Explanatory notes for your DC Section Annual Statement

This note should be read in conjunction with your DC Section Annual Statement as at 1 January 2024.

This is to provide you with further information relating to your Statement, including the details of the assumptions used to produce the Statutory Money Purchase Illustration included in the Statement.

Assumptions behind your Statutory Money Purchase Illustration

As explained in your DC Section Annual Statement, we had to make some assumptions about what your DC Section Account will be worth when you reach retirement, as well as what your money could buy you at that time. What actually happens may be different to what we've assumed, therefore these figures are not guaranteed.

For the purpose of the illustration the following assumptions are made about your choices at retirement:

- You will use the entire value of your DC Section Account to purchase an annuity at retirement, so no cash lump sum is taken
- If you are still working for Affinity Water, you and your employer will continue to contribute the same percentage of your salary into the Plan every year between 1 January 2024 and your Target Retirement Date. If you no longer work for Affinity Water no further contributions are paid
- The pension you receive from the annuity will not increase in payment.
- Your DC Section Account continues to be invested in the same funds as at 1 January 2024, but allows for any planned automatic lifestyle switches (if applicable)

The key financial assumptions used to calculate your Statutory Money Purchase Illustration projections are:

Price Inflation 2.5% p.a.
Salary Inflation 2.5% p.a.
Interest rate on which annuity will be based (net of pension increases) 4.4% p.a.

Investment assumptions

Changes to the assumptions used in your benefit statement this year

On 1st October 2023, the way in which the investment return assumptions we use to calculate the value of your future pension changed, in line with new regulations. The investment return assumptions are now based on historic volatility (changes in investment prices over a certain period) of the fund(s) your money is invested in. Whereas last year, the investment return assumptions were forward-looking, and we were able to use the best estimate of how we expected different funds to perform.

In addition to this, from 1st October 2023, the following assumptions were also made, in line with new requirements:

- You take a fixed annuity which does not go up in line with inflation each year.
- You will purchase an annuity that is paid for your lifetime only i.e. won't be paid to a surviving spouse.

How these changes may affect your statement this year

Please note that these new assumptions may lead to your statement looking significantly different to previous years. This is a combination of the changes to the investment return assumptions which have increased for some funds and the annuity assumption changes. The result of the fixed annuity means that your illustrated pension pot purchases a much larger retirement income but this does not increase over time with inflation.

Please note that the value of your DC pension pot is not guaranteed and may fluctuate up or down, depending on investment returns, and you may not get back the contributions originally invested. The income you may receive from an annuity will depend on the level of your contributions, the investment returns received, the amount of your pot you take as a lump sum and the cost of buying an annuity when you retire – all of which can differ from the assumptions we have made. As a result, the actual amount of pension you receive is likely to be different from the projection, and as such the illustration is not guaranteed.

What you need to know about your Statutory Money Purchase Illustration

Your illustration has been calculated using certain general assumptions that have been made about the nature of your investments and their historic performance. These may not correspond with the investments actually made, or their actual performance; and

- The actual amount of any pension payable will depend on circumstances, including the actual performance of investments and the cost of buying an annuity at your retirement, which may be different from the assumptions in your illustration.

Your Retirement Options

At retirement there are a number of options available to you for how you can use the value of your DC Section Account. These include:

- Taking the total amount as a lump sum, after any tax that is due;
- Taking part of the value as a lump sum and buying an annuity (a regular income paid to you for life, with the option of including an income to your spouse after your death, and indexation of the income to take account of inflation); and
- Transferring the value of your account to another pension provider to allow you to draw income as and when you need it, also known as income drawdown.

These options and the tax charges associated with them may change, you should therefore seek financial advice if you are planning for your retirement. For further information please visit the Plan website, or contact the Plan Administrator using the contact details provided below.

Contact

For more information on the Plan and your benefits, please visit the Plan website. If you have any queries about the information provided above please contact the Plan Administrators, Hymans Robertson.

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