, a leading global supplier of technologies and services that improves the safety and efficiency of commercial vehicles. The acquisition meant that ZF now had two defined benefit pension schemes in the UK; the ZF UK Pension Plan (the one you're in) and the WABCO Automotive UK Pension Scheme (the WABCO Scheme).

The Company informed the Trustee that it was keen to improve the effective running of these pension plans and avoid duplication in the cost and time involved in running two separate arrangements. Also, the Plan was much larger than the WABCO Scheme, which allowed for economies of scale and opportunities to minimise risks. For these reasons, the Company proposed to the Trustee to merge the WABCO Scheme into the Plan.

The Trustee took legal and professional advice and agreed to the proposal as they felt it did not diminish the security of existing members' benefits. The merger, therefore, took effect towards the end of last year when the WABCO Scheme transferred its assets to the Plan, along with the responsibility for the payment of benefits. **Your benefit entitlements are unchanged following the merger.**

The Trustee's key focus when reviewing the proposal was to maintain the ZF Plan's ability to continue to pay all beneficiaries of the Plan the benefits they are entitled to. The Trustee has a good, strong and open relationship with the Plan's sponsoring employers and sought to protect the position of its members before accepting the proposal.

The impact on the funding level of the Plan was minimal, as the Plan represented approximately 90% of the total assets and liabilities when the schemes merged. In return for agreeing to the merger, the Trustee obtained access to increased financial support from the Company in the form of a revised and strengthened Company guarantee. This guarantee means the Plan will have direct access to more of the financial strength of the whole ZF Group up to a certain limit.

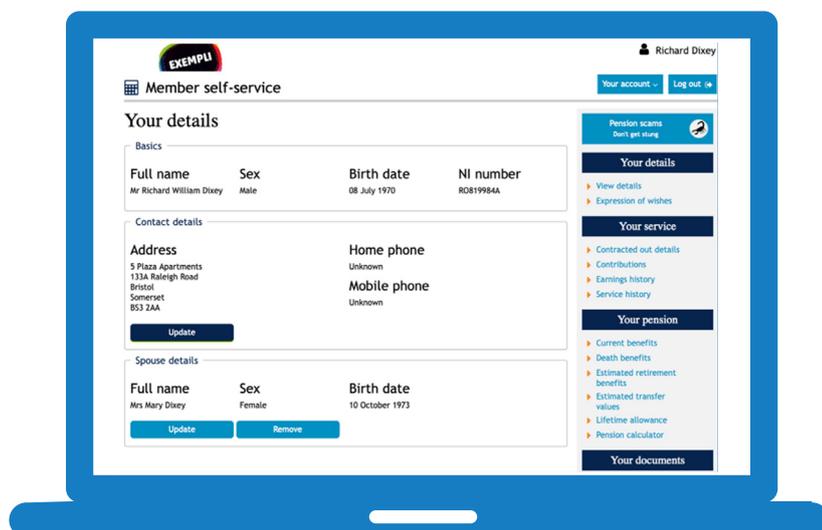


# Track your pension **online**

Barnett Waddingham is responsible for all aspects of the day-to-day administration of the Plan. This includes ensuring the details it holds about you are accurate and secure, benefits are paid correctly and on time, and that relevant information and documents are provided to you.

One of the key features is the online system that allows you to view and manage your pension. Use it to:

- **keep track of your retirement goals;**
- **update your personal information; and**
- **view your annual statements, payslips (if applicable) and scheme documents.**



This is an example of the personal details page. It's not the same for everyone, but the basic principles remain the same.

Use the right-hand menu to view your personal details, expression of wish (dependants), your payments (if applicable), contributions and more.

The Your Pension section also includes a handy pension calculator to help you work out your retirement goals.

**Remember**, the options available online differ depending on whether or not you are already in receipt of your pension.

## Not yet online?

If you have not yet registered for <https://logon.bwebstream.com> you will need to obtain a new registration key, as the one sent to you previously will have expired.

Barnett Waddingham has set up a dedicated phone number specifically to help you with this. Call them on **0141 447 0799**. This number is for website queries only. If you have questions about your benefits, contact the admin team using the number on the back page.

*\*At the time of writing more than 4,000 members have registered and are interacting with the site.*

  
**4,000+**  
**members are**  
**online already!\***

Since 2019, we have seen many members register. If you haven't registered yet, please do so using the information on this page.

# The way we communicate with you is **changing!**

The Trustee wants to reduce the use of paper as well as the printing and postage costs associated with the management of the Plan. A way to reduce this is to move to paperless communications where possible.

## How will I be communicated with in the future?

In the past, the Trustee has produced regular statements for deferred members, although we are not required to do so. Now, these annual statements will be produced in the summer each year and will be made available to deferred members via the member self-service website <https://logon.bwebstream.com>

We will also distribute annual pension increase statements for pensioners via the member self-service website only.

Finally, it is our intention to move to a point where we are only making newsletters (such as this one) available on the Plan's website [www.zfukpensions.co.uk](http://www.zfukpensions.co.uk), rather than by posting copies to members. We will issue a further two copies of our newsletter by post before we move across to website communication.

Before we can do this, we also need to inform you that:

1. you can make a written request to the Trustee to opt out of electronic communications;
2. we will ensure that you will be able to get access to, store and print the information we provide in an easily accessible format;
3. we will take into account the requirements of any disabled persons, including any specific needs. Please notify us if you think this applies to you; and
4. this newsletter satisfies the requirement for us to inform members by post that we propose to provide information electronically in future. We will continue to notify you of this intention in the following two newsletters as well.

Once we move to paperless communication, we will notify members in advance by email when new information is added to the website. However, we will only notify members who have provided us with an email address by registering on BWebStream.

You have the right to opt out of electronic communications by notifying us in writing using our contact details on the back page.

## What should I do?

If you have already registered for this service, you will receive an email notifying you that you have a new document to view.

If you have not yet registered then we strongly recommend you do so, so that you can continue to access and view important Plan communications. It's also important for you to provide us with an email address to send our notifications to.

To register, please refer to the instructions on page 5.

# Cash Equivalent Transfer Values (CETVs)

Over the last 18 months, the Plan's administrators Barnett Waddingham have been receiving queries from deferred members regarding estimated transfer values that the Trustee publish at regular intervals.

Transfer values can be a complicated subject and so we thought it would be useful to provide some more detail to help with members' understanding.

The Plan is a defined benefit (DB) pension plan, and it is important to understand the way that a pension plan like this works.

## How DB plans work

Unlike with defined contribution schemes (DC, sometimes referred to as 'money purchase' arrangements or 'personal pensions'), members of a DB plan do not have a 'fund value' or a 'pension pot'.

The Plan's assets are not divided into individual funds split between members. Instead, members are entitled to their own individual package of 'defined benefits' based upon the Plan Rules, the period over which they contributed and built up their benefits, and their salary when they stopped building up further benefits in the Plan.

These entitlements mainly consist of a pension payable for life from your normal retirement age. However, among other things, the benefits also consist of an option to exchange some pension for a 'pension commencement lump sum' at retirement (currently tax-free), benefits payable on death before or after retirement and pension increases before and after retirement, etc.

As these benefits are all 'defined', they do not decrease. Pension entitlements increase each year in line with the inflationary increases which are set out both in the Plan Rules and the benefit statement sent when a member leaves active service. The Trustee's primary objective is to make sure that the Plan has enough assets to meet the payment of these benefits when they fall due.

## What is a transfer or a CETV?

As an alternative to taking these defined benefits through the Plan, all deferred members are legally entitled to exercise an option to transfer the 'value' of their defined benefits into another approved pension arrangement, although they do need to demonstrate they have taken advice from an authorised or regulated financial adviser.

The Trustee of the Plan follows guidance from The Pensions Regulator to calculate these Cash Equivalent Transfer Values (CETVs). You can read the guidance on The Pensions Regulator's website at [thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/transfer-values](https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/transfer-values)

A CETV must reflect the Trustee's 'best estimate of the amount of money needed at the effective date of the calculation which, if invested by the scheme, would be just sufficient to provide the benefits'.

The calculation is not, for example, based upon movements in the value of the Plan's assets or its past investment returns. The guidance goes on to say; 'in the case of defined benefits, the CETV is a value determined on actuarial principles, which requires assumptions to be made about the future course of events affecting the scheme and the member's benefits'.



# Cash Equivalent Transfer Values (CETVs) - Continued.

## Why have CETVs decreased?

One of the key assumptions used is the expected rates of investment return that can be achieved in current market conditions. For this purpose, the returns available on financial assets that deliver guaranteed income payments is a key reference point - such assets are UK government bonds (Gilts). When the prices of these Gilts fall, the prospective future returns (if held to maturity, known as the 'yield') increase, as has happened since the beginning of 2022. In fact, the increases in yields have been very significant - around 4% a year, meaning a fall in the market value of those gilts of over 50%. That means that CETVs have also fallen accordingly. This has been the case for all UK DB schemes, and not just the Plan.

Some deferred members have been using Barnett Waddingham's online portal to view transfer value estimates which have been made available (voluntarily) by the Trustee at regular intervals and have noted these significant falls.

Conversely, this same increase in gilt yields over recent years will have led to significant corresponding improvements in annuity rates - i.e. the amount of pension/annuity that can be secured on the open market with a lump sum or a transfer value.

We hope that this information helps you with your understanding.

**You can be reassured that your defined benefits remain payable from the Plan in accordance with the Rules and these benefits have not reduced.**

## The National Fraud Initiative

Twice a year the Plan participates in the Government's National Fraud Initiative (NFI), which is administered by the Cabinet Office. The NFI notifies the Plan whether pensions are being paid to individuals who are deceased, by comparing Plan data, such as National Insurance numbers, with State benefit records.

The Plan has participated in both 2023 NFI exercises. The Trustee, as the Data Controller for the Plan, provides the Cabinet Office with particular sets of member data for comparison with State benefit records. The use of data by the Cabinet Office in a data matching exercise is carried out with statutory authority under its powers in Part 6 of the Local Audit and Accountability Act 2014. It does not require the consent of the individuals concerned under the Data Protection Act 2018

Further information about the Cabinet Office's legal powers, its processes for matching data and its code of data matching practice can be found at:

[www.gov.uk/government/collections/national-fraud-initiative](http://www.gov.uk/government/collections/national-fraud-initiative)

# Latest Actuarial Funding Valuation

At least every three years the Trustee is required to undertake a formal actuarial valuation to assess the solvency of the Plan and determine whether any contributions are required from the Plan's participating employers, ZF Automotive UK Limited, ZF Lemforder UK Limited and ZF Services UK Limited - the companies with a legal obligation to support the Plan. The last formal three-year actuarial valuation was carried out as at 31 March 2021 and was finalised a year ago.

## Key highlights

The results revealed a positive funding level:

	March 2021	March 2022
Plan Assets	£1,674 million	£1,617 million
Plan Liabilities	£1,492 million	£1,436 million
Surplus	£182 million	£181 million

This means the Plan had a funding level of 112%

This means the Plan had a funding level of 113%

## How we arrive at the figures

The actuarial valuation process involves the Trustee's appointed actuaries estimating the amount of each member's future pension payments and how long each pension is likely to be paid. These future payments are then added up to arrive at the "present value" of the Plan's liabilities. The estimates are calculated using certain assumptions, e.g. the interest rate used to discount future pension payments and the life expectancy of members receiving those pension payments. The assumptions must be prudent and also agreed between the Trustee and the Plan's Principal Employer, ZF Pension Sponsor UK Limited.

Once calculated, the present value of the Plan's liabilities on 31 March 2021 was compared against the audited value of the Plan's assets on the same date, which was £1,674 million. This comparison revealed the size of the Plan's "surplus" on an "ongoing" or "statutory" basis as £182 million - a "funding level" of 112%. **Because there was a surplus, there was no requirement for the Company to pay any contributions to the Plan at that time.**

As well as the formal triennial valuation, the Plan's actuary calculates an annual update for the Trustee. As at 31 March 2022, the Plan had assets of £1,617 million giving an estimated surplus of £181 million on the "ongoing" or "statutory" basis - a "funding level" of 113%.

## Some questions answered:

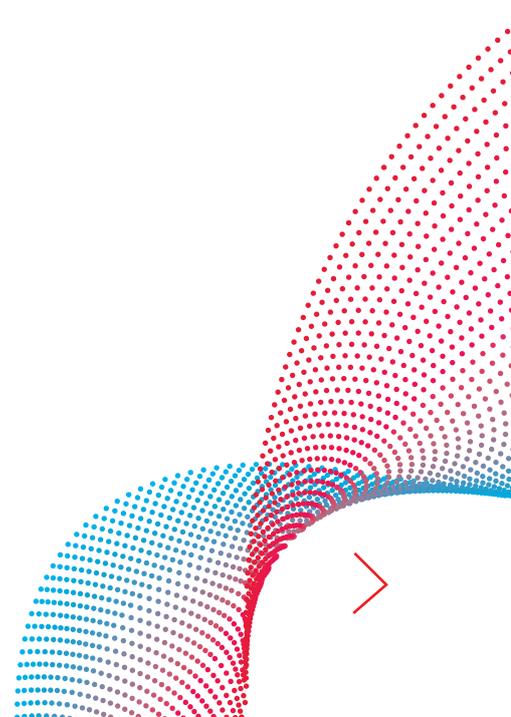
### How does the Plan operate?

The Plan is a closed defined benefit pension plan. With this type of plan, when required, the Company pays contributions in accordance with any Recovery Plan and its Schedule of Contributions. These contributions are then invested in funds that are expected to provide income, and to increase in value. The combination of contributions, investment income and growth is then used to pay members' pensions. The money to pay for members' pensions is held in a common fund. It is not held in separate individual funds for each member.

### Why is the Company's support important?

The Trustee's objective is to have enough money in the Plan to pay pensions now and in the future. However, the success of the Plan relies on the Company's continuing support. More money may be needed in the Plan if:

- The funding level fluctuates to the point there is a shortfall.
- The target funding level did not turn out to be enough.



# Latest Actuarial Funding Valuation

- Continued.

## What happens if the Plan is wound-up and there is not enough money to pay for all my benefits?

While the Plan remains ongoing, benefits will continue to be paid in full. If, however, the Company goes out of business or decides to stop paying for the Plan, it is expected that it will pay the Plan enough money to enable members' benefits to be completely secured with an insurance company. This is known as the Plan being "wound-up". The comparison of the Plan's assets to the cost of buying the benefits from an insurance company is known as the "solvency position".

Every Trustee has to prepare an estimate of what their pension plans are worth should their sponsoring employer go out of business. Should this happen, member benefits would typically be 'bought' by an insurance company. The cost of doing this is high, so actuaries use very conservative calculations to work out whether the Plan has enough funds to do this.

As at 31 March 2021, the Plan actuary has estimated the Plan had a funding shortfall on this basis of approximately £213 million. We are required by law to give you this information. The fact that we have shown this funding position does not mean that the Company is thinking of winding-up the Plan. It is included here in order to provide further information as to the financial security of your benefits.

If the Plan is wound-up and the Plan and the Company does not have enough money to cover the cost of buying all members' benefits with an insurer, the Government has set up the Pension Protection Fund which might be able to take over the Plan and pay compensation to members.

The Pension Protection Fund (PPF) became operational on 6 April 2005. The purpose of the PPF is to ensure that those who are members of plans similar to the ZF UK Pension Plan receive pensions even if their company goes out of business. The PPF is not intended to replicate a member's pension but ensures that if a Plan gets into difficulties members will receive the majority of their pension. This is, currently, around 90% of the pension earned for most members who have not reached retirement age and 100% for those over retirement age. The actual amount a member receives will depend on when they retire and how much benefit they have earned. In addition, benefits will increase on a basis set down by the PPF, which may be less than those provided by the Plan.

Further information and guidance is available on the Pension Protection Fund's website at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk).

Alternatively, you can email the Pension Protection Fund at [information@ppf.co.uk](mailto:information@ppf.co.uk) or write to them at PO Box 254, Wymondham, NR18 8DN.

## Leaving the Plan before you're due to retire?

If you have not yet taken payment of your pension and you are thinking of leaving the Plan for any reason, (for example, transferring your benefits to another pension arrangement) you should consult an independent financial advisor (IFA), before taking any action. For a list of IFAs in your area, you can log onto [www.unbiased.co.uk](http://www.unbiased.co.uk).

## How are the Plan's assets invested?

The Plan's investment managers invest the Plan's assets with the aim of managing key financial risks and to ensure there are sufficient funds to meet its pension liabilities as they fall due. The Plan's investment strategy is to target returns necessary to provide long term self-sufficiency of funding, with minimal risk. The Trustee's policy is structured around the following risks:

**Credit risk:** Exposing the Plan to potential returns from securities issued by global corporate entities to provide an extra return over the rate of interest available from securities issued by the UK Government (i.e. Gilts). This is achieved by physical holdings in corporate bonds, asset backed securities (e.g. high quality mortgage-backed securities) and by derivative contracts.

**Inflation risk:** Ensuring a large proportion of the Plan's investments will increase and decrease in value in line with inflation, in order to match the pension liabilities due from the Plan. This is achieved by holding Index-Linked Government bonds, and by derivative contracts.

**Interest rate risk:** Ensuring a large proportion of the Plan's investments will increase and decrease in value in line with long-term interest rates, in order to match the pension liabilities due from the Plan. This is achieved by holding Government and corporate bonds, and by derivative contracts.

## Payments to the Company

There have not been any payments to the Company out of Plan funds in the period since the 31 March 2021 valuation, and no such payments are anticipated. No such payment is possible unless the Plan's funding position is sufficiently strong to secure all benefits with insurance policies.

## Further information

Copies of the Trustee's Report and Accounts are available on the Plan's website at [www.zfukpensions.co.uk](http://www.zfukpensions.co.uk) or upon request to Barnett Waddingham at the address shown on the back page.

# Facts and figures

## - highlights from the Report and Accounts

The Trustee has produced the Plan's audited report and accounts for the year ending 31 March 2022. A copy of the full report is available from [www.zfukpensions.co.uk](http://www.zfukpensions.co.uk) or on request from Barnett Waddingham at the address shown on the back page.

### Plan Membership

As at 31 March 2021	
Deferred members	8,143
Pensioners	4,019
<b>Total</b>	<b>12,162</b>

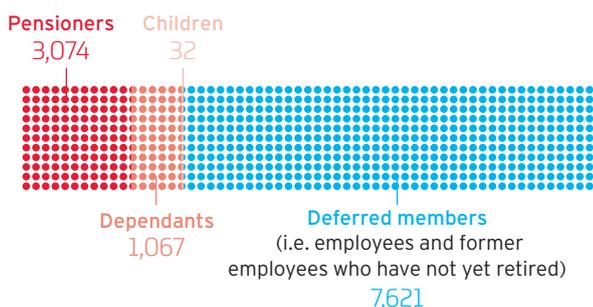
#### Changes during the year

New dependants' pensions	+42
Late notifications	-6
Deceased	-236
Transferred out of the Plan	-146
Small pensions paid as a lump sum	-7
Child pensions ceased	-15
<b>Overall Decrease</b>	<b>368</b>

As at 31 March 2022	
Deferred members	7,621
Pensioners	4,173
<b>Total</b>	<b>11,794</b>

### Who's in the Plan

The membership as at 31 March 2022



### Financial Summary

Fund value as at 1 April 2021 - £1,674 million	
	-£23,866,000
Investment income	+£34,978,000
Other income	+£9,000
	-£2,773,000
	-£2,229,000
Historic liability write off	+£1,703,000
	-£38,741,000
	-£27,323,000
Fund value as at 31 March 2022 - £1,616 million	

### Plan Assets

Manager	Assets under management	Value as at 31 March 2022
LGIM	UK Gov't Bonds	£1,411m
	Cash	£63m
	Net Repurchase Agreements	-£640m
	Net Derivative Assets	-£14m
M&G Investments	Asset backed securities	£283m
	Secured loans	£144m
Arcmont	Senior Loans	£38m
Barings	Global multi-asset credit	£223m
	Private Loans	£58m
Schroders	Corporate Bonds	£65m
	Cash/Other Investment Assets/Liabilities	-£16m
<b>Total</b>		<b>£1,616m</b>

# Need help

Need help or need to contact the Trustee?  
Contact the pension administrators in the first instance:

## Contact details for queries



**By Post:**

Jo Cross  
ZF UK Pension Plan  
Pension Administration  
Barnett Waddingham LLP  
3 Devon Way  
Birmingham  
B31 2TS



**By Telephone:**

0330 135 9988 or + 44 121 828 0217  
(from overseas)



**By Email:**

[ZFUKmembers@Barnett-Waddingham.co.uk](mailto:ZFUKmembers@Barnett-Waddingham.co.uk)

## Or you can write to the Trustee Secretary:



**By Post:**

ZF UK Pension Plan  
The Hub, Central Boulevard  
Blythe Valley Park  
Shirley  
Solihull  
B90 8BG

Don't forget the Plan website:  
[www.zfukpensions.co.uk](http://www.zfukpensions.co.uk)