


pensions on tap

The news, the issues
and the people who run
your pension scheme

- Chairman's message • 2007 Report and Accounts highlights • Pension increases
- Answers on Tap - drawing your pension early • Contact us



Welcome



Pensions On Tap,
your regular newsletter
for members of the
Thames Water
Pension Scheme.

When we launched Pensions on Tap, it was with the aim of keeping all members - whether they are still Thames Water employees, former employees or retired members - updated on pension matters on a more frequent basis than the old annual reporting. So I am pleased to welcome you, just over two years on, to issue number 8.

The focus for this issue of Pensions on Tap is the Trustee's annual Report and Accounts, for the year ending 31 December 2007. We report on the Scheme's assets, including the contributions coming into the Scheme, and the benefits paid out. We also look at where the assets are invested and how those investments have performed over the year.

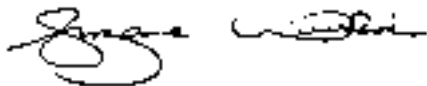
In the past, I have been asked why the summary of the Report and Accounts only looks at the assets of the Scheme. It is a good question because the assets are only half the picture. To look at both sides of the picture, the Trustee has to commission an actuarial valuation and this usually takes place every three years.

As you will see from the Chairman's Review, the Trustee, with considerable help from the Scheme's Actuary (one of its professional advisers), is busy with an in-depth look at the funds (assets) and the commitments the Scheme has. These commitments, which include current and future pensions for members and for their families, are also called the Scheme's liabilities.

The last valuation was completed in 2005 showing the values calculated at 31 December 2004. The valuation we should complete this year will show the values at 31 December 2007. We will bring you the news about the valuation results as soon as these are completed in a future edition of Pensions on Tap.

As well as a summary of the Trustee's Report and Accounts, in this issue we will be answering your questions around retiring early in our regular feature, Answers on Tap.

As always, I hope you'll find this issue interesting and if you have any ideas or questions for a future Pensions on Tap please let me know.



Suzanne Willshire
Head of Pensions



Chairman's message

At our May meeting the **TWPS Trustee Board** reviewed the Scheme's annual Report and Accounts for 2007 and received the auditors' report.




As Suzanne Willshire explains in her introduction, this issue of Pensions on Tap (PoT), brings you the highlights of the 2007 Report and Accounts. And I would like to take the opportunity to reflect on the past year, which has been particularly busy. Some of the topics have been covered in previous PoT issues, but they are worth putting into the context of the year as a whole.

During the year Thames Water made some major changes to the structure of the Company, with sales of non-utility businesses. In addition the Company changed its financing arrangements. These changes had complex implications for the pension scheme, and the Trustee needed to satisfy itself that the Scheme and its members would not be disadvantaged. The Company provided us with considerable amounts of information which we reviewed, helped by our professional advisers. I'm pleased to

report that we were satisfied that the Scheme was properly treated and the information we received gave us additional comfort on the Scheme's security. Notably, we were pleased that the Company agreed to our request for Thames Water Utilities Limited to replace Thames Water Limited as the principal sponsoring company for the Scheme as we believe this strengthens the financial security of the Scheme. We will of course continue to receive information from the Company on a regular basis to monitor its ongoing performance and financial strength and to understand the implications for the Scheme.

The audit of the 2006 Scheme Report and Accounts drew to our attention a number of performance weaknesses within the systems and processes underlying the operation of the Scheme. A great deal of effort has been made by all concerned to improve the situation,



and the Trustee was encouraged by the much improved audit report for 2007. An Administration Sub-Committee of Trustees has been established so that more time can be devoted to tracking operational performance.

As well as reviewing progress with systems improvements, time has been devoted to understanding the level of performance of the pensions administration process, including certain pensions related processes within the HR administration and payroll functions, from the point of view of a member's experience. Some useful approaches to measuring operational performance have been developed and are now being introduced.

Once the issues surrounding the corporate environment and operational performance were addressed, the Trustee could turn its attention (in additional meetings!) to planning for the future. A valuation of the

Scheme as at 31 December 2007 is being made. The valuation is a 'snapshot' of the financial position of the Scheme made by measuring the funds that the Scheme has (the assets) and the benefits that have to be paid out in future (the liabilities). Guided by the Scheme Actuary, the Trustee has been closely involved in setting the assumptions which will be used when measuring the Scheme's liabilities. This involves, amongst other things, understanding how using slightly different assumptions can affect the measure of the liabilities and making sure that a sufficiently prudent approach is taken. The measurement of liabilities is particularly sensitive to the assumptions chosen for future investment returns and how long members will live. The valuation is key to setting the basis for future Company contributions and also the approach to be taken to investments, both of which require close consultation with the Company. That dialogue is going

well, and we are hopeful of a successful outcome in the coming months.

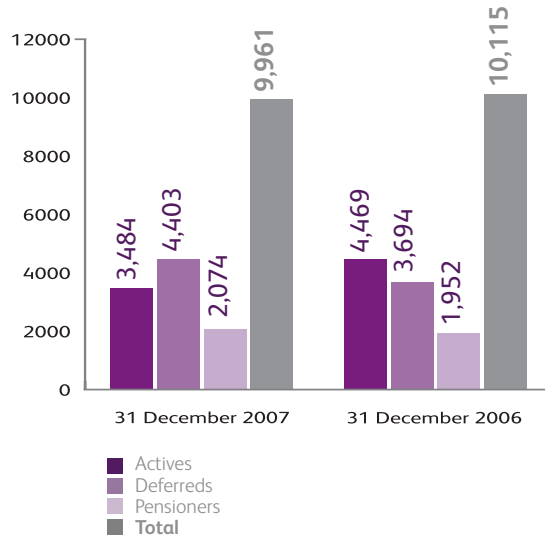
I am grateful to my fellow Trustee Directors for their effort and support over this period. It is pleasing to note that members remain keen to come forward for the Member-Nominated Trustee Director (MND) positions. The new processes for identifying and selecting MNDs are working well, and strong candidates have presented themselves. The Trustee Board is well positioned to guide the Schemes to a secure and effective future.



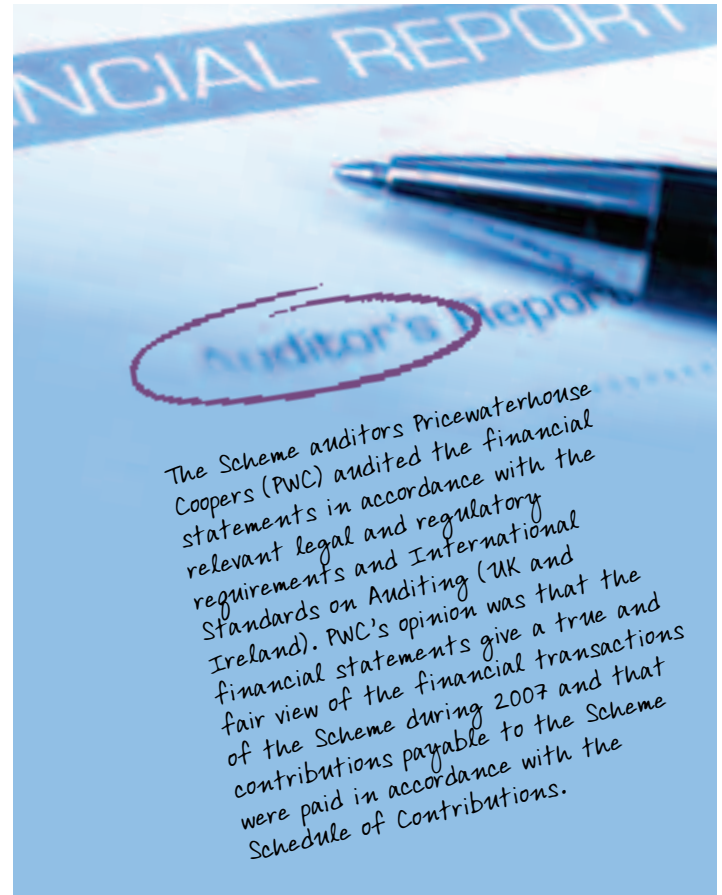
Bill Harper
Chair of the Trustee Board
Thames Water Pension Scheme

Membership

from the Report and Accounts
for the year ending 31 December 2007



'Actives' are employees who are contributing to the Scheme. **'Deferreds'** are former employees who still have benefits but are not yet pensioners. **'Pensioners'** are former employees or their dependants now receiving their benefits.



The accounts

If you would like to see a copy of the full **Report and Accounts**, please contact the administrator, Capita Hartshead ('Capita').

Alternatively, employees can access a copy from the Portal, by clicking on **HR/PeopleToolkit/Pay+Benefits/Pensions**.

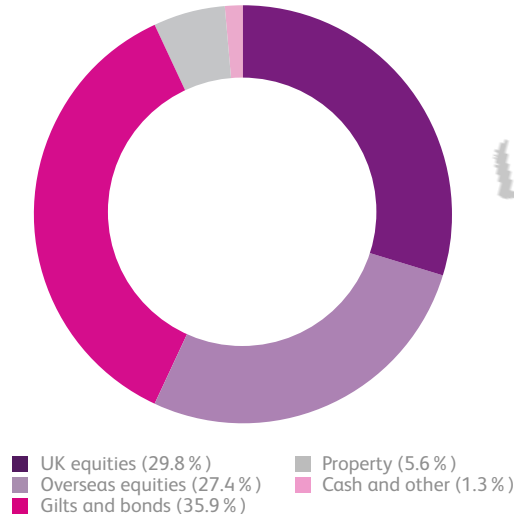
	Year to 31.12.2007 £000	Year to 31.12.2006 £000
Money coming in		
Members' contributions	4,307	4,541
Members' AVCs	1,562	918
Company contributions	34,610	33,582
Transfers from other schemes	2,195	2,542
Other income	230	301
Total	42,904	41,884
Money going out		
Benefits paid (including transfers)	22,815	22,101
Administration costs	1,805	1,314
Total	24,620	23,415
Our investments		
Income (after paying managers' fees)	11,402	10,022
Change in market value of investments	11,125	31,295
Total	22,527	41,317
Change over the year		
Value at start of Scheme year	617,949	558,163
Money out, less money in	18,284	18,469
Plus our investments	22,527	41,317
Value at end of Scheme year	658,760	617,949

Where we **invest** the **funds**

The Scheme's long-term strategic asset allocation is 55% in equities (shares in companies), split equally between UK and global companies; 35% in bonds (loans made to companies and the government in return for which interest is paid at an agreed rate until the loan is repaid), split 4.4% corporate bonds, 4.4% fixed interest gilts and 26.2% index-linked gilts; and 10% in property. The strategy is designed to reduce risk by broadly matching the assets and liabilities of the Scheme whilst maintaining an asset allocation appropriate to the strength of the Scheme's funding position.

The Trustee has produced a Statement of Investment Principles (SIP), a copy of which is available on request from the Secretary to Trustees – contact details are on page 23.

The market value of the Scheme's investments at the end of December 2007 was just over £650 million. The pie chart shows this broken down into the types of investment asset.



Who are the **investment managers**?

The Trustee has appointed specialist fund managers to make day-to-day investment decisions on behalf of the Scheme, within some agreed guidelines (the mandate).

The appointed fund managers during 2007 were :

- **UBS Global Asset Management (UK) Limited ('UBS')**
UBS actively manages a portfolio of UK and overseas equities.
- **Legal & General Investment Management Limited ('Legal & General')**
Legal & General passively manages a bond portfolio made up from fixed interest gilts, corporate bonds and index-linked gilts tracking relevant bond indices.
Legal & General also managed a small amount of the fund that has been earmarked for increasing the Scheme's property investment when the time is right to do so. This money is invested

passively in Legal & General's UK Equity Fund, tracking a UK Equity Index.

- **CBRE Investors Limited ('CBRE')**

The Scheme also holds units in a property unit trust managed by CBRE solely for TWPS and TWMIPS.

- **Friends Provident Corporate Pensions Limited**

Assets received from the Subterra Staff Benefits Plan when the liabilities from that scheme transferred to the Thames Water Pension Scheme in 2004 remain invested in units of Friends Provident's Balanced Mixed Fund. This unitised fund invests in UK and overseas equities, UK gilts, UK and overseas fixed interest bonds, property and cash.

At the end of January 2008, most of the assets managed by UBS were transferred to Legal & General to manage in a passive style in their equity funds.

The benchmark for this portfolio is 52% in the UK Equity Index Fund and 48% in the World (ex UK) Equity Index Fund. A small amount remained invested in the UBS Life Small Company Fund and the UBS Global Emerging Markets Equity Fund, awaiting a decision on the sale of these holdings at the appropriate time.

Active management is a style of investment management where the manager aims to outperform a benchmark using skills in asset allocation, market timing or share selection.

Passive management is a style of investment management where the portfolio is matched to a particular index, e.g. FTSE 100, so its value moves in line with that index.

Investment performance

Market background

2007 proved to be a year of two halves for pension scheme investment. The first six months were characterised by a general market confidence, with good results coming from equity and property investments, although fixed interest investments returned negative results.

However, mid-year the so-called 'credit crunch' took hold and market sentiment reversed. This resulted in some of the equity gains seen in the first six months being eroded, but fixed interest investments bounced back during the second half of the year. Property, despite a positive start to the year, lost ground in the final six months.

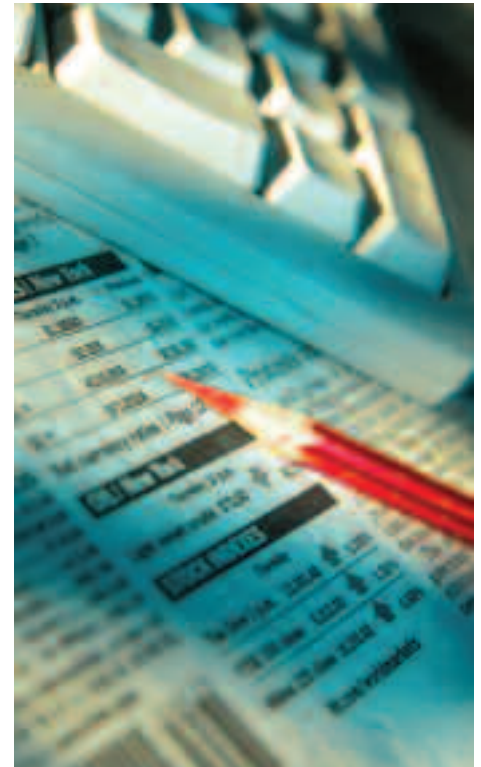
Our independent measurer of investment performance, BNY Mellon, has indicated that pension funds in the UK returned an average of 8.6% during 2007 compared to a Retail Price Index of 4.0%. This represents

a good relative return (over inflation) but below that of the longer term average.

The Scheme's performance

The general market movements are reflected in the returns achieved by the Scheme's investments.

The Scheme achieved an overall return of 3.6% over one year and an annualised return of 11.7% per year over the last five years. More about the short and long-term performance can be found on the next page.



Managers' performance in 2007

The Trustee sets each fund manager an investment performance target. BNY Mellon helps the Trustee measure the managers' performance.

The fund managers' performance targets during 2007 were:

UBS – to outperform a benchmark comprising 50% FTSE All share index and 50% FTSE All world ex UK index by 1.5% over rolling three-year periods

Legal & General – to track the total return of the market index relevant to the market sectors in which we invest i.e. corporate bonds, over 15 year gilts and index linked gilts, within specified tolerances

CBRE – to achieve a return of at least 4.5% above the UK Retail Prices Index

The fund managers' performance against their benchmarks is shown in the table below.

	Fund (%)	Benchmark (%)
UBS	2.6	8.2
L&G Bonds	6.7	6.6
L&G Equities	5.3	5.3
CBRE	-5.2	8.7
Combined Scheme	3.6	7.8



UBS underperformed over the year, returning 5.6% below the benchmark. Underweight positions in mining and overweight positions in financial stocks were the main detractors from performance. Over the longer term the portfolio has outperformed the benchmark in five of the last ten years giving an overall benchmark performance in that period.

L&G continued to track its benchmark to within the tolerances set.

CBRE underperformed the benchmark by 13.9% over the year. This is due to general falls in the UK property market in the second half of the year. Over the longer term, CBRE has easily surpassed its performance target, producing a real return of over 10% in seven of the ten previous years.

Pension increases

The Scheme paid out more than **£16.1 million** in pensions during 2007 and near **£4 million** in cash lump sums to people retiring. This was over **£1.2 million** more than in the previous year.



Different pension increases apply to the various sections in the Scheme.

For all sections, once members have reached State Pension Age, the pension increase will only be applied to pension above Guaranteed Minimum Pension (GMP). Any GMP earned is increased in line with inflation.

The State pays any increases above 3% on GMP earned after 1988 and all of the increase on GMP earned before 1988. This is paid with the State Pension the member is receiving.

The Scheme pays the increase on the GMP earned after 1988 up to a maximum of 3% a year.

Increases to pensions payable from the larger scheme sections (Main, Special and UKP) are shown below. Some pensioners will have received different increases in accordance with the Rules. All pensioners have been sent a letter showing how their own pension was increased.

	Pension in excess of GMP	Post-1988 GMP
2008	4.0%	3.0%
2007	4.4%	3.0%
2006	2.2%	2.7%

There were no pensions in payment from the 2005 Section during 2007.

Executive Section pensioners received increases in line with their base section increases.

Subterra Section pensioners received:

- new section - RPI increases (limited to 5%) measured over the year starting on the anniversary of their pension coming into payment, so increases in any one year may vary between members depending when their pension started.
- old section - guaranteed 5% p.a. increases (subject to overall RPI increase)

Deferred pensions are also increased before they come into payment in line with the Rules.

If you have any questions about your pension increase the administrator, Capita, will be happy to help.



Contributions

The Scheme has a **Schedule of Contributions** which sets out the contributions that must be paid to the Scheme by members and by the Company.

The following table summarises the main contribution requirements, but does not cover special arrangements for members who had London Weighting consolidated into basic pay from 1 January 2006, nor the whole range of contributions that Executive Section members may be paying.

Section of the Scheme	Member Contribution (excluding AVCs)	Employer Contribution
Main Section and Special Section	Main – 3% of Pensionable Pay Special – 5% or 6% of Pensionable Pay depending on former scheme	27.5% of Pensionable Pay
UKP Section (former TW(UK)PS members)	6% of Pensionable Pay for members accruing benefits at 1/60ths 4% of Pensionable Pay for members accruing benefits at 1/80ths	22.7% of Pensionable Pay
Executive Section (former TWSEPS members)	Between 5% and 10% of Pensionable Pay (depending on Grade) when added to base section contributions	7.7% of Pensionable Pay in addition to base scheme contribution
2005 Section	5% of Salary for members accruing benefits at 1/80ths 7% of Salary for members accruing benefits at 1/67ths	18.8% of Salary
Subterra Section (former SSBP members)	Not applicable as there are no active employees	NIL

Funding

An actuarial valuation is currently underway, but until that has been completed, we are only able to give an estimate of the Scheme's developing funding position since the 31 December 2004 valuation.

Valuing the Scheme on the basis that it continues in force, it had a funding level of 84% (a £90 million deficit) as at 31 December 2004.

Were it to have been wound up at that date, the Scheme Actuary worked out that there would have been sufficient funds to provide 58% of the benefits.

Between formal valuations the Trustee monitors an estimate of the Scheme's funding level. At the end of 2007, it was estimated that the approximate funding level was 88% on the ongoing basis and 61% on a wind-up basis.

The 31 December 2007 valuation will give us a much more accurate assessment of the Scheme's funding position based on

our up-to-date views of a prudent set of funding assumptions and taking into account changes to the membership and the value of the Scheme.

Pension limits

The Government sets a limit each year on the total amount of pension savings which you can build up tax-free. This is called the Annual Allowance and it is £235,000 for 2008/2009.

If you think your pension savings may be limited by this and you would like more detailed information about the savings you are building up in the Scheme please contact the administrator, Capita.

Pensions online

A reminder to active members that you can access our Pensions site through the HR portal.

On the site you can read past issues of Pensions on Tap, view the latest annual Report and Accounts, or download the members' handbook.

It even allows you to print off an Expression of Wish form, which is very important for letting the Trustee know your preferred beneficiaries should anything happen to you.

Access the Pension site, through HR/PeopleToolkit/Pay+Benefits/Pensions.

Rule changes

There were no changes to the Scheme during 2007 other than the amendment to the Deed in relation to the apportionment of employer debt that was made in June.

Benefit statements

We are making every effort to issue benefit statements to active members earlier this year. In any event you should receive your 2008 statement by the end of September at the latest.

If you are a deferred member you should have received your latest annual statement of deferred benefits in May. If you haven't received your statement please contact the administrator, Capita.

How **your Scheme** is run

The Trustee

A company called Thames Water Pension Trustees Limited acts as Trustee for the Scheme and it is the duty of its six directors ('the Trustee Directors') in running the Scheme to protect the interests of everyone who is due benefits from it.



Who are the Trustee Directors?

The current Trustee Directors are listed below.

Company appointed:
Bill Harper (Chairman)

Robert (Bob) Collington
(appointed 1 October 2007)

Steve Walker
(appointed 18 April 2007)

Tim Boylin resigned as Trustee Director on 31 January 2007 and Craig Anderson resigned as Trustee Director on 30 September 2007.

Member nominated:
Robert (Bob) Levi

Ian McKie

Dougie Skirving

If you wish to get in touch with the Trustee, please contact the Secretary to Trustees - contact details are on page 23.

The **Trustee** met formally nine times during 2007 and covered a wide variety of business, including investment strategy and performance, monitoring the funding position and receiving reports on Scheme administration. Ten sub-committee meetings also took place to make decisions on the payment of benefits.

Who are the advisers?

The Trustee has appointed a team of professional advisers to help with managing the Scheme on behalf of the members. There were no changes to advisers during 2007. The key ones are:

The Actuary

The Scheme Actuary is David Gardiner of Hewitt Associates Limited (formerly Hewitt Bacon & Woodrow)

The Auditor

PricewaterhouseCoopers

Actuarial Consultants

Hewitt Associates Limited (formerly Hewitt Bacon & Woodrow), (Epsom Office)

Corporate Finance Adviser

Gazelle Corporate Finance Limited

Investment Adviser

Hewitt Associates Limited (formerly Hewitt Bacon & Woodrow), (London Office)

Legal Advisers

Sacker and Partners
Slaughter and May



Answers on Tap

You can only apply to draw your cash and pension straight away if you're in the UKP Section, Special Section or Main Section of TWPS and you're at least 50 years old. If you're in the 2005 Section, you'll need to be at least 55.

From 6 April 2010, you'll need to be at least 55 to draw pension whatever section you're in. This is because the Government has introduced a new minimum retirement age from this date.

If you're working for Thames Water

First steps

If you're considering taking your pension immediately after leaving the company, the first thing you need to do is get an estimate of how much your pension will be and how much cash you may take:

- ask the administrator, Capita, for an early retirement estimate - you'll need to tell them what date you want them to use for the estimate (Capita's contact details are on page 23)
- getting an estimate doesn't commit you to anything - at this stage you don't have to tell your line manager that you're thinking about retiring - correspondence between you and Capita won't be passed to the company
- the estimate will tell you if Capita needs to get the company's agreement to pay your pension from the date you've chosen - there's more about this later

Next steps

If you decide you do want to take your pension as soon as you leave the company:

- it's important to discuss your plans with your line manager (who must be a grade ML5 or above) as soon as possible - the earlier you let us know your plans, the more time everyone has to make all the arrangements for your leaving
- most importantly, by telling us in good time (ideally six to eight weeks before you leave) you'll have enough time to choose your pension and cash options, and Capita will have time to get all the arrangements in place so they can pay your pension on the day you retire
- it's the responsibility of your line manager to tell HR Administration the date that you're planning to leave and that you're applying to draw your pension straight away. HR Administration then pass this information to Capita, who'll send you a full retirement pack
- your pack will include an up-to-date estimate of your retirement options and all the necessary pensions paperwork for you to complete
- make sure your line manager tells HR Administration as soon as possible once your leaving plans have been agreed. You can expect to hear from Capita no more than 15 working days after agreeing your retirement plans with your line manager
- if you're under 60 when you leave, Capita will have to get the company's agreement to pay your pension immediately. Capita deal directly with the company on this matter, but if this procedure changes in the future, members will be informed
- when you receive your full retirement pack from Capita, the company's agreement to paying your pension straight away will already have been given

If you're no longer working for Thames Water



First steps

If you have a deferred pension and wish to draw it early:

- your first step will be to contact the administrator, Capita (or JLT if you are in the Subterra Section), for an estimate. You'll need to tell them what date you want them to use for the estimate. It won't commit you to anything at this stage.
- when you get your estimate, it'll also tell you whether Capita (or JLT) has to get agreement from the Trustee for your pension to be paid early

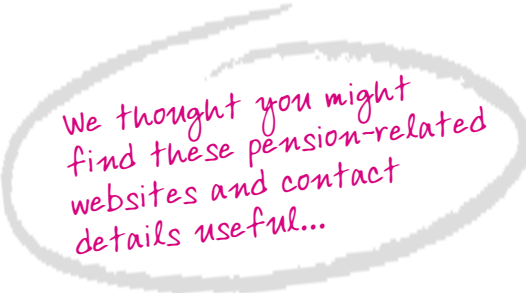
If you no longer work for Thames Water, it's of no concern to us whether you're going to leave your job when you start to draw your Thames Water pension. But depending on what your plans are, you may still need to allow time to discuss your plans with your current employer.

Next steps

If, when you've seen your early retirement options, you decide you want to go ahead:

- get in touch with Capita (or JLT if you are in the Subterra Section) well in advance of the date you think you might want to retire (ideally two to three months before)
- you'll need to tell Capita (or JLT if you are in the Subterra Section) from what date you want to draw your benefits
- Capita (or JLT) will then send you a full retirement pack which will include an up-to-date estimate of your retirement options and all the necessary pensions paperwork for you to complete
- when you receive your pack from Capita (or JLT), the Trustee's agreement to paying your pension early will already have been given (you'll be told if this procedure changes at all)

Useful **websites** and **phone numbers**



We thought you might find these pension-related websites and contact details useful...

www.thepensionservice.gov.uk

Run by the Department for Work and Pensions (DWP), this site provides electronic versions of all DWP leaflets, brochures and forms. Or you can call at your local DWP office and pick up the leaflets you want. You can also access the Pension Tracing Service on this site, which helps members who lose contact with pension schemes from previous jobs to trace their benefits.

Phone: 0845 6002 537

www.direct.gov.uk

This website brings together a wide range of public service information and services online. Produced by the Central Office of Information, Directgov provides information from across UK government departments on topics ranging from travel safety to local NHS services. It also brings together many online government services - from taxing your car to renewing your passport.

www.thepensionsregulator.gov.uk

The Pensions Regulator is the new regulatory body set up to encourage high standards and good practice in the running of work-based pension schemes in the UK. It provides a wide range of guidance, set out as Codes of Practice, to help trustees to better manage their pension schemes, and also offers training modules for trustees. It replaced the Occupational Pensions Regulatory Authority (OPRA).

Phone: 0870 606 3636

www.pensionsadvisoryservice.org.uk

The Pensions Advisory Service (TPAS) is an independent voluntary organisation set up to give free help and advice on occupational or personal pension issues.

Phone: 0845 601 2923



www.pensions-ombudsman.org.uk

If TPAS is unable to help, you can contact the Pensions Ombudsman, who can investigate and determine any complaint or dispute of fact or law.

Phone: 020 7834 9144

www.unbiased.co.uk

This is the official site for Independent Financial Advisers (IFAs). You can ring them to find details of IFAs in your area.

Phone: 0800 085 3250

www.fsa.gov.uk

This is the site of the Financial Services Authority, a government agency whose functions include the regulation of investment companies. The site includes a section on pensions and has some useful publications and links to other sites.

Phone: 0845 606 1234

www.pensionprotectionfund.org.uk

The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation. Their website provides information on how the Pension Protection Fund works and the compensation members may receive if the PPF takes over a scheme.

Phone: 0845 600 2541

www.annuity-bureau.co.uk

This site includes information on annuities and details of rates offered by the different providers. This may be of particular interest to members who are paying Additional Voluntary Contributions (AVCs)

Phone: 0845 602 6263

Who are the people to contact?

Please remember to keep the Scheme Administrator informed of any changes to your circumstances or personal details.

If you are a current employee, please tell HR of any changes to your personal details. HR will then pass the changes on to the administrator, Capita Hartshead ('Capita'), on your behalf.

If you are planning your retirement or transferring your pension benefits, Capita will prepare a personal quotation for you on request.

If you would like to update your Expression of Wish Form, which will help the Trustee with the payment of lump sum death benefits, Capita can provide you with the right form. Employees

can also obtain a copy via the Portal. To access the Pension site click on HR/PeopleToolkit/Pay+Benefits/Pensions.

If you have any queries relating to the administration of the Scheme (other than queries relating to the Subterra Section), please contact in the first instance:

Thames Water Pensions Administration Team

Capita Hartshead
257 Ecclesall Road
Sheffield S11 8NX

Phone 0114 276 2977

Fax 0114 241 4107

Email

thameswaterpensions@capita.co.uk

Members of the Subterra Section should contact:

JLT Benefit Solutions Limited

Rosemoore Court
Pynes Hill
Exeter EX2 5TU

Phone 01392 356535

Fax 01392 356502

The in-house pensions department and the Secretary to Trustees can be contacted at:

Thames Water Utilities Limited

Pensions Department
Clearwater Court
4th Floor East
Vastern Road
Reading
Berkshire RG1 8DB

Phone 0118 373 8601

Fax 0118 373 9816

