

21 August 2013

Dear Colleague

Pensions Consultation: Affinity Water's approach to Auto-Enrolment

As you may already know, the Government is instructing every employer to automatically enrol eligible employees into a pension plan. Auto-enrolment is designed to encourage employees to join a pension plan and to save for their retirement. Affinity Water Limited and Affinity Water Shared Services Limited (together "Affinity Water") have set up a working group to ensure that Affinity Water meets the Government's requirements on time.

This letter provides you with an update on the key features of Affinity Water's auto-enrolment programme. This letter also provides an opportunity for us to consult you on the changes that Affinity Water is proposing to make to the Affinity Water Pension Plan to comply with the auto-enrolment requirements. Please read this letter carefully, and let us know if you have any comments on these changes.

When will auto-enrolment take place?

The Government has provided each employer with their own specific start date. For Affinity Water, auto-enrolment will start on 1st February 2014 for eligible employees.

Who is eligible to be auto-enrolled?

To be an eligible employee for auto-enrolment you need to be (1) aged between 22 and the state pension age, (2) earning at least £9,440 per year (being the income tax personal allowance for the 2013/14 tax year), and (3) not a member of the Affinity Water Pension Plan.

If you are an eligible employee you will automatically be enrolled from 1 February 2014. In due course, you will be given the option to opt out. You do not need to take any action to opt-in or out of auto-enrolment at this stage.

Which pension arrangement will be used for auto-enrolment?

We plan to use the defined contribution section of the Affinity Water Pension Plan for auto-enrolment.

Will existing members of the defined benefit section of the Affinity Water Pension Plan be affected?

No. Members of the defined benefit section will not be affected by the changes.

Will existing members of the defined contribution section of the Affinity Water Pension Plan be affected?

Yes. The Government's requirements for auto-enrolment are quite specific. By and large, the defined contribution section meets these requirements. However, a few minor changes will need to be made to the defined contribution section so that it fully complies.

The changes that Affinity Water is proposing to make to the defined contribution section are described in the next section. Affinity Water would like to consult with you on the proposed changes. The consultation will start on 23 August 2013, and will end on 22 October 2013. Please send any comments or questions you have on the proposals to Alan Wiseman before 22 October 2013, using the contact details set out at the end of this letter.

Following the end of the consultation, Affinity Water will write to you again to let you know the outcome, and with further details of how auto-enrolment will affect you.

What are the proposed changes to the defined contribution section of the Affinity Water Pension Plan?

1. Change to the definition of pensionable pay.

Pensionable pay is currently basic salary at the 1st of January each year (plus certain allowances). This means that a pay rise granted on the 1st July is not reflected in pensionable pay until the following 1st January. We propose to change the definition so that with effect from 1st November 2013 pensionable pay is based on current basic salary (plus certain allowances) so that any pay rise, typically granted in July, is reflected immediately. This means that your pension contributions, and Affinity Water's pension contributions, will be increased straight away to reflect any pay rise.

This change in definition will affect all defined contribution section members. It will not affect defined benefit section members.

2. Change to contribution options.

We will set a new contribution tier for auto-enrolment purposes, with effect from 1st November 2013, where the employee and the employer will each pay contributions of 1% of pensionable pay until 1 October 2017 and 2.5% of pensionable pay until 1 October 2018. From 1 October 2018, the employee will pay 3% of pensionable pay and the employer will pay 6% of pensionable pay.

The current contribution tier where employees pay 2.5% of pensionable pay and the employer pays 5% of pensionable pay will be removed from 1st February 2014. If you currently pay 2.5% contributions, you will be given the option of paying a higher contribution, or alternatively you could join the new auto-enrolment tier.

If you are an existing member of the defined contribution section, and you make contributions at a rate other than 2.5% of pensionable pay, you will not be affected by these changes and there will be no change to either the level of your contributions or the contributions that are paid by Affinity Water on your behalf.

When will we write to you again?

This is the first in a series of communications which we will be sending out over the next couple of months. Following the end of the consultation, Affinity Water will write to you again to let you know the outcome, and with further details of how auto-enrolment will affect you. We will make sure that you have all of the information that you need before action is required.

The only action required from you at this stage is to consider the proposed changes to the defined contribution section, as explained above, and let us know if you have any comments.

Who should you contact if you want more information?

Affinity Water has set up a working group to consider auto-enrolment. Alan Wiseman is leading the working group. Please contact Alan Wiseman if you have any questions, at:

Affinity Water Limited, Tamblin Way, Hatfield, Herts, AL10 9EZ. Tel: 01707 277270

Alan.wiseman@affinitywater.co.uk

Yours sincerely

A handwritten signature in blue ink, appearing to be "Alan Wiseman".

Chief Executive Officer
Affinity Water Limited and Affinity Water Shared Services Limited