Dear member, December 2014

Budget 2014 – Freedom and choice in pensions

Update of the effect on your Affinity Water Defined Contributions pension

The Chancellor announced significant changes to the pension landscape as part of his 2014 Budget. These changes include giving members of defined contribution schemes more flexibility in how they use their pension savings at retirement. Some of these changes took immediate effect with the remaining changes expected to come into force in April 2015.

A reminder of how our defined contribution scheme works

Whilst you are an active member you and the Company contribute every month to your retirement account. The Government also helps you save by providing you with tax relief on your contributions. To help your savings grow, you choose where to invest your account from a range of investment options. If you leave the Company and do not choose to transfer your retirement account to another pension arrangement your account remains invested in the Plan.

What happens at retirement?

Before the Budget announcement the choices at retirement (for most members) were limited. You could either:

- Use your entire retirement account to buy an annuity (a kind of insurance policy which pays a guaranteed income for life); or
- Take up to 25% of your retirement account as a tax free cash lump sum and use the balance to buy a smaller annuity.

Additional options were available to members with very small retirement accounts:

- If your *total* pension savings across all pension schemes were worth less than £18,000 you could take your entire amount as a cash lump sum; and.
- You could take any single retirement account worth less than £2,000 as a cash lump sum.

Additional options were available to members with very large retirement savings. Rather than buy an annuity you could transfer your retirement account to another pension arrangement and, subject to certain conditions:

- Draw an income from your account, limited to 120% of what you would have received had you bought an annuity (known as capped drawdown); or
- Draw down an unlimited income from your retirement account – if you could demonstrate that you already had a guaranteed retirement income of at least £20,000 a year (known as flexible drawdown).

What did the Budget change?

You can still buy an annuity if you wish, but many of the complexities of the current system have been swept away. The flexibility for those with very small retirement accounts has been extended and the income drawdown restrictions relaxed. Subject to certain conditions:

- If your total pension savings from all sources is worth less than £30,000, you can now take it all as a cash lump sum at retirement
- Individual retirement accounts worth less than £10,000 can now be taken as cash

- The annual income requirement for flexible drawdown has reduced from £20,000 to £12,000 (before tax)
- The capped drawdown limit has risen from 120% to 150% of the equivalent annuity.

These changes will affect you directly if you plan to retire in the next 12 months, so you should think about this now.

Further reforms expected to come into force from April 2015

These include:

- Increasing the minimum normal pension age when you can retire (other than in ill-health) from 55 to 57 in 2028. This will continue to rise in line with scheduled increases in State Pension ages.
- Allowing you to take your entire retirement account as cash (regardless of its value).
- Completely removing the caps and limits on income drawdown.
- Ensuring you receive free, impartial guidance at the point of retirement.

One of the biggest differences will be that you will be able to take all of your retirement account as a cash lump sum. The first 25% will be tax free – the balance will be taxed at the highest rate of income tax you pay. A further reform that has been announced is the option not to take a 25% cash lump sum at retirement and instead elect to have the first 25% of each instalment of your pension to be treated as tax free.

Remember, if you take the cash option, you will need to ensure that you have other sources of income to live on when you retire. The State Pension will be around £150 a week from April 2016 – if you qualify for the full amount.

What should you do?

If you are planning to retire soon, we strongly recommend that you seek financial advice as soon as possible to ensure you are making the right decisions for your future and especially as some planned reforms may only be accessible if you retire after they are enacted. You can find an adviser in your area at www.unbiased.co.uk. Information can also be found online at www.moneyadviceservice.org.uk.

You should always check your own personal tax and financial situation before making any final decisions.

This letter is based on our understanding of the 2014 Budget Statement and proposed legislation at the time of writing, which is subject to change. Once the final details of the budget changes have been agreed the Trustee Board will undertake a review of the Plan to consider what changes are necessary to the Plan's design, including any changes to the investment options available under the Plan. We will write to members again in the coming months leading up to April 2015 when most of the budget changes come into force.

Please note that all future pension communications will be posted on PensionsWeb, with security in place to ensure that personal details can be seen by your eyes only. Copies will be sent by email to members where our records include an email address - if you wish to continue receiving a hard copy letter, you must notify Alan Wiseman Payroll & Pensions Manager, Affinity Water Limited, Tamblin Way, Hatfield AL10 9EZ . Otherwise, correspondence will continue to be sent by post.

Yours sincerely,

Richard Brimble

Richard Brimble
Trustee Chairman