Affinity Water Pension Plan

A Guide to the Final Salary Divisions in relation to former members of the Veolia UK Pension Plan (VUKPP) who did not transfer to VUKPP from VWSCPP)

Welcome & Outline of the Plan

This guide (March 2013 edition) to the **Plan** uses certain words that may require further explanation. All words shown in bold print are explained on pages 10 to 11.

This guide describes the provisions of the **Plan** that apply to members of the Final Salary Divisions who are former members of the **VUKPP** and who did not transfer to the **VUKPP** from the **VWSCPP**.

The **Plan** is governed by a trust deed and rules. These are complex legal documents that set out your rights under the **Plan**. Accordingly, the purpose of this guide is to give you a summary of the benefits provided by the **Plan**.

It should be noted that this guide is for information only and does not cover every detail of the **Plan**. It must not be taken in any way as modifying or interpreting the **Plan's** trust deed and rules. As noted above, your legal rights and obligations in connection with the **Plan** are not governed by this guide but by the trust deed and rules. If there is any conflict between the provisions of this guide and the trust deed and rules the latter will prevail.

BENEFITS

The **Plan** provides the following benefits for you and your dependants:

- A pension with the option of taking part of it as a tax-free cash sum when you retire.
- A lump sum if you die in **Pensionable Service** before **Normal Pension Date**.
- A dependant's pension on your death before or after retirement.
- The option of either a preserved pension or a transfer of benefits if you leave the **Plan** having completed two or more years' **Pensionable Service** before retirement.

ANNUAL STATEMENT

Each year, whilst you are an in-service member, you will receive a personal statement of you **Plan** benefits.

TAX ADVANTAGES

The **Plan** brings with it several important tax advantages:

- you get full tax relief on your contributions to the **Plan**.

- you may take part of your pension as a tax-free cash lump sum.
- any lump sum death benefits paid to beneficiaries are normally tax-free.
- you are not taxed on the **Company's** contributions.
- the **Plan's** investments are given favourable tax treatment.

These tax advantages are based on current taxation law which may change in the future.

HOW THE PLAN WORKS

You and the **Company** pay contributions into a special trust fund. The fund is kept quite separate from the **Company's** assets and is held and invested by the **Trustee**. The aim is to provide a fund that grows in value over the years and is able to provide the **Plan's** benefits when they become due.

Your contributions

As a Member of the Plan, the amount you contribute depends on your age, as shown below:

Age	**Member Contribution (as a % of your Pensionable Salary)**
Below 35	4.0%
35 to 49	5.0%
50 and over	6.0%

The **Company** pays the balance of the cost of the **Plan**.

The net cost to you is less than it seems as your contributions are deducted from your earnings before income tax is calculated, so you automatically get tax relief on them. If you pay tax at the current basic rate of 20%, each £1 you pay only costs you 80p from your net pay.

The example below shows the contributions payable by a member under the age of 35 with a **Pensionable Salary** of £18,000.

Example		
Current **Pensionable Salary**	£18,000 a year	
Gross contributions	£18,000 x 4%	= £720
Less tax relief (20% at 6/4/2012)	£720 x 20%	= £144
Net cost		= £576 a year
		= £48 a month

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

You can also pay **AVCs** to increase your retirement benefits. Your **AVCs** are paid into your own **AVC Account** which the **Trustee** sets up and maintains for you.

You choose how much you want to pay, but each year the total of the **AVCs** and your normal **Plan** contributions must not be more than 15% of your total earnings (unless the **Trustee** and the **Company** decide otherwise). Your **AVCs** are deducted from your earnings before income tax is calculated, so you automatically get tax relief on them.

At retirement, you agree with the Trustee how you want to use your **AVCs**. The total value of your **AVC Account** can be used, subject to any **HMRC** restrictions, to increase your own pension, provide extra pensions for your dependants or provide annual increases to any pension being paid. The **AVC Account** may be exchanged for a cash sum subject to **Trustee** agreement and any restrictions on the cash lump sum that apply at the time. Each year you receive a statement showing the **AVCs** you have paid and the value of the **AVC Account**.

Full details of the **Plan's AVC** arrangements can be obtained from the Affinity Water Payroll and Pensions Team.

Your pension

Your pension at **Normal Pension Date** is worked out as follows:

1/60 x **Final Pensionable Salary** x **Pensionable Service**

Your pension is paid in monthly instalments and is paid for the rest of your life.

The example below shows how you can work out your pension (assuming you are not a Standard Scale Member, and remain in **Pensionable Service** until your Normal Pension Date).

Your details	**Example**
Date of birth	3/10/55
Date originally joined VUKPP (although became a member of the Plan on 28/3/13)	1/4/03
Normal Pension Date	3/10/2023
Pensionable Service	20 years and 6 months
Present **Pensionable Salary**	£18,000 a year

Your pension	**Example**
Final Pensionable Salary (assuming for	£18,000 a year

this example that it is the same as your present **Pensionable Salary**)	
Divide by 60	£18,000 ÷ 60 = £300
Multiply by **Pensionable Service** (i.e. 20.5 years)	£300 x 20.5
Your pension	= £6,150 a year

CONTRACTING-OUT OF STATE SECOND PENSION (S2P)

At **State Pension Age** you would normally receive your **State Basic Pension** and any State Second Pension (**S2P**) (formerly known as **State Earnings Related Pension Scheme (SERPS)** pension) you may have earned. This is in addition to your **Plan** pension which is payable from your **Normal Pension Date** which may be different to your **State Pension Age**. However, while you are in **Pensionable Service** you are "contracted-out" of **S2P** on a salary-related scheme basis. This means that the **Plan** has to comply with an overall test of scheme quality in terms of the benefits it provides for you and your spouse in respect of **Pensionable Service** from 6 April 1997. This is known as the 'reference scheme' test and means that **Plan** benefits for that **Pensionable Ser**vice must generally be equivalent to or better than benefits in the 'reference scheme' as set out in the Pensions Act 1995.

As you are contracted-out of **S2P**, you and the **Company** pay lower National Insurance Contributions on your earnings between the **Lower Earnings Limit** and the **Upper Accrual Point**. The reduction takes into account the benefits which the **Plan** provides in place of **S2P**. The rate of reduction is regularly reviewed by the Government and, at April 2012, it is 1.4% of earnings between the **Lower Earnings Limit** and the **Primary Threshold**.

PENSION INCREASES

Once in payment, your pension is increased each year by the percentage increase in the Retail Prices Index for the 12 months ending on the preceding 30 September, or 5% if that is less. The increases take place on each 6 April following your retirement. The increase does not apply to any pension provided from your **AVC Account** unless you so choose.

If your pension has been paid for less than 12 months when the increase is first due, the increase is scaled down according to the number of complete months between the date of your retirement and 6 April.

EXTRA PENSION FOR DEPENDANTS

Before you retire, you may choose to give up part of your pension to provide an extra pension, payable on your death, for your spouse or another dependant. Further information is available from your local Pensions Contact or HR Department.

Your tax-free cash sum

When you retire, you may exchange part of your pension for a cash sum. Currently the cash sum is free of tax.

The maximum amount of cash you may take is 25% of the value of your pension up to a maximum of 25% of your Lifetime Allowance. The value of your pension is determined by legislation – currently 20 times your pension.

Example	
Continuing the above example, your pension would be valued at	20 x £6,150 = £123,000
So the maximum lump sum you could take would be	£123,000/4 = £30,750

If you decide to take the maximum amount, your pension is reduced by an amount calculated by the **Plan's** actuary. The calculation varies from time to time (and depends on the age when you retire) but, as an example, if the reduction is £1 of pension for each £16 of cash taken, the reduction would be:

Example	
If you took this maximum permitted amount, your pension would be reduced by	£30,750/16 = £1,921.88
Leaving you with a pension of	£6,150 - £1,921.88 = £4,228.12

When you are due to retire you will be given full details of your maximum cash sum available and how this affects your pension.

Your early and late retirement options

EARLY RETIREMENT

With the **Principal Company's** and the **Trustee's** consent, you may retire on pension at any time after age 55.

Your early retirement pension is calculated in the same way as your normal retirement pension but based on your **Final Pensionable Salary** and completed **Pensionable Service** at the date you retire. The pension is then reduced to take account of the earlier start date and the longer period for which it will be paid.

You still have the option to take part of your pension as a tax-free cash sum.

PENSION INCREASES

Once in payment, your early retirement pension is increased each year in the same way as if it had become payable at your **Normal Pension Date**.

LATE RETIREMENT

If you continue working after your Normal Pension Date payment of your benefits will be postponed until you actually retire unless you and the Principal Company agree otherwise.

Your benefits will be increased to take account of their later starting date and the shorter payment period. You still have the option to take part of you pension as a tax-free cash sum when you retire.

Your normal contributions to the **Plan** usually cease at your **Normal Pension Date**. You may continue to pay **AVCs**, and your **AVC Account** remains invested, until you retire.

Once your late retirement pension has started to be paid, it is increased each year in the same way as it is would have been had it become payable at your **Normal Pension Date**.

If you die after your **Normal Pension Date** but before you actually retire, your benefits are worked out as if you had retired on the day before you died.

Benefits for your family

DEATH IN PENSIONABLE SERVICE

If you die before your **Normal Pension Date** while employed by the **Company**, and as a contributing member of the **Plan**, the following benefits are payable.

LUMP SUM BENEFITS

A lump sum of three times your **Pensionable Salary** at your date of death.

A refund of your contributions to the **Plan**, including the full value of your **AVC Account**.

If you chose to leave the **Plan** and remain in your current employment, you will be covered for a reduced death benefit equal to one times your **Pensionable Salary** at the date of death – see 'Joining and leaving the Plan' on page 7 for further details.

The lump sum benefits are paid at the discretion of the **Trustee** to your beneficiaries or estate and normally no inheritance tax is paid on them. Your beneficiaries include your family, someone who is a dependent on you because of disability and any person not married to you who is financially interdependent with you and who relies on your income to maintain a standard of living that had depended on your joint incomes before the date of your death.

The Trustee must decide who receives the money and may follow your wishes, provided they have been notified to the Trustee beforehand. You should let the Trustee know how you would like any lump sums to be paid by completing an Expression of Wish Form. You should make sure that your Expression of Wish Form is kept up to date by filling in a new form if your circumstances change or if you change your mind at any time. The forms are available from your local Pensions Contact or HR Department.

A DEPENDANT'S PENSION

A pension of one-half of your accrued pension is payable immediately to your dependants. Your accrued pension is the pension you have earned up to the date of your death, based on your completed **Pensionable Service**.

The **Trustee** decides who should receive the pension and, if there is more than one dependant, what proportion of the pension each dependant receives. As you are contracted-out of **S2P**, a pension must first of all be paid to your surviving spouse, before any pension is paid to another dependant. The pension is only paid for the benefit of children while they are under age 18 or, if later until they cease full-time education or vocational training but not later than age 25. In respect of an adult dependant, or a child who is wholly incapacitated, the pension is paid for life.

PENSION INCREASES

Once in payment, the dependants' pensions are increased each year by 5% or by the percentage increase in the Retail Prices Index (for the 12 months ending on the preceding 30 September), if this is lower.

RESTRICTIONS ON BENEFITS

Normally, the full lump sum death benefit is provided automatically without any enquiry into your state of health. Sometimes however, restrictions are placed on these benefits and you will be told if any apply to you, for example, if you did not join the **Plan** when you were first eligible to do so.

The lump sum death benefit is insured under an insurance policy specifically to provide this benefit. Payment of this benefit is subject to acceptance, and any terms and conditions imposed, by the insurer.

DEATH AFTER RETIREMENT

On your death after retirement, the following benefits are payable:

LUMP SUM

If you die within five years after your retirement, the unpaid balance of five years' pension (disregarding any increases) is paid as a lump sum to your beneficiaries or estate.

A DEPENDANT'S PENSION

A pension of one-half of your own pension at the date of your death, including any increases since your retirement, is payable immediately to your dependants.

The **Trustee** decides who should receive the pension, and if there is more than one dependant, what proportion of the pension each dependant receives. As you are contracted-out of **S2P**, a pension must first of all be paid to your surviving spouse, before any pension is paid to another dependant. The pension is only paid for the benefit of children while they are under age 18 or, if later, until they cease full-time education or vocational training but not later than age 25. In respect of an adult dependant, or a child who is wholly incapacitated, the pension is paid for life.

PENSION INCREASES

Once in payment, the dependants' pensions are increased each year by 5% or by the percentage increase in the Retail Prices Index) (for the 12 months ending on the preceding 30 September), if this is lower.

Joining and leaving the Plan

JOINING

Only existing members of the **VUKPP** as at 28 March 2013 may join the **Plan**. Your date of joining the **Plan** will be the day on which your benefits were transferred into the **Plan** from the VUKPP.

You may wish to complete or update an Expression of Wish Form to let the **Trustee** know how you would like any death benefits to be paid. You may be asked to produce your birth and marriage certificates, your spouse's birth certificate and, if appropriate, your decree absolute at this time.

OPTING OUT OF THE PLAN

You may opt out of membership at any time in the future. You must give the **Trustee** one month's notice in writing. You should note that, if you do opt out of membership, the only benefit payable (unless you have accrued preserved benefits under the Plan – see below) will be a reduced death benefit equal to one times your **Pensionable Salary** at the date of your death, payable if you die before your 65th birthday whilst you continue working for the **Company**.

PENSION FROM A PREVIOUS JOB

You should let your local Pensions Contact or HR Department know about any benefits you are entitled to from previous pension arrangements.

LEAVING THE PLAN

Your Preserved Pension If you leave the **Plan** before your **Normal Pension Date** you are entitled to a preserved pension payable from your **Normal Pension Date**. The preserved pension is calculated in the same way as your normal retirement pension but based on your **Final Pensionable Salary** and completed **Pensionable Service** at your date of leaving.

Your preserved pension is increased in line with the revaluation requirements that the Government sets (currently linked to the Consumer Prices Index) over the period from your date of leaving to your retirement date. You still have the same options of taking part of your pension as a tax-free cash sum, providing extra pension for a dependant or retiring early.

Once it starts to be paid, your pension is increased each year by 5% or by the percentage increase in the Retail Prices Index (for the 12 months ending on the preceding 30 September), if this is lower.

Death Before Retirement

If you die before your preserved pension becomes payable, a lump sum equal to your contributions to the **Plan** is paid to your estate.

A pension of one-half of your preserved pension, including increases for the period from your date of leaving to the date you died, is paid to your dependants. The **Trustee** decides who should receive the pension and, if there is more than one dependant, what proportion of the pension each dependant receives. As you are contracted-out of **S2P**, a pension must first of all be paid to your surviving spouse.

Once it starts to be paid, the pension is increased each year by 5% or by the percentage increase in the Retail Prices Index (for the 12 months ending on the preceding 30 September), if this is lower.

Death After Retirement

If you die after retirement, benefits are paid in the same way as described in the section headed 'Death after Retirement' in 'Benefits for your family' but based on your preserved pension.

TRANSFER OF BENEFITS

If you leave **Pensionable Service** at least one year before your **Normal Pension Date**, you may be able to transfer the cash equivalent of your preserved benefits to your new employer's scheme, to a personal pension scheme or to an individual insurance policy.

The cash equivalent is typically calculated as the lump sum which, if invested at the date of calculation in a notional pension scheme, would be sufficient to provide your preserved benefits at your **Normal Pension Date**. In making the calculation, the **Trustee** has to make assumptions about such matters as future investment returns and mortality rates and allowing for any guaranteed and statutory increases to be applied between the date you leave **Pensionable Service** and your **Normal Pension Date**. In setting the assumptions to be used for transfer value calculations, the **Trustee** will take advice from the **Plan** actuary.

As the **Trustee** has no practice of paying any discretionary pension increases over and above those described in this Guide, these are not taken into account in calculating cash equivalents.

At any time, whether you have left **Pensionable Service** or not, you may ask the **Trustee** for an estimate of the cash equivalent of your **Plan** benefits on a particular date.

If the estimate of the cash equivalent is needed because of a divorce settlement, you should tell the **Trustee** this when asking for the estimate as the **Trustee** may need further information from you. Within three months of your request, the **Trustee** will give you a written statement showing your entitlement. The cash equivalent is guaranteed for three months from the date it was calculated and the statement is normally given to you within ten days of this date. The **Trustee** is not obliged to give you another statement within 12 months of your last request.

If you want to transfer the cash equivalent to another scheme or insurance policy, you must apply in writing to the **Trustee** within three months from the calculation date shown on the statement of entitlement. If you do not apply within three months, the cash equivalent is not guaranteed to be the same as that quoted to you.

Definitions

The Guide uses certain words that may require further explanation. The definitions below should help you understand any technical terms that may not be familiar to you.

Additional Voluntary Contributions (AVCs)

These are contributions that you choose to pay to the **Plan**, over and above your normal contributions, to provide additional benefits. The **AVCs** are paid into an individual **AVC Account** set up by the **Trustee** and maintained on your behalf.

Company

This means the company within the Affinity Group by whom you are employed.

Final Pensionable Salary

This is your **Pensionable Salary** on your **Normal Pension Date**, or the date you retire or **leave Pensionable Service** if earlier. If higher, either of the two immediately previous figures for **Pensionable Salary** may be used.

Lifetime Allowance

This is the maximum amount of pension an individual can save within a registered pension scheme that will receive favourable tax treatment. For the 2012/13 tax year, the standard lifetime allowance is set at £1.5 million. The value of your pension for the purposes of calculating your **Lifetime Allowance** is determined by legislation – currently 20 times your pension. **Lower Earnings Limit**

This is the level of annual earnings at which participants in **S2P** begin to build benefits. It is adjusted on 6 April each year and for 2012/13 is £5,564.

Normal Pension Date

Your 65th birthday.

Pensionable Salary

This is your basic salary or wages calculated on the date you join the **Plan** and on each following **Renewal Date**.

For Members of the Affinity Water Pension Plan Final Salary (Central) Division who:

- were former members of the Former North Surrey Water Limited Final Salary Division of VUKPP; or
- Were former members of the Three Valleys Water Plc Final Salary Division of the VUKPP

Pensionable Salary *includes your flexibility allowance, standby allowance and shift pay premium if you are paid these amounts.*

The Company may determine from time to time that other allowances or payments (including the taxable value of benefits in kind) are also pensionable.

Pensionable Service

This is the period of continuous service with the **Company** in years and complete months from the date you become a member of the **Plan** to your **Normal Pension Date** or date of leaving the **Plan** or death if earlier.

Plan

This is the Affinity Water Pension Plan.

Primary Threshold

This is an amount set each year by the Government which triggers liability for an employee and his employer to pay national insurance contributions. [In the 2012/13 tax year, the primary threshold is set at £146 a week.]

Principal Company

This is Affinity Water Limited.

Renewal Date

This means 1 January each year.

State Basic Pension

If you have paid enough National Insurance contributions you qualify for the **State Basic Pension** at **State Pension Age**. The **State Basic Pension** is adjusted in April each year.

State Pension Age

This is the 65th birthday for all men and for women born after 5 April 1955. For women born between 6 April 1950 and 5 April 1955 inclusive, it is a date between their 60th and 65th birthdays. Over the next four decades, the Government has announced that this will increase above age 65 for men and women.

State Second Pension (S2P)

This provides a pension which is related to your earnings (or notional earnings if you are a low earner).

Trustee

This means Affinity Water Pension Trustees Limited.

Upper Accrual Point

This is the level of annual earnings at which you stop paying National Insurance Contributions. It is adjusted on 6 April each year and [for 2012/13 is £42,475].

VUKPP

This means the Veolia UK Pension Plan.

VWSCPP

This means the Veolia Water Supply Companies' Pension Plan.