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**Investment guide**

**for members**

**INTRODUCTION**

When you retire, you use the money in your Retirement Savings Account for your retirement income.

Your retirement income depends on these key things:

* how much you and the Company have paid into your Retirement Savings Account;
* where you choose to invest the money paid in;
* the performance of your investments and the level of investment charges; and
* your age when you retire.

This guide sets out all the investment options available to you in the Wessex Water Pension Scheme - Defined Contribution Section (the Scheme).

It’s your step-by-step guide to help you achieve the retirement you want.

**Why should you read this guide?**

This guide:

* explains the basics of investing;
* tells you more about your investment options; and
* highlights key things to think about when you make your investment decisions.

**Jargon explained**

Some technical terms are used in this guide – these are explained on pages 16 - 18.

**CONTRIBUTIONS**

The amount you and the company pay into the Scheme will have a direct impact on how much money you will have to spend in later life.

The Scheme has two contribution levels. When you join the Scheme, you will pay contributions at the **Starter** level. Here, you will pay 3% of your salary and the company will pay 5% giving a total of 8% being invested into your Retirement Savings Account. The details are shown in the chart below:

|  |  |  |
| --- | --- | --- |
| **Your GROSS contribution** | **The company contribution** | **Total contributions** |
| Starter Level - 3% | 5% | 8% |
| Standard Level - 5% | 8% | 13% |

After your first contribution is paid you can choose to increase your contributions to the Standard level of 5%.

At this level, you pay 5% and the company pays 8% meaning 13% of your salary in total will be going into your Retirement Savings Account.

**Can I pay more?**

If you can afford to, you can pay more than 5%. This is known as an AVC (Additional Voluntary Contribution).

However, the maximum company contribution will not exceed 8%. So if you pay 7%, the company will pay 8% and your total contribution will be 15%.

**HOW TO CHOOSE YOUR INVESTMENTS**

Finding the right investment option doesn’t need to be complicated. This table covers the key things you need to think about when making your decision.

|  |  |
| --- | --- |
| **Things to do** | **Where can you find out more?** |
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| Make your decision | Page 13 |

Finally, don’t forget to review your decision at least once a year.

**Do I have to choose where I invest my Retirement Savings Account?**

No, you don’t have to. If you don’t, we’ll invest your Retirement Savings Account in the Default Fund (see page 10).

The Default Fund won’t be right for everyone but the Trustees have taken into account the characteristics of the whole membership and believe that this option is likely to be suitable for many members of the Scheme.

We’d encourage you to look at all of the options available in this guide. You can find more details on pages 7-13.

**UNDERSTANDING HOW INVESTMENTS WORK**

Knowing how much retirement income you want and how much you actually need is a big part of deciding which investments may be best for you.

**The basics of investment: risk and return**

The money you and the Company pay into your Retirement Savings Account needs to grow so you have enough when you retire.

To help it grow, you can invest your Retirement Savings Account in assets like equities, property, bonds, and cash. Each of these types of investment aims to increase the value of your Retirement Savings Account (known as ‘making a return’) but comes with an associated level of risk.

Almost all investment involves some degree of risk – but not all risks are bad. What’s important is that you understand and are comfortable with the risks you’re taking. For example, if you put your money in a bank account, there’s almost no risk, but the interest you’ll get (your ‘reward’) will probably be quite low. So if you’re young, and are a long way from retirement, cash might not be the right thing for you to invest in.

On the other hand, investing your money in company shares can be higher risk (meaning that the prices can go up and down quite a bit in the short term) but you might expect to get better returns over the longer term. This is known as ‘capital risk’. In broad terms, you need to take investment risk to grow your assets over the longer term but are likely to want to reduce this as you get closer to retirement.

There are two types of investment risk you need to know about:

**Capital risk**: the risk that your investments may drop in value. It’s usually the risk being highlighted when you hear ‘the value of your investments can go down as well as up’. This can happen with all equity, bond and even cash funds.

**Inflation risk**: the risk that your investments won’t keep up with the cost of living (inflation). Even if they do grow in value, if they don’t grow quicker than inflation then their real value goes down. This can happen with low capital risk funds, such as cash funds.

If you are thinking of buying an annuity when you retire, you also need to know about **Conversion risk**: the risk that you invest in funds that don’t help protect the buying power of your Retirement Savings Account as you get closer to retirement.

Here’s an overview of the different investment types:

**Cash:** As the name suggests, cash funds invest in various cash-based investments. Cash funds have lower capital risk than equities or bonds and gilts – but the expected return is lower too.

**Bonds and gilts**: Bonds are loans issued by companies, banks and large organisations. A rate of interest is usually paid on the money loaned. UK Government bonds are ‘gilts’. Bonds and gilts may produce a higher return than cash, but lower returns than equities over the longer term.

**Property:** Investment in a wide range of retail and industrial properties in the UK. Returns are based on property values and rental income. Property tends to be lower capital risk than investing in equities but higher risk than cash and bonds over the short term.

**Equities:** Equities are shares in companies like BP and Apple and in the long term have higher expected growth than bonds, gilts or cash. However, their higher level of capital risk means that they can also sometimes change dramatically in value in a very short amount of time (this is known as volatility). Equities have higher capital risk than the other investment types.

**Multi-asset** funds – As the name suggests, multi asset funds invest in a range of types of investment and aim to spread your risks. Multi asset funds will normally invest in equities and bonds and may also hold other investments such as infrastructure (e.g. toll roads and bridges).

The importance of the different types of risk changes as you get closer to retirement. When you’re young and a long way from retirement, it normally makes sense to invest in things that grow your money successfully over the long term, accepting these might go up and down in value over the short term because they have plenty of time to recover from any falls.

As you get closer to retirement, it’s normally worth considering investing in more stable assets that don’t move up and down so much and help to protect your income in retirement. This might include bonds issued by the Government, cash or some form of investment that limits the downside in the value of your Retirement Savings Account.

**Your selected retirement date**

Your selected retirement date is the date you’ve chosen to retire. By default (i.e. if you haven’t selected a date) this will be your 65th birthday.

This is important because it affects how your assets are invested if you are in a lifecycle funds (including the Default Fund) and so you should choose a date which is as realistic as possible and update this if your plans change.

For example, if you select age 55 as your chosen retirement age and are in a lifecycle strategy but don’t retire until you’re 65, your retirement savings will be invested in funds with lower growth opportunities for up to 10 years longer than you intended – so you may lose out on higher investment growth. If you select age 75 as your chosen retirement age but actually retire at age 60 your retirement date may be invested in a higher risk fund right up to your retirement – exposing you to the risk of a sudden market downturn shortly before you retire.

**DECIDING WHAT’S RIGHT FOR YOU**

**Lifecycle funds:**

All the different types or risk and different types of investments can make saving for your retirement sound very complicated and many people are not comfortable making investment choices.

If this applies to you, the Scheme offers three ‘lifestyle’ or ‘lifecycle’ funds.

The aim of a lifecycle fund is to grow your assets strongly when you are far away from retirement and then protect them from falling significantly when you get closer to retirement. The assets are moved automatically over the 15 years before your selected retirement date so you don’t have to worry about remembering to switch your investments as you get closer to retirement.

Each lifecycle fund is designed to reflect how you plan to take your benefits when you retire. You have three main options:

* take all of your Retirement Savings Account as a cash sum (subject to tax at the appropriate rate);
* take some of your Retirement Savings Account as a cash sum but keep the rest invested and take further cash sums later in retirement (known as income drawdown); or
* take some of your Retirement Savings Account as a cash sum and use the rest to buy an annuity (a regular income, normally for the rest of your life).

You can find more information about the options available to you at retirement in your Scheme Booklet or by visiting www.pensionwise.gov.uk

**Retirement Planner 15 Year CASH Lifecycle**

**Who is this suitable for?**

This strategy is designed for those members who intend to take all of their Retirement Savings Account from this Scheme as cash when they retire. This is also the default strategy (i.e. the strategy that your savings will be invested in if you don’t make an active choice).

**Where does it invest?**

If you have more than 15 years until you retire, the money you and the Company pay in is invested in a way that gives your money an opportunity to grow in the long term. This can mean that the value of your retirement savings may go up and down quite a bit in the short term. However, the aim is that its value should go up in the long term. Through this stage, your money is invested mostly in UK and global companies with some investments being introduced into assets, such as bonds as you start to get closer to your selected retirement age.

This lifecycle is designed to be invested 100% in cash at the point of your target retirement date and moves money into cash in the final three years before you retire.

The total fees you will pay on the funds you will invest in as part of this lifecycle are as follows:

|  |  |  |
| --- | --- | --- |
| **Asset class** | **Fund** | **Total Member Charges\*** |
| Passive Global Equity | L&G Global Equity Market Weights 30:70 GBP Currency hedged | 0.44% a year |
| Multi-Asset | L&G Multi-Asset Fund | 0.43% a year |
| Cash | L&G Cash Fund | 0.40% a year |

\* this is the total fee you pay including investment and administration charges (see page 11).

**Retirement Planner 15 Year DRAWDOWN Lifecycle**

**Who is this suitable for?**

This strategy is designed for those members who intend to keep part of their money invested past the point of retirement as well as take their maximum allowable tax free cash lump sum at the point of retirement (please note that you cannot currently keep your money invested within this Scheme after you retire).

**Where does it invest?**

This lifecycle invests in assets that aim to grow your investment when you are far away from retirement. It also keeps your money invested partly in assets that target growth at the point of retirement. When you retire, you will have 50% invested in a fund which holds a spread of assets, 25% in a fund which primarily invests in fixed interest assets issued by companies and 25% in cash. The charges on the funds which are used in this lifecycle are shown below:

|  |  |  |
| --- | --- | --- |
| **Asset class** | **Fund** | **Total Member Charges\*** |
| Passive Global Equity | L&G Global Equity Market Weights 30:70 GBP Currency hedged | 0.44% a year |
| Multi-Asset | L&G Multi-Asset Fund | 0.43% a year |
| Corporate Bonds | L&G AAA-AA-A Bonds Over 15 Year Index | 0.42% a year |
| Cash | L&G Cash Fund | 0.40% a year |

\* this is the total fee you pay including investment and administration charges (see page 11).

**Retirement Planner 15 Year ANNUITY Lifecycle**

**Who is this suitable for?**

This lifecycle is designed for members who plan to buy an annuity (a secure income, purchased from an insurance company, normally for life) and take their maximum allowable tax-free cash lump sum at the point of retirement**.**

**Where does it invest?**

This lifecycle invests in assets that aim to grow your money when you are far away from retirement and then gradually moves your money to assets that protect against changes in annuity rates (known as bonds) and cash as you approach your retirement. When you retire, your money will be invested 75% in bonds and 25% on cash. The charges on the funds which are used in this strategy are shown below:

|  |  |  |
| --- | --- | --- |
| **Asset class** | **Fund** | **Total Member Charges\*** |
| Passive Global Equity | L&G Global Equity Market Weights 30:70 GBP Currency hedged | 0.44% a year |
| Multi-Asset | L&G Multi-Asset Fund | 0.43% a year |
| Pre-Retirement | L&G Pre-Retirement fund | 0.42% a year |
| Cash | L&G Cash Fund | 0.40% a year |

\* this is the total fee you pay including investment and administration charges (see page 11).

Factsheets are enclosed in your pension pack to explain these lifecycle options in more detail.

**Default Fund:**

**As many of members will have relatively small pension pots at their point of retirement, the Trustees believe the Retirement Planner 15 Year CASH Lifecycle is an appropriate strategy for most people retiring over the next few years.**

**If you don’t make any investment strategy choice your contributions (and the contributions the Company makes for you) will be invested in this fund.**

**You must be comfortable that this strategy is in line with your retirement plans and if your plans change, you’ll need to consider whether this is still the right option for you. Taking all of your pension savings as cash may not be right for everyone. The Trustees do not know what other pension assets you have and have designed the default based solely on the information they have on members of this Scheme.**

**And you must also remember that only the first 25% of your retirement savings can be taken tax free, even if you take it all as cash – the rest will be subject to income tax.**

**Self-select funds:**

Some people do feel comfortable making their own investment choices.

If this applies to you, there are a number of investment options for you to choose from.

The table overleaf shows all of the funds on offer. If you want to know more about any fund, a detailed fund factsheet is available for each one. You will find them on the Scheme website: <http://www.legalandgeneral.com/wessex-water>

**Fund code:** Each fund has a unique four-digit reference code. Legal & General may ask you for these codes when you make any investment choices or decide to move between funds at a later date.

**Key assets:** In this column, you will see which investment type or types the fund mainly invests in. Some of the funds are index tracking funds (i.e. the aim to perform in line with the relevant market) and others are actively managed (i.e. the manager is seeking to perform better than the market). Generally, the index tracking funds have lower charges than the actively managed funds.

**Total member charges:** (TotalFund Management Charge or TFMC). This is basically all of the charge you pay to invest in this fund and is the combined total of theInvestment Management Charge (a charge made by the investment manager for managing the funds) and Additional Expenses (a charge that covers various fees and expenses that fund managers may have to pay). In addition a standard scheme charge of 0.30% applies to cover literature and administration services which the Trustees have negotiated with Legal &General.

The total charge (i.e. the full charge you pay) for each fund is shown in the table overleaf (these charges may be revised quarterly).

|  |  |  |  |
| --- | --- | --- | --- |
| Fund name | Fund Code | Key assets | TFMC (\*) |
| L&G (PMC) Global Equity Market Weights 30:70 Index 75% GBP Currency Hedged Fund 3 | NRJ3 | Index tracking fund with 30% in UK companies and 70% in global companies – 75% of overseas shares are hedged against exchange rate movements | 0.44% |
| L&G (PMC) Multi-Asset Fund Fund 3 | NTW3 | Largely index tracking fund but with a mixed range of shares, bonds, cash and other assets | 0.43% |
| L&G (PMC) Pre- Retirement Fund 3 | NEN3 | Actively managed fund investing in Government & corporate bonds | 0.42% |
| L&G Cash Fund 3 | EAB3 | Actively managed fund which holds a wide range of different cash deposits & short term investments | 0.40% |
| L&G (PMC) AAA Fixed Interest Fund All Stocks Fund 3 | NEJ3 | Index tracking fund investing in highly rated bonds | 0.42% |
| L&G (PMC) Global Equity Fixed Weight 50:50 Index Fund 3 | NDZ3 | Index tracking fund investing in shares of UK and overseas companies | 0.40% |
| L&G Index-Linked Gilt Fund 3 | EAH3 | Index tracking fund investing in Government bonds which pay a rate of interest linked to inflation | 0.40% |
| L&G (PMC) UK Equity Index Fund 3 | NBC3 | Index tracking fund invested in UK company shares | 0.40% |
| L&G (PMC) World (Ex UK) Equity Index Fund 3 | NED3 | Index tracking fund which holds shares in overseas companies excluding the UK | 0.42% |
| L&G (PMC) North American Equity Index Fund 3 | NDX3 | Index tracking fund that invests in shares in North American companies | 0.42% |
| L&G (PMC) Ethical UK Equity Index Fund 3 | NEA3 | Index tracking fund that invests only in UK shares that meet certain ethical criteria | 0.50% |
| L&G (PMC) Diversified Fund 3 | NWW3 | A mixed range of shares, bonds, cash and other assets | 0.57% |
| L&G Property Fund 3 | EAE3 | Actively managed fund investing in commercial property; offices, shops, factories and warehouses | 1.01% |
| L&G (PMC) World Emerging Markets Equity Index Fund 3 | NQM3 | Index tracking fund which holds shares in worldwide emerging economies | 0.75% |
| L&G Newton Global Higher Income Fund 3 | 3522 | Actively managed fund investing in shares in worldwide companies | 1.14% |
| L&G First State Asia Pacific Leaders Fund 3 | 3265 | Actively managed fund investing in shares in Asia Pacific region excluding Japan and Australasia | 1.21% |

Remember, if you do select your own investment funds, you need to keep these under review regularly (at least annually) to make sure they are still suitable for you.

**MAKING YOUR DECISION**

If you are comfortable for your contributions (and those the Company makes for you) to be invested in the Default Fund (the Retirement Planner 15 Year CASH Lifecycle), you don’t have to do anything.

You must be comfortable that this strategy is in line with your retirement plans and if your plans change, you’ll need to consider whether this is still the right option for you. Taking all of your pension savings as cash may not be right for everyone. The Trustees do not know what other pension assets you have and have designed the default based solely on the information they have on members of this Scheme.

If you want your contributions (and those the Company makes for you) to be invested in a different fund or selection of funds, you can do this:

* By completing a switch form
* Going online, through the Scheme website: [www.legalandgeneral.com/wessexwater](http://www.legalandgeneral.com/wessexwater)
* By phone, you can call Legal & General directly on 0845 0708686 – enter PIN 68. Call charges will vary. Legal & General may record and monitor calls.

You can change the funds your Retirement Savings Account is invested in as well as your future contributions at any time.

**FREQUENTLY ASKED QUESTIONS**

**What funds are available?**

There are 16 investment funds for you to choose from as well as the 3 lifecycle options.

**Who chooses which funds are available?**

The Trustees, based on advice from their adviser, decide which funds to make available for you to choose from. The Trustees review the selection from time to time and monitor the performance of the funds on a regular basis. In the future, this could mean that certain funds will be removed or new ones added.

**Who manages the funds?**

All the funds are managed by professional fund managers. All of the funds are offered through Legal & General but some of the underlying funds are managed by other fund management groups. The Trustees monitor all the funds that they offer to you on a regular basis.

**How many funds can I invest in?**

You can invest in either:

* the Default Fund, or
* one of the other lifecycle options, or
* the self-select fund range.

You can’t invest in more than one lifestyle fund or invest in a mixture of both lifestyle and self-select funds.

If you choose the self-select option you can invest in as few or as many of the self-select funds as you wish and in whatever proportions you want.

**Can I alter my choices later?**

You can change the funds your pension is invested in as well as your future contributions at any time:

* By completing a switch form
* Online, through the Scheme website: <http://www.legalandgeneral.com/wessexwater>
* By phone, you can call Legal & General directly on 0845 0708686 – enter PIN 68. Call charges will vary. Legal & General may record and monitor calls.

**What are the charges for investing?**

Each of the investment funds carries a Total Fund Management Charge (or TFMC). This charge is accounted for in the price of the unit, so is reflected in the value of your investment fund.

The TFMC is a fixed charge made by the fund manager. Different funds have different charges and you will find these listed together with details of the funds themselves further on in this section of the guide. These charges are reviewed regularly and may go up and down.

If you invest in the Default Fund the charges that you’ll pay will vary over time depending on how far away you are from retirement.

**Where can I get more information about the Scheme?**

You can find out more about how the Scheme works in the Scheme Booklet or by visiting the Scheme website: <http://www.legalandgeneral.com/wessexwater>

**JARGON EXPLAINED**

AVCs (Additional Voluntary Contributions)

Additional contributions you choose to make above the Standard Level. The Company does not match or pay any more than the Standard Level if you choose to pay AVCs. (See your Scheme Booklet for more detailed information about contributions.)

Annuity

An annuity is a product that provides you with a pension income when you come to retire. You can use the value of your Retirement Savings Account to buy an annuity from an annuity provider. You will then receive a regular income, normally for the rest of your life. How much income you’ll get depends on a number of things including how much your Retirement Savings Account is worth and the actual cost of an annuity at the time you come to buy one. When choosing your annuity you can decide whether to have a fixed or inflation linked annuity. An inflation linked annuity pays you an increasing income each year by increasing broadly in line with changes to the rate of inflation whereas a level annuity will pay you a fixed income in retirement.

Assets

Assets are the building blocks of investment funds – they are the types of things that funds invest in. There are four main types of asset: equities, bonds, property and cash.

Bonds

Sometimes called ‘fixed interest securities’, bonds are basically IOUs – a promise to pay back your original investment at a set date in the future, plus payments at regular intervals between now and then. Some bonds are ‘index linked’ which means the regular payments increase in line with inflation. Bonds can be corporate bonds, issued by companies or government bonds. UK Government bonds are sometimes referred to as gilts.

Bonds make money in two ways: as well as receiving interest type payments from the company or government, bonds, like shares, can be traded. This means it may be possible to sell a bond for more or less than it was bought for. Bonds often provide more modest returns than shares but tend to be less volatile over the short to medium term.

Cash

When you invest in cash, you are investing in short term deposits with governments and major financial institutions like banks and building societies. Although your Retirement Savings Account may not grow very much when it’s invested in cash, investing in cash can be useful. For example, investments held in cash are very secure. What’s more, the value of cash investments tend to be far more stable than investments in other types of asset. Cash can be a useful investment option to preserve the value of your pension pot as you get close to your selected retirement date.

Default Fund

The Default Fund is an investment which the Trustees believe will meet the needs of most members. If you don’t want (or feel unable) to make your own investment decisions, your retirement savings will automatically be invested in the Default Fund.

Default retirement date

The Scheme’s normal retirement date is age 65. Your selected retirement date will default to this date unless you elect a specific date related to your personal retirement plans. Please remember, that the earlier you choose to take your pension benefits, the less time there will be to build up your pension pot. This could have a significant effect on the amount of pension income you receive. You also need to bear in mind that your State Pension Age may not be 65.

Equities

See ‘shares’.

Fixed interest

See ‘bonds’.

Fund

Your Retirement Savings Account is invested in one or more investment funds. Investment funds are controlled by a fund manager and invest in different assets with the aim of helping your money grow or preserving its value.

Gilts

These are bonds issued by the UK Government. For more information please see ‘bonds’.

Lifestyle/Lifecycle

A lifecycle is a type of investment that automatically moves your Retirement Savings Account between different funds, depending on how far you are from retirement. Your Retirement Savings Account will start off being invested in a fund that has greater risks but also greater possible opportunities for growth over the long term. As you move nearer to your selected retirement date, your pension pot is gradually moved into funds that may not have the same opportunities for growth but present less risk to your money. The Default Fund option is a lifecycle option.

Retirement Savings Account

Your Retirement Savings Account is the value of the total amount of money that you have in your Scheme. When you reach your selected retirement age, you will ‘open’ your account and use the value at that time of the money you’ve built up over the years to provide benefits for your retirement.

Property

In investment terms, property means commercial property such as offices, shops, warehouses, factories and other business buildings. Investors in property look to make money in two ways: from rent paid by tenants and from rises in the value of the property itself. Property can offer good prospects for long term returns but property prices can fall too – particularly in the short term.

Selected retirement date

Your selected retirement date is the date you choose to take your benefits from the Scheme. This can be any time from the age of 55. Please remember, that the earlier you choose to take your pension benefits, the less time there will be to build up your Retirement Savings Account. This could have a significant effect on the amount of pension income you receive.

Shares

Shares, also known as ‘equities’, are where you buy a small part of a company such as Apple or BP. If the company is seen to be successful, their shares may be in high demand, pushing up the share price. Share values can go up and down a lot in the short term but can offer long term growth potential. Shares are suitable for medium to long term investments – that’s to say at least five years, preferably longer.

Trustees

The Trustees are responsible for the management and administration of the Scheme in accordance with the formal governing documents and relevant UK legislation and regulation. They are also responsible for the safekeeping of the money and investments belonging to the Scheme.

Units

Funds are divided up into units. When you choose to invest in a fund, your money is used to by units in it. The price of units can rise and fall. The total value of your Retirement Savings Account can be calculated by multiplying the number of units your hold by the price of each unit.