

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
PUBLIC SERVICE COMMISSION'S FIRST SET OF INFORMATION REQUESTS
ITEMS 1 – 33

Witness Responsible:

Michael A. Miller

21. Provide a complete copy of each group medical insurance policy that Kentucky-American currently maintains for its employees.

Response:

Please find attached the American Water Group Insurance Plan Summaries.

For the electronic version, refer to KAW_R_PSCDR1#21_052107.pdf.

navigate

Charting *your* course

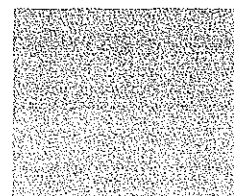
2006 Non-Union Open Enrollment Benefit Guide

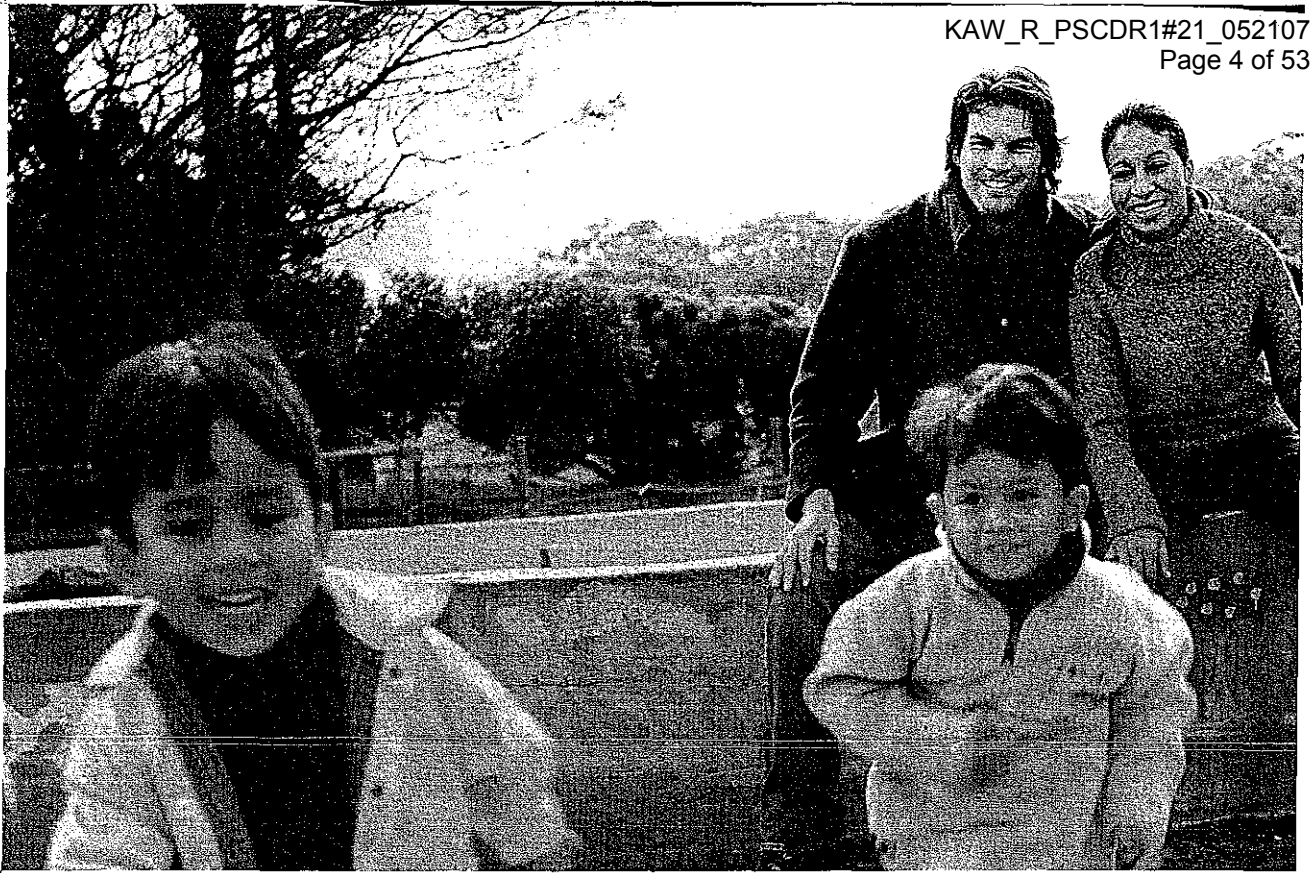




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The Total American Water Experience

In 2005, we began the *Navigate – Charting Your Course* project to develop a total rewards program at American Water. In establishing this new “total American Water experience,” we looked at our programs in individual growth and development, pay, benefits and culture. Our first step in implementing the final total rewards program is by sharing with you your benefits program for 2006.

At American Water, our people are our most valuable asset. That’s why we are committed to providing a flexible, comprehensive benefits package to our employees. American Water provides the choices;

you make the decisions. This year, you have the opportunity to design a benefits package that best meets your needs. You choose the benefits, such as medical or dental, and life insurance that make the most sense for you and your family for the coming year.

For 2006, your previous medical coverage will not automatically renew. The medical programs for 2006 are new, so you must participate in 2006 open enrollment. If you make no elections for 2006, you will have no American Water medical coverage for 2006 or receive the opt-out credit. The elections you make during open enrollment will be effective January 1, 2006.

Enrollment Overview

Open enrollment is the time of year when you can make changes to your benefit elections. This year, open enrollment will begin in early October and continue until Wednesday, October 26, 2005. This benefit guide provides you with the information you need to make your 2006 benefit elections, including:

- An overview of the benefit programs available to you and that you will need to make a decision about during open enrollment
- A medical plan comparison chart so that you can make an informed decision about which medical plan best meets your medical and financial needs
- An enrollment form for you to record your elections and forms to identify your beneficiaries for each of the plans

Before enrolling, read this guide and share it with your family. After open enrollment, keep this guide as a resource for those times when you need to refer to the valuable plan information.

Once you've made your elections, please return your completed enrollment form and beneficiary designation forms to your local Human Resources representative during the enrollment period.

Any contributions for the 2006 benefit coverages you elect will be made through automatic payroll deductions beginning in January.

Required Enrollment Participation

To participate in the health care insurance (medical, dental, vision or opt-out), the voluntary life insurance plans or a Flexible Spending Account (FSA) program, you must make new benefit elections. This year, we are requiring you to participate in open enrollment because of the changes to the benefit program. If you do not enroll during the open enrollment period, then for 2006 you will not be able to participate in:

- Any medical, dental or vision plans or opt-out,
- Voluntary life insurance or
- Either flexible spending account

The elections you make during open enrollment will be in effect from January 1, 2006 through December 31, 2006.

Beneficiary Designation

This year during open enrollment, we are asking you to designate a beneficiary or beneficiaries for plan benefits in the event of your death. You need to identify a beneficiary for the following plans:

- Life, Accidental Death and Dismemberment (AD&D) and Travel Accident Insurance
- Pension (if single)*
- 401(k)

**New for 2006, if single, you can name a beneficiary for your Pension Plan benefit at any age — you don't have to wait until you turn age 55.*

In this open enrollment guide, you will find beneficiary designation forms. You need to complete these forms even if you have previously named a beneficiary for any of the plans. Please complete these forms and return them to your local Human Resources representative with your enrollment form.

Making Benefit Changes During the Year

Open enrollment is the only time during the year that you can make changes to your benefit elections unless you experience a qualified family status change. If you experience one of these changes, you may be able to change your elections if you file a new enrollment form with the Benefit Service Center within 31 days of the change. Qualified family status change events include:

- Marriage;
- Divorce or legal separation;
- Loss or gain of an eligible dependent;
- Changes in your spouse's employment that affect benefits coverage;
- Change in employment status, for example:
 - Changing from full- to part-time or vice versa for you or your spouse.
 - Beginning or ending an unpaid leave of absence;
- Gain or involuntary loss of your spouse's medical coverage;
- Change of your home address to a medical plan service area outside the one for which you are enrolled;

- If your spouse's employer holds open enrollment at a time other than American Water's and, as a result of its benefit offerings, you incur a hardship;
- If you and your spouse become eligible or ineligible for Medicare; and
- If a new medical plan option is added

Note: Be sure to review the eligibility rules for dependents for any American Water benefit program. American Water periodically audits the validity of dependents in the benefit programs. In early 2006, we will be asking for copies of marriage certificates and birth certificates to verify your eligible dependents. It's a good idea to start locating these documents. If you are found to be covering an ineligible dependent, that person will immediately lose any benefit coverage.



Medical, Dental and Vision

Medical

Even as health care costs are rapidly rising across the country, American Water remains committed to providing comprehensive, cost-effective health care coverage for you and your family. We continue to cover a higher portion of the costs of your health care insurance compared to the national average.

Your Medical Plan Options

For 2006, you will have additional flexibility and choice in deciding which plan best meets you and your family's medical and financial needs. American Water now offers three medical plans for you to choose from:

- A Standard Preferred Provider Organization (PPO) plan
- A Premium Preferred Provider Organization (PPO) plan (very similar to American Water's current medical plan)
- An Exclusive Provider Organization (EPO) plan

Horizon Blue Cross Blue Shield provides the PPO and EPO plans. Horizon has negotiated special rates with in-network health care providers in the plans to offer you competitive health care. To locate providers that participate in the Horizon network, you can call 1-800-810-BLUE (2583) or use the *Provider Finder* at www.horizon-bcbsnj.com/nationalaccounts.

You can select coverage for:

- Yourself (single)
- Yourself and one or more dependents (family)

You'll find contribution rates for each plan and coverage level on the enrollment form enclosed with this guide.

Your Wellness Matters!

Horizon Blue Cross Blue Shield makes quality wellness programs available to you at considerable savings. You can get discounts and savings on popular products and services that you and your family may use, and would otherwise pay full price. The wellness programs cover topics such as weight loss management, nutrition services, smoking cessation, savings on health and welfare products (e.g., vitamins, herbal remedies) and alternative therapy.

Just present your Horizon ID card at participating businesses to receive the Horizon Wellness Discounts. For more information and easy online ordering, visit the Horizon Web site at www.horizonblue.com/nationalaccounts.

Standard PPO Plan and Premium PPO Plan

With the Standard PPO plan and the Premium PPO plan, you have a choice to make each time you use the plan: whether to receive care from a doctor, hospital or health care provider that's part of the plan's network, or from any provider outside the network. You'll receive a higher level of coverage (i.e., the plan will pay a higher percentage of the

cost of service) when you receive care through the network and your out-of-pocket costs will be lower compared to receiving care outside of the network. For most services, you will be required to pay a deductible and coinsurance.

You do not have to select a primary care physician to coordinate your care (e.g., when you need specialty services). However, it's always a good idea to maintain a relationship with a doctor that knows you and your medical history and who can help you make the right choices about your care.

What's the Difference?

The Standard PPO and the Premium PPO operate identically. They differ by the deductible and coinsurance amounts, and by the amounts you pay out of your paycheck for coverage.

Exclusive Provider Organization (EPO)

In contrast to the PPO plans, the EPO plan offers no out-of-network benefits. That means, in order to receive plan benefits, you must receive care from a doctor, hospital or health care provider that is part of the plan's network. The EPO includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount.

Similar to the PPO, you do not have to select a primary care physician to coordinate your care (e.g., when you need specialty services). Before electing the EPO plan, you may want to check if your doctor(s) participate in the network.

Prescription Drug Coverage

You will receive prescription drug benefits through Horizon (Caremark is the prescription administrator under the Horizon plan). Benefits are available for generic drugs, preferred brand-name drugs (those on the preferred drug list) and non-preferred brand-name drugs (those not on the preferred drug list). You can fill your prescriptions at any pharmacy or through Caremark's mail-order program. See the *Health Care Coverage Comparison Chart* (beginning on p.8) to learn more about your prescription drug benefits and how you can get the best deal on your prescriptions.

Save with Generics

When using your prescription drug plan, you will pay less if you receive a prescription for a generic drug. A generic drug is chemically equivalent to a preferred drug. Generic drugs are just as safe as preferred drugs — they use the same active ingredients and are shown to work the same way in the body as preferred drugs meaning they have the same risks and benefits as their preferred drug counterparts.

When receiving a prescription from your doctor, ask him/her to prescribe a generic or to allow for generic substitution.

Using Mail-Order Services

If you take medications on an ongoing or regular basis, you may benefit from using Caremark's mail service pharmacy. Your doctor may call in your new prescription to Caremark. Or, you can just fill out the mail service order form and send it in to Caremark along with your prescription(s). A 90-day supply of your prescription will be sent to your home. Visit Caremark's Web site at <http://HorizonBCBSNJ.advancex.com> to learn more.

Some of the benefits of mail-order service include: (1) easy, home delivery; (2) use of Caremark's Web site to refill prescriptions and check the status of your order; (3) savings on your out-of-pocket expenses.

New Identification Cards

You will be getting a new medical/prescription identification (ID) card from Horizon. For security reasons, Horizon has eliminated the use of social security numbers on the card and will issue you a new ID number. Your new ID card will be mailed to your home before January 1, 2006.

Preferred Drug List

Your prescription drug coverage levels are based on the plan's Preferred Drug List — also called a formulary. When your prescription is on the Preferred Drug List, you pay lower coinsurance than when your prescription is not on the Preferred Drug List. Using drugs on this list will ensure that you receive the highest clinical quality prescription drugs at the best value. If you receive a prescription for a drug that is not on the list, you should ask your doctor to determine if there is another drug that is on the preferred drug list for your specific condition.

To find out if your prescription is on the Preferred Drug List, call member services at the phone number listed on your ID card or log on to <http://HorizonBCBSNJ.advancex.com>.

Dental

We've added a new dental plan this year to give you additional coverage options. For 2006, we're offering a standard dental plan and a premium dental plan. As in previous years, dental benefits will be bundled with the medical plan. The dental benefit you receive will vary depending on which medical plan you select — Standard PPO medical plan will include standard dental and Premium PPO medical plan and EPO medical plan will include premium dental. The dental plans offer both in-network and out-of-network benefits.

Your benefit levels are higher (and your out-of-pocket expenses lower) when you use Aetna in-network dentists. If you visit an out-of-network dentist, you are still covered, but your out-of-pocket costs will generally be higher. See the *Health Care Coverage Comparison Chart* to learn more about your dental benefits.

Find a Dentist...

To find a dentist or to see if your dentist participates in Aetna's provider network, go to www.aetna.com. You can also visit the Aetna Web site to request a new dental ID card without your social security number.

Vision

New for 2006, American Water is introducing vision coverage provided by EyeMed Vision Care. As with your dental coverage, vision coverage is included with the medical plan you select. Your vision plan provides benefits for many services, including eye exams, lenses, frames and contact lenses.

The EyeMed plan features:

- Access to one of the largest networks available, including private practice and optical retail providers
- Choice of any eyewear product
- Replacement contact lens by mail service
- Discount from the largest laser vision panel, U.S. Laser Network

Find a Provider...

To find a provider for your vision needs, or to make sure your provider participates in the EyeMed network, go to www.eyemedvisioncare.com. There are no ID cards with the EyeMed plan. Just call an EyeMed provider to make an appointment. You only need to provide your social security number.

Opt Out of Coverage

During open enrollment, you may choose not to enroll in medical coverage – meaning you may decide to receive only dental and vision coverage – or you may decide to not enroll in medical, dental and vision coverage altogether. You cannot opt out of vision or dental separately – these coverages are

bundled. If you opt out of medical coverage, you will receive a \$100 monthly payroll credit. If you elect to receive both dental and vision coverage only, you will receive premium dental and your monthly contributions will be deducted from your paycheck on a pre-tax basis.

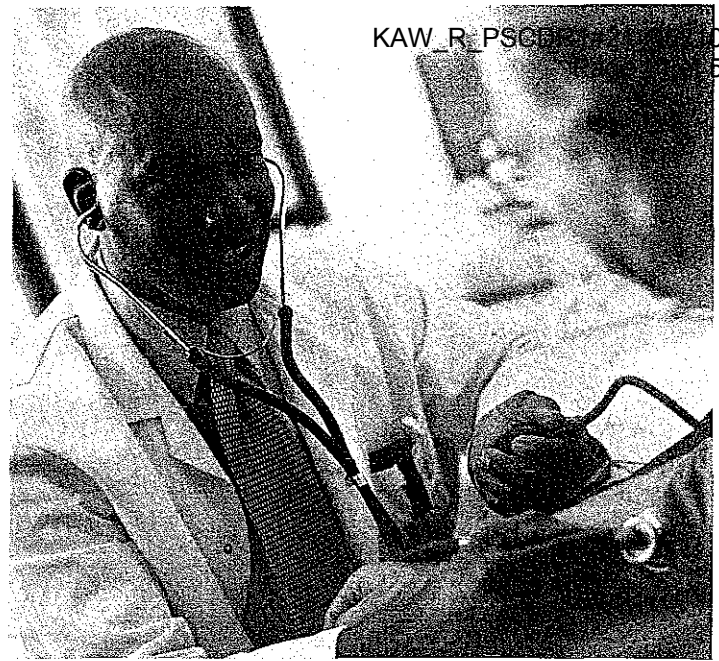
Because American Water believes every employee should have medical coverage, you should only opt out when you have medical benefits from another source.

Disease Management Programs

Disease management programs, which American Water provides to you at no cost, help you manage your health care if you have a chronic illness. These programs provide tools to help you better manage your condition and improve your quality of life in collaboration with your doctor's recommended treatment. If you participate in the program, you will have support in understanding:

- Your medications
- How to communicate effectively with your health care professionals
- How lifestyle changes (e.g., quitting smoking) can affect your condition, and more!

If you have an illness covered by a disease management program, Horizon will contact you about the program and how participation can help you better manage your condition. You can find more information about the disease management program through Horizon's Web site at www.horizonblue.com or by calling Horizon at 1-888-334-9006.



Health Care Coverage Comparison Chart

Selecting which health care plan is best for you is a big decision. This comparison chart gives you the details you need to help decide which health care plan is best for you and your family's health care needs.

2006 MEDICAL, DENTAL AND VISION BENEFITS					
Plan Feature	Standard PPO		Premium PPO		EPO
	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Network coverage type	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Deductible (single/family)	\$1,000/ \$3,000	\$1,500/ \$4,500	None	\$200/\$600	None
Coinsurance	80%	60%	90%	70%	100%
Out-of-pocket maximum (single/family)	\$3,500/ \$10,500	\$4,000/ \$12,000	\$1,000/ \$3,000	\$3,000 per person	None
Lifetime maximum benefit	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Routine physical exam	100% (up to \$250 per 24 months)	Not Covered	100% after \$15 copay (one every 24 months)	Not Covered	100% after \$15 copay
Immunizations	100%	Not Covered	100% after \$15 copay	Not Covered	100% after \$15 copay
Routine hearing exam	100% (one every 24 months)	Not Covered	100% after \$15 copay	Not Covered	100% after \$15 copay
Routine OB/GYN exam	100% (one per calendar year)	Not Covered	100% after \$15 copay (one per calendar year)	Not Covered	100% after 15 copay
Mammography	100% (one baseline between age 35-39, annual screening age 40 and above)	Not Covered	100% after \$15 copay (one baseline between age 35-39, annual screening age 40 and above)	Not Covered	100% (one baseline between age 35-39, annual screening age 40 and above)
Office visits (primary care and specialist)	80% after deductible	60% after deductible	100% after \$15 copay	70% after deductible	100% after \$15 copay
Allergy testing and treatment centers	80% after deductible	60% after deductible	100% after \$15 copay	70% after deductible	100%

2006 MEDICAL, DENTAL AND VISION BENEFITS					
Plan Feature	Standard PPO		Premium PPO		EPO
	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Diagnostic x-ray and lab	80% after deductible	60% after deductible	Independent Lab: 100% Physician's Office: 100% after \$15 copay	70% after deductible	100%
Outpatient surgery	80% after deductible	60% after deductible	100%	70% after deductible	100%
Emergency room	80% after deductible	60% after deductible	100% after \$25 copay (waived if admitted)	100% after \$25 copay (waived if admitted)	100% after \$35 copay (waived if admitted)
Ambulance (if medically necessary)	80% after deductible	80% after deductible	90% after deductible	90% after deductible	100%
Inpatient hospital services	80% after deductible	60% after deductible	90%	70% after \$250 copay per admit	100% after \$100 copay per admit
Outpatient preadmission testing	80% after deductible	60% after deductible	100%	70% after deductible	100%
Home health care	80% after deductible (120-visit maximum per calendar year)	60% after deductible (120-visit maximum per calendar year)	90% (120-visit maximum per calendar year)	70% after deductible (120-visit maximum per calendar year)	100%
Private duty nursing	80% after deductible (70-shift maximum per calendar year)	80% after deductible (70-shift maximum per calendar year)	90% (70-shift maximum per calendar year)	90% after deductible (70-shift maximum per calendar year)	100%
Skilled nursing facility	80% after deductible (120-day maximum)	60% after deductible (120-day maximum)	90% (120-day maximum)	70% after deductible (120-day maximum)	100% (100-day maximum per calendar year)
Hospice inpatient	80% after deductible (90-day lifetime maximum)	60% after deductible (90-day lifetime maximum)	90% (90-day lifetime maximum)	70% after deductible (90-day lifetime maximum)	100%
Hospice outpatient	80% after deductible (\$5,000 lifetime maximum)	60% after deductible (\$5,000 lifetime maximum)	90% (\$5,000 lifetime maximum)	70% after deductible (\$5,000 lifetime maximum)	100%
Durable medical equipment	80% after deductible	80% after deductible	90%	90%	100%
Short-term rehabilitation	80% after deductible (60-day maximum per calendar year for acute conditions only)	60% after deductible (60-day maximum per calendar year for acute conditions only)	90% (60-day maximum per calendar year for acute conditions only)	70% after deductible (60-day maximum per calendar year for acute conditions only)	100%
Inpatient treatment of mental/nervous conditions	80% after deductible (45-day maximum per calendar year)	60% after deductible (45-day maximum per calendar year)	90% (45-day maximum per calendar year)	70% after deductible (45-day maximum per calendar year)	100% (30-day maximum per 12 consecutive months)
Outpatient treatment of mental/nervous conditions	80% after deductible (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$20 copay (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$25 copay (20-visit maximum per calendar year)

2006 MEDICAL, DENTAL AND VISION BENEFITS

Plan Feature	Standard PPO		Premium PPO		EPO
	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Network coverage type	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Inpatient alcohol/drug treatment	80% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	60% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	90% (45-day maximum per calendar year, 2 courses of treatment during lifetime)	70% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	100% (30-day maximum per consecutive 12 months in a substance abuse facility; 90-day lifetime)
Outpatient alcohol/drug treatment	80% after deductible (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$20 copay (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% for first treatment; the lesser of \$25 copay or 50% covered second and subsequent treatment courses (60-visit maximum per calendar year; 120-visit lifetime maximum)
Prescription drugs (participant coinsurance or copay)	Retail Generic: 10% Preferred Brand: 20% Non-preferred Brand: 20%		Mail Order Generic: \$14 Preferred Brand: \$30 Non-preferred Brand: \$70		

DENTAL

	Standard PPO	Premium PPO
Deductible (single/family)	\$100/\$200	\$50/\$100
Preventive care	80% covered expenses after deductible	100% covered expenses with no deductible
Basic services/major services	50% after deductible	80% after deductible/50% after deductible
Calendar year maximum	\$1,000	\$1,000
Orthodontia	Not Covered	\$1,500 lifetime maximum; pays 50% of covered expenses after deductible (covers dependents only)

VISION

Exam	100% covered after \$15 copay
Frames	In-network: 100% covered after \$50 copay Out-of-network: Covered up to \$120
Standard plastic lenses	In-network: 100% covered after \$35 copay single lenses; all others \$50 copay Out-of-network: Covered up to \$25 for single vision and up to \$70 for lenticular
Contact lenses	In-network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C)
Frequency for frames, lenses and contacts	Once every 24 months

Flexible Spending Accounts

Flexible Spending Accounts (FSAs) let you pay for out-of-pocket health care and dependent care expenses with tax-free dollars. Contributing money to an FSA is easy, with contributions taken through automatic payroll deductions. Your contributions are deducted on a pre-tax basis, reducing the amount of income on which you pay taxes.

To participate in an FSA, you must enroll each year during open enrollment — your contributions do not automatically renew.

Use It or Lose It

Because of the tremendous tax benefits of participating in an FSA, the Internal Revenue Service requires that any unused funds at the close of the claims period are forfeited. To help get the most benefit from your accounts, estimate how much you think you will spend on out-of-pocket health care and dependent care expenses during 2006.

Health Care Flexible Spending Account (HCFSAs)

This year, you can set aside even more of your pre-tax dollars to pay for eligible health care expenses with an increased contribution maximum of \$3,000. You can contribute from \$120 up to \$3,000 to your HCFSAs. The HCFSAs cover eligible out-of-pocket health care expenses for you and your dependents, including medical, dental and vision expenses not covered by your insurance plan and considered deductible by the IRS.

Eligible expenses include copays and deductibles in your medical plan, prescription drug costs, and even eligible over-the-counter drugs. You can find a complete list of eligible health care expenses on the Horizon Web site at www.horizon-healthcare.com/fsa.

The claims accumulation period for the HCFSAs is changing from the current 12 months to 14 1/2 months for 2006. This means you will be able to use the money in your HCFSAs for eligible expenses you incur from January 1, 2006 through March 15, 2007. The deadline to submit claims for reimbursement from your 2006 HCFSAs is April 30, 2007.

Remember, you will only be able to contribute to your 2006 HCFSAs from January 1, 2006 through December 31, 2006.

Health Care FSA Debit Card

Using the HCFSAs is now even easier! This year participants will be issued a debit card for added convenience. Simply use your card to pay for eligible medical-related expenses (e.g., deductible, copay) just as you would use your bank debit card. The money is automatically debited from your account — no need to submit receipts for most reimbursements. Remember, you should always keep a copy of your receipt for any expense you pay for from an HCFSAs. You should receive your FSA debit card at your home by December 31, 2005.

Dependent Care Flexible Spending Account (DCFSA)

You can contribute from \$120 up to \$5,000 (\$2,500 maximum if married but filing separately) to your DCFSA. The DCFSA covers childcare and eldercare expenses incurred while you and your spouse are at work, or while you are at work and your spouse is attending school full-time or is disabled. Eligible expenses include babysitters other than your dependent, day care, nursery school and elder care for dependents that live with you. You can find a complete list of eligible dependent care expenses online through the Horizon Web site at www.horizon-healthcare.com/fsa.

Like HCFSA, the contribution period for the DCFSA is from January 1, 2006 through December 31, 2006. Unlike the HCFSA, you can only use the funds in your DCFSA to pay for eligible expenses incurred during the contribution period (January 1, 2006 through December 31, 2006). To receive reimbursement for 2006 claims from your DCFSA, you need to submit a claim form and receipt to Horizon Healthcare by March 31, 2007. You submit your claims to Horizon:

- By mail at Horizon Healthcare, 3 Penn Plaza East
– PP – 9S, Newark, NJ 07105-2200 or
- By fax at (973) 466-6499.

To print a claim form, log on to Horizon's Web site at www.horizon-healthcare.com/fsa and click on the "Employee Downloadable Forms" link.

Insurance Coverage

Basic Life and Accidental Death and Dismemberment (AD&D)

American Water helps you provide financial security for your family in the event of illness. You also have coverage in case of a specific accidental injury or if you die as the result of an accident. Your Basic Life coverage and AD&D coverage is 1.5 times your base salary, rounded to the nearest \$1,000, up to a maximum benefit of \$200,000. These coverages are offered at no cost to you. You must be actively at work to receive these benefits.

Imputed Income

Federal law requires you to pay income taxes on company-provided personal life insurance amounts that exceed \$50,000 and on certain additional life insurance coverage amounts. The value of the coverage subject to taxation is called imputed income. The imputed income is reported as part of your annual compensation for income tax withholding and FICA (Social Security) purposes. This is done after taxes – you will have no payroll deductions for imputed income. The value of the imputed income is determined by the Internal Revenue Service using age-related rates.

Voluntary Supplemental Life Insurance

In addition to the life insurance provided to you at no cost by American Water, you have the option of electing additional life insurance coverage. You can purchase voluntary supplemental life insurance coverage equal to one, two or three times base pay up to a maximum benefit of \$1,000,000. You may elect no more than one times your salary without providing evidence of insurability (EOI). For example, if your voluntary supplemental life coverage is already one times your base pay, you can increase your coverage to two times your base pay without providing EOI.

You will be required to provide EOI if you:

- Did not enroll previously for coverage
- Elect coverage over \$300,000
- Elect more than one times your current voluntary supplemental life insurance coverage amount

If EOI is required, your election will be pended until you receive approval from MetLife, our life insurance carrier.

The table below provides the premium levels for voluntary supplemental life insurance:

VOLUNTARY SUPPLEMENTAL LIFE INSURANCE PREMIUMS (PER \$1,000 OF BASE PAY)	
Age	Monthly Cost
Under 30	\$0.06
30-34	\$0.08
35-39	\$0.10
40-44	\$0.12
45-49	\$0.19
50-54	\$0.32
55-59	\$0.59
60-64	\$0.75
65-69	\$1.37
Over 70	\$2.21

An Example

Keep in mind that the taxes paid on imputed income are usually minimal. For example, if you are age 43 and your base pay is \$55,000, you must pay tax on the value of the coverage over \$50,000, or \$5,000. In this example, the estimated annual value of the coverage is \$1.20 per \$1,000 of coverage, or \$6.00 for the year (\$1.20 x 5). Only an additional \$6.00 would be taxable on your W-2.

Voluntary Spouse and Dependent Life Insurance

You can elect to purchase life insurance for your spouse and/or dependent child(ren). You are automatically the beneficiary in this plan, meaning that benefits will be paid to you if your spouse or child dies. You can elect the following coverage levels:

- Spouse: \$20,000
- Each dependent child: \$10,000

If you did not purchase coverage for your spouse and/or child in the initial offering of the benefit, they will have to submit evidence of insurability (EOI) to enroll at this time. If you are changing your amounts of coverage, complete the voluntary life section on the enrollment form. When your form is received and it is determined that EOI is needed, the Benefits Service Center will send you the EOI form for you to complete and return directly to MetLife. It is your responsibility to complete and send the EOI directly to MetLife. American Water should not receive the EOI form due to the confidential information contained within. It is also your responsibility to follow-up with MetLife on the status of your coverage. Please keep a copy of the EOI form for your record.

The table below provides the premiums for voluntary spouse and dependent life insurance:

VOLUNTARY SPOUSE AND DEPENDENT LIFE INSURANCE PREMIUMS	
Spouse	\$5.00 per month
Dependent Child(ren)	\$1.20 per month per family for \$10,000 coverage

Travel Accident Insurance

Travel Accident Insurance provides a benefit to your beneficiaries in the event of your death while traveling on company business. American Water provides you with a benefit between \$400,000 and \$500,000 — depending on your base pay — at no cost to you and a benefit of \$250,000 if your spouse is traveling with you.

Disability Coverage

Sick Leave, Short-term and Long-term Disability

Your disability benefits provide income protection when you need it most – when you're unable to work because of an extended illness or injury.

To help you manage your health and well-being, American Water provides you with paid sick leave, short-term disability (STD) and long-term disability (LTD) – at no cost to you.

You are eligible to receive two weeks of sick leave at full pay. If you are still disabled after two weeks, you will receive 75% of your base pay for an additional 24 weeks through STD. If you have used all of your sick leave, you will begin receiving STD, at 75% of pay, immediately after your sick leave is exhausted. After you exhaust your sick leave and STD, you are eligible to receive the company-paid LTD benefit of 60% of your base pay for as long as you remain totally and permanently disabled up to age 65.

When you are or expect to be out of work for more than five days, you need to report your case to Aetna Managed Disability at 1-800-700-9954.

Frozen Sick Bank

The sick leave policy was changed July 1, 2001. At that time, you received a one-time allocation of one week of sick leave at 100% of base pay for each year of completed service. Similarly, if you came to American Water from an acquired company before July 1, 2001, you will be able to keep your sick benefits from your prior company. However, in both of these cases, your previously accrued benefit will be "frozen in a bank" – meaning you will not continue to accrue these benefits and, if disabled, you must begin using your "bank" once you have exhausted your two weeks of sick leave. Your STD benefits will not begin until you have exhausted the two weeks of sick leave and all accumulated bank time. STD cannot exceed 26 weeks.

Example: Tom had completed 10 years of service as of June 30, 2001 and he suffers from an illness that lasts for 15 weeks. Here is how Tom's disability benefits will work:

- For the first 2 weeks, Tom will use the 2 weeks of sick leave at 100% base pay
- For the next 10 weeks, Tom will use his sick leave bank at 100% of base pay
- For the next 3 weeks, Tom will use STD at 75% of his base pay

If Tom's disability had lasted more than 26 weeks, he would start to receive LTD benefits at 60% of his base pay as long as he remained disabled.

Employee Assistance Program

The Employee Assistance Program (EAP), run by Carebridge, provides support for you if you face financial, legal, family or emotional challenges. All EAP services are free and confidential for you and your dependents.

Carebridge also provides a Web site, www.myliferesource.com, which puts a wealth of resources right at your fingertips. The Universal LifeHelps® Library is one of the most extensive resources on the Web with over 1,474 Resource Centers centered on the five major areas of modern

life: Myself, My Relationships, My Daily Life Concerns, My Wellness and My Work. Visit the new, improved Carebridge Web site at www.myliferesource.com. When visiting for the first time, enter the American Water organization code (HXSBJ) to register for your account.

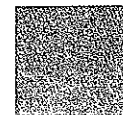
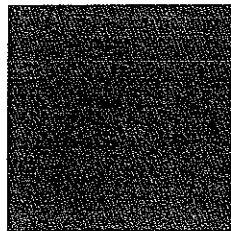
You don't have to access the Internet to benefit from Carebridge services. You can contact an EAP counselor by phone 24 hours a day, seven days a week at 1-800-437-0911.

Educational Assistance Program

American Water encourages continuous learning throughout your career. That's why we provide financial assistance of up to \$5,250 per year to pay for tuition, registration, and required fees at certain accredited institutions. Employees may take advantage of this benefit to help pay for

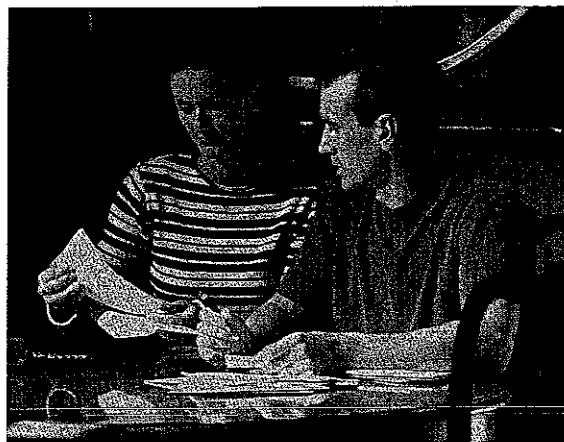
eligible courses in which they enroll after their date of hire. Note that books, equipment, travel, parking, late registration, and insurance are the responsibility of the employee.

For more information, please contact your local Human Resources representative.



Retirement Income Plans

It's never too soon to start planning for retirement. In fact, the sooner you start planning, the better prepared you will be. American Water provides a variety of plans that can help you reach your goal of a financially secure retirement. In addition to contributing toward social security, American Water provides you with the opportunity to participate in the 401(k) Savings Plan with an employer match on your contributions and they pay the full cost of your pension benefits.



Retirement income plan benefits are based on your date of hire by American Water. If you came to American Water through an acquisition, your date of hire with your original employer will, in general, be used for retirement-eligibility purposes.

401(k) Savings Plan

The 401(k) Savings Plan enables you to contribute to a tax-deferred savings account in order to increase your retirement income. Whether retirement is just around the corner or seems miles away, you need to think about how you'll pay for your retirement. The 401(k) Savings Plan provides a flexible and simple retirement investment opportunity that can make a big difference in your future.

How the Plan Works

The value of your account will grow in three ways: contributions by you, contributions by American Water and investment returns.

- You can make voluntary contributions from 1% to 20% of your before-tax, eligible pay in the 401(k) Savings Plan, subject to federal maximums.
- American Water will automatically match your contribution with a 50% matching contribution up to the first 5% of your base pay you contribute. This means if you contribute at least 5% of your base pay, American Water's contribution to your account will be equal to 2.5% of your base pay.
- The 401(k) Savings Plan offers a diverse selection of investment options for you to choose from depending on your investment goals.

Pension Plan

The Pension Plan is designed to be an important and dependable source of income during your retirement years. The plan pays you a monthly benefit based on your length of service and your average annual pay during your final years of employment. And American Water pays the full cost of this benefit — you contribute nothing!

How the Plan Works*

When you retire, you will receive a monthly pension benefit based on your years of service with American Water. Your benefit is based on:

For employees hired prior to July 1, 2001

- For service prior to July 1, 2001, your benefit will be calculated by using the prior plan formula and your final average pay as of your retirement, plus
- For service on or after July 1, 2001 your benefit will be calculated as:
 - 1.6% of your final average pay up to the average Social Security taxable wage base for service earned on or after July 1, 2001 (up to 25 total years)**, plus
 - 2.1% of your final average pay that is above the average Social Security taxable wage base for service (up to 25 total years)**
 - After 25 years of service, your formula is 1.6% of your final average pay times service over 25 years

**The 25 years of service calculation includes both pre and post July 1, 2001 service

For acquired employees and employees hired after July 1, 2001

- For service after July 1, 2001, your benefit will be calculated as 1.6% of your final average pay as of your retirement times your service on or after July 1, 2001.

Your final average pay (base plus overtime plus shift differential plus AIP award, if any) is determined by adding together your highest five consecutive years of pay in the 10 years of service immediately before your retirement date and then dividing that number by five.

The normal retirement age under the plan is 65.

The plan allows for early retirement at age 55, if the sum of your age plus your years of service equals at least 70 (called the Rule of Seventy).

For example, you would be eligible for early retirement at age 55 with 15 years of service (55 + 15 = 70), age 58 with 12 years of service (58 + 12 = 70) or age 60 with 10 years of service (60 + 10 = 70).

You can receive an unreduced pension benefit as early as age 62 if you have at least 20 years of service.

**The details of your personal pension benefit (e.g., when the plan moved to a 1.6% formula, eligibility rules) may vary depending if you joined American Water through an acquisition or similar transaction. Please see your Summary Plan Description (SPD) for specific plan details.*

Disability Pension

If you become disabled while working at American Water, you are eligible to receive the disability pension benefit based on the 1.6% formula if you meet the following two criteria:

- You have at least 10 years of service, and
- You qualify for disability benefits from the Social Security Administration (SSA).

Pension and 401(k) Example

Joe is 45 years old as of December 31, 2005 and he has 15 years of service with American Water. His base pay during 2005 is \$40,000 and his overtime earnings are \$2,000 for total pay of \$42,000 for 2005. Assume his five year final average earnings for the pension plan are \$39,600 at December 31, 2005. Assume that his pay increases are about 3% each year. Here's what his pension benefit looks like today and at retirement (see chart on page 20).

Joe's current benefit under the pension plan as of December 31, 2005 is approximately \$879 per month (about \$10,500 per year) payable as a single life annuity at age 65. It is calculated as follows (a) + (b):

(a) 1.85% times Final Average Pay times Service up to July 1, 2001 = 1.85% x 39,600 x 10.5 years

(b) 1.6% times Final Average Pay times Service after July 1, 2001 = 1.6% x \$39,600 x 4.5 years

- This assumes that Joe's five year average total pay from 2001 – 2005 is \$39,600
- This also assumes that Joe has always worked for American Water and did not become part of American Water through an acquisition or similar transaction
- Joe cannot begin receiving a benefit until he is eligible for retirement

401(k) Savings Plan

Joe also participates in the 401(k) savings plan and contributes 5% of his total pay, which is 5% of \$42,000, or \$2,100 for 2005. American Water provides a matching contribution of 50% on 5% of his base pay. For Joe, American Water's matching contribution is 2.5% of base pay or \$1,000 for 2005. Joe chooses investment options for his contributions and for the AW contributions made on his behalf.

Catch-Up Contributions

Your annual 401(k) contributions are limited to the lower of the plan maximum of 20% of your income and/or the IRS maximum contribution in 2006 of \$15,000. If you're age 50 or older, or turning 50 during 2006, then you are eligible to make additional catch-up contributions of \$5,000 above the IRS contribution limits. This means if you are age 50 or older in 2006, you may be able to contribute up to \$20,000 to the plan on a pre-tax basis in 2006.

Catch-up contributions **do not** automatically stop at the end of the plan year. If you are currently making catch-up contributions (employees over 50), your current percentage election will carry over for 2006. If you wish to change or stop your contribution, you must contact Merrill Lynch prior to December 20, 2005 for the change to be effective in your first pay in January 2006.

To learn more or to enroll in the plan, contact Merrill Lynch at 1-800-228-4015 or access Benefits OnLine® at www.benefits.ml.com. Through Benefits OnLine® you can enroll in the plan, change your contribution amounts, manage your investment choices and learn about different retirement savings plan options to meet your retirement savings goals. To access the Web site, you need your personal identification number (PIN) and your social security number.

PENSION PLAN			
	Current benefit	Joe continues working and retires at age 55	Joe continues working and retires at age 62
Estimated monthly benefit payable at age 65 as a single life annuity	\$879	\$1,900	\$2,900
Reduction factor for early retirement	N/A	.60	1.00
Estimated monthly benefit payable at immediate retirement	N/A	\$1,140	\$2,900

Retiree Medical

For non-union employees covered by the RWE Promise, there will be no change to your retiree medical benefits or eligibility requirements.

RWE Promise

Commitments detailed under the RWE/American Water acquisition agreement will be honored. You receive lifetime retiree medical and life insurance benefits if you were covered under the American Water Works Pension Plan on the January 10, 2003 closing date, and if you were at least 55 years with at least 70 points on January 10, 2003 (i.e., your age plus your service are greater than 70). Specifically, if you meet these criteria on January 10, 2003, you will be eligible for the same post-retirement health care and life insurance benefits defined in the plan at the close of the RWE transaction on January 10, 2003. Employees who came to American Water through an acquisition where post-retirement healthcare was not provided or has been reduced are not covered under this RWE Promise.



Regulated Non-Union Employees Hired Before January 1, 2002

If you are in this group of employees, we will continue to offer you retiree medical and dental coverage in 2006 but with some changes to contribution costs and plan design. There are, however, no changes in the eligibility rules.

For active non-union employees who came to American Water through an acquisition and who had retiree medical benefits at the time of the acquisition, there will be no change to your retiree medical benefits as of the time of the acquisition.

For all other active non-union employees whose benefit package did not include retiree medical coverage, there is no change.

Pre-65 Coverage

If you retire before age 65, you will be able to choose between the three active medical plans and their corresponding dental coverage. See page 9 of this guide for details of the active medical plans. You will pay a monthly contribution consisting of two parts:

- The surcharge based on your age at retirement, and
- 50% of the current active monthly contribution, which will change annually.

The monthly surcharge is based on your age at the time of your retirement. This surcharge will be in place until you reach age 65 – meaning that it does not change each year. For example, if you retire at age 56, you will pay \$90 per month plus 50% of the current active contribution rate, until you reach age 65.

The surcharge rates are as follows:

EARLY RETIREMENT MONTHLY SURCHARGE RATES	
Age at Retirement	Monthly Surcharge
55	\$100
56	\$90
57	\$80
58	\$70
59	\$60
60	\$50
61	\$50
62-64	\$0

Post-65 Coverage (Medical and Rx Only)

Post-65 retirees need to enroll in both Medicare parts A and B. Then, your American Water post-65 coverage coordinates with your Medicare medical coverage. You will receive your prescription drug coverage through American Water. The prescription drug coverage for post-65 retirees is the same as the active prescription drug coverage. See page 6 of this guide for the details of the prescription drug benefit. Post-65 retiree monthly contributions will be \$50 for single coverage, \$100 for single and one dependent, and \$125 for family. The plan does not offer a vision or dental benefit.

This year, Medicare is introducing a new prescription drug benefit, called Part D. If you retire in 2006 and are age 65 or older, you will likely find that your American Water prescription drug benefit is more generous than Medicare Part D's benefit. If this is the case, you should seriously consider not enrolling in Part D.

Post-Retirement Basic Life Insurance

For those employees hired before January 1, 2002, American Water provides you with post-retirement basic life insurance of \$10,000 at no cost to you.

What You Need To Do

- 1. Review your open enrollment materials.** You have a variety of resources at your fingertips to help you make your benefit elections. Share this benefit guide with your family and, if offered, attend an open enrollment meeting at a location near you.
- 2. Ask questions.** If you have questions about your benefits, you can ask your local Human Resources representative or call the Benefit Service Center at 1-866-888-8269.
- 3. Select your medical plan option.** Review the *Health Care Coverage Comparison Chart* on pages 9-11 for the details of each plan and your enrollment form for contribution rates. When picking a health care plan, you should look to balance the amount you pay for monthly contributions with the amount that you pay when you use the plan. For example, the Standard PPO has lower monthly contribution rates but you pay more when you visit the doctor.
- 4. Estimate Flexible Spending Account contributions.** To participate in an FSA, you need to make new contribution elections for 2006. Review your eligible expenses from last year and health care elections (medical, dental, vision, or opt-out) for this year to help determine appropriate annual contributions for this enrollment. Remember to estimate carefully — any money left in your accounts after the plan year ends is forfeited.
- 5. Determine Voluntary Life Insurance elections.** You can elect voluntary life insurance coverage for you, your spouse and/or any eligible child(ren). You'll find the monthly contributions for each coverage on page 14 of this guide.
- 6. Update your beneficiaries.** Your beneficiary(ies) is the person(s) who will receive benefits in the event of your death. You need to select a beneficiary(ies) for your Life, AD&D and Travel Accident benefits; your pension plan benefit (if single); and your 401(k) benefit. You need to complete the beneficiary designation forms even if you have named a beneficiary(ies) in the past.
- 7. Complete your enrollment form.** After you make your enrollment decisions, record your elections on your enrollment form. Return your completed form to your Human Resources representative by October 26, 2005.

Remember, you must enroll or you will have no medical, dental or vision coverage and will not receive the opt-out credit or be able to participate in an FSA for 2006.

Legal

Women's Health and Cancer Rights Act

On October 21, 1998, a new federal Women's Health and Cancer Rights Act became effective. This law requires group health plans that provide coverage for mastectomies to also cover reconstructive surgery and prosthesis following mastectomies.

All medical plan options are in compliance with this law. The law mandates that a member receiving benefits for a medically necessary mastectomy who elects breast reconstruction after the mastectomy, will also receive coverage for:

- Reconstruction of the breast on which the mastectomy has been performed
- Surgery and reconstruction of the other breast to produce a symmetrical appearance
- Prosthesis
- Treatment of the physical complications of all stages of mastectomy, including lymphedemas.

This coverage will be provided in consultation with the attending physician and the patient, and will be subject to the same annual deductibles and coinsurance that apply for the mastectomy.

If you have any questions about coverage of mastectomies or reconstructive surgery, please contact the Horizon Member Services number on the back of your Horizon BC/BS ID card.

Medicare Part D Notice of Creditable Coverage for employees over 65 still actively at work

If you are actively at work at age 65 or older and then you retire and become Medicare-eligible you must call the Benefits Service Center to request a Notice of Creditable Coverage to avoid the Medicare Part D late enrollment fee.

Continuing Coverage

If your coverage or a dependent's coverage is terminated during the year, you may be able to continue some benefits coverage as provided for under a federal law known as the Consolidated Omnibus Reconciliation Act of 1986 (COBRA), as amended.

Right to Amend or Terminate the Plans

American Water reserves the right to amend or terminate at any time the benefits described in this benefit guide without prior notice to participants.

Plan Documents Govern

This benefit guide highlights some important information about these benefit plans. If a question ever arises concerning the nature and extent of the benefits under any of the plans described here, the terms of the plans as described in the actual legal documents of the plans will always govern.

Contacts

AMERICAN WATER BENEFIT CONTACTS		
Carrier/Provider	Phone Number	Internet or Mailing Address
MEDICAL		
Horizon Blue Cross Blue Shield of New Jersey	1-800-355-BLUE (2583)	www.horizon-bcbsnj.com/nationalaccounts
PRESCRIPTION DRUGS		
Horizon-Caremark	1-866-881-5603	www.horizon-bcbsnj.com/nationalaccounts
DENTAL		
Aetna	1-800-292-4366	www.aetna.com
VISION		
EyeMed	1-866-939-3633	www.eyemedvisioncare.com
FLEXIBLE SPENDING ACCOUNTS		
Horizon	1-800-224-4426	www.horizon-healthcare.com/fsa Horizon Healthcare 3 Penn Plaza East PP-05S Newark, NJ 07105-2200
LIFE INSURANCE		
MetLife	Call the American Water Benefit Service Center at 1-866-888-8269	
DISABILITY		
Aetna	1-800-804-5329	www.aetna.com
EMPLOYEE ASSISTANCE PROGRAM		
Carebridge	1-800-437-0911	www.myliferesource.com
401(K) SAVINGS PLAN/PENSION PLAN		
Merrill Lynch	1-800-228-4015	www.benefits.ml.com

2006 Union Open Enrollment Benefit Guide



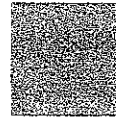
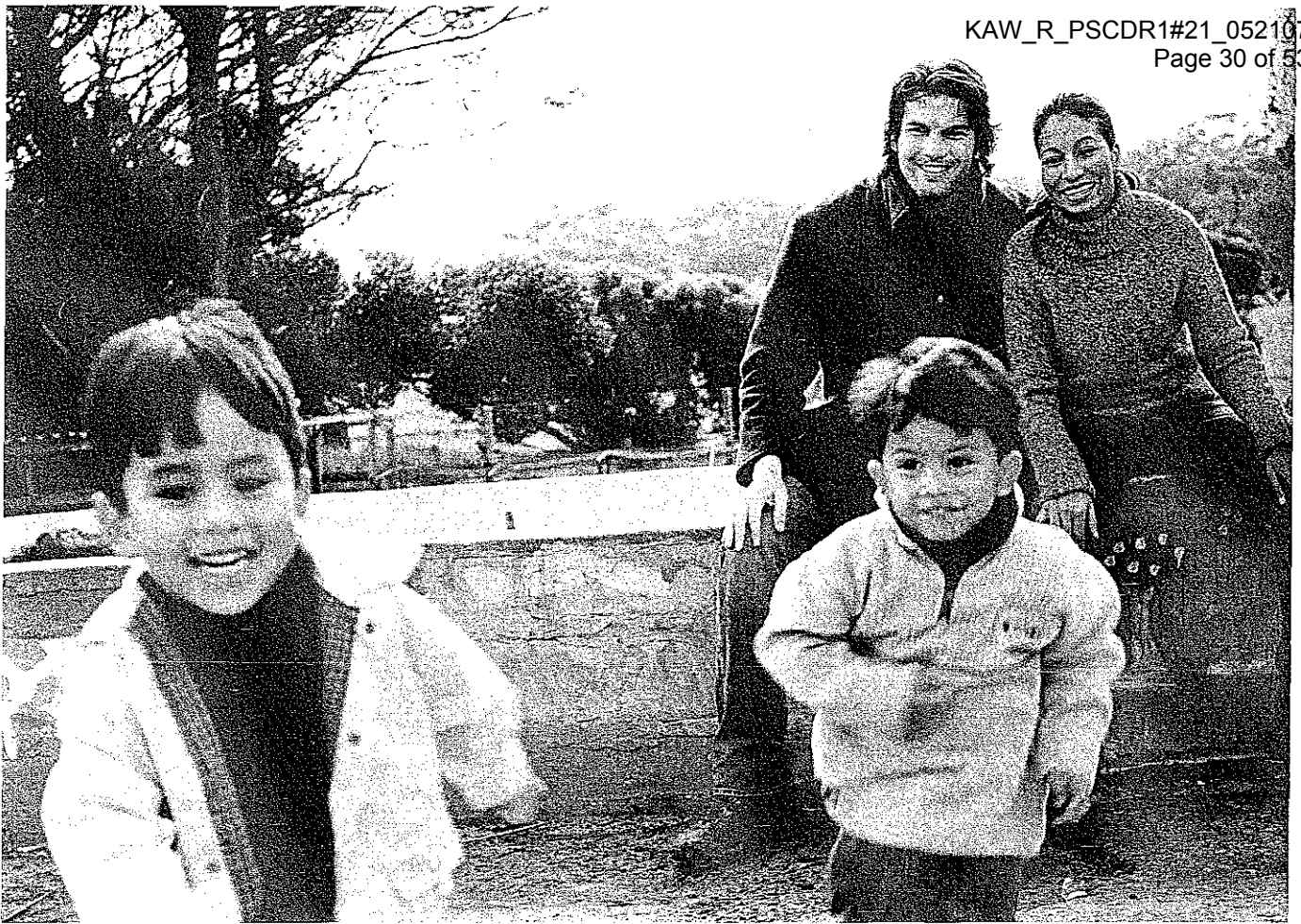


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2006 American Water Benefits

At American Water, our people are our most valuable asset. That's why we are committed to providing a flexible, comprehensive benefits package to our employees. American Water provides the choices; you make the decisions. This year, you have the opportunity to design a benefits package that best meets your needs. You choose the benefits, such as medical or dental, and life insurance that make the most sense for you and your family for the coming year.

For 2006, your previous medical coverage will not automatically renew. The medical programs for 2006 are new, so you must participate in 2006 open enrollment. If you make no elections for 2006, you will have no American Water medical coverage for 2006 or receive the opt-out credit. The elections you make during open enrollment will be effective January 1, 2006.

Enrollment Overview

Open enrollment is the time of year when you can make changes to your benefit elections. This year, open enrollment will begin in early October and continue until Wednesday, October 26, 2005. This benefit guide provides you with the information you need to make your 2006 benefit elections, including:

- An overview of the benefit programs available to you and that you will need to make a decision about during open enrollment
- A medical plan comparison chart so that you can make an informed decision about which medical plan best meets your medical and financial needs
- An enrollment form for you to record your elections and forms to identify your beneficiaries for each of the plans

Before enrolling, read this guide and share it with your family. After open enrollment, keep this guide as a resource for those times when you need to refer to the valuable plan information.

Once you've made your elections, please return your completed enrollment form and beneficiary designation forms to your local Human Resources representative during the enrollment period. Any contributions for the 2006 benefit coverages you elect will be made through automatic payroll deductions beginning in January.

Required Enrollment Participation

To participate in the health care insurance (medical, dental, vision or opt-out), the voluntary life insurance plans or a Flexible Spending Account (FSA) program, you must make new benefit elections. This year, we are requiring you to participate in open enrollment because of the changes to the benefit program. If you do not enroll during the open enrollment period, then for 2006 you will not be able to participate in:

- Any medical, dental or vision plans or opt-out,
- Voluntary life insurance or
- Either flexible spending account

The elections you make during open enrollment will be in effect from January 1, 2006 through December 31, 2006.

Beneficiary Designation

This year during open enrollment, we are asking you to designate a beneficiary or beneficiaries for plan benefits in the event of your death. You need to identify a beneficiary for the following plans:

- Life, Accidental Death and Dismemberment (AD&D) and Travel Accident Insurance
- Pension (if single)*
- 401(k) (including the new Defined Contribution plan)

**New for 2006, if single, you can name a beneficiary for your Pension Plan benefit at any age — you don't have to wait until you turn age 55.*

In this open enrollment guide, you will find beneficiary designation forms. You need to complete these forms even if you have previously named a beneficiary for any of the plans. Please complete these forms and return them to your local Human Resources representative with your enrollment form.

Making Benefit Changes During the Year

Open enrollment is the only time during the year that you can make changes to your benefit elections unless you experience a qualified family status change. If you experience one of these changes, you may be able to change your elections if you file a new enrollment form with the Benefit Service Center within 31 days of the change. Qualified family status change events include:

- Marriage;
- Divorce or legal separation;
- Loss or gain of an eligible dependent;
- Changes in your spouse's employment that affect benefits coverage;
- Change in employment status, for example:
 - Changing from full- to part-time or vice versa for you or your spouse.
 - Beginning or ending an unpaid leave of absence;
- Gain or involuntary loss of your spouse's medical coverage;
- Change of your home address to a medical plan service area outside the one for which you are enrolled;
- If your spouse's employer holds open enrollment at a time other than American Water's and, as a result of its benefit offerings, you incur a hardship;

- If you and your spouse become eligible or ineligible for Medicare; and
- If a new medical plan option is added

Note: Be sure to review the eligibility rules for dependents for any American Water benefit program. American Water periodically audits the validity of dependents in the benefit programs. In early 2006, we will be asking for copies of marriage certificates and birth certificates to verify your eligible dependents. It's a good idea to start locating these documents. If you are found to be covering an ineligible dependent, that person will immediately lose any benefit coverage.



Medical, Dental and Vision

Medical

Even as health care costs are rapidly rising across the country, American Water remains committed to providing comprehensive, cost-effective health care coverage for you and your family. We continue to cover a higher portion of the costs of your health care insurance compared to the national average.

Your Medical Plan Options

For 2006, you will have additional flexibility and choice in deciding which plan best meets you and your family's medical and financial needs. American Water now offers three medical plans for you to choose from:

- A Standard Preferred Provider Organization (PPO) plan
- A Premium Preferred Provider Organization (PPO) plan (very similar to American Water's current medical plan)
- An Exclusive Provider Organization (EPO) plan

Horizon Blue Cross Blue Shield provides the PPO and EPO plans. Horizon has negotiated special rates with in-network health care providers in the plans to offer you competitive health care. To locate providers that participate in the Horizon network, you can call 1-800-810-BLUE (2583) or use the *Provider Finder* at www.horizon-bcbsnj.com/nationalaccounts.

You can select coverage for:

- Yourself (single)
- Yourself and one or more dependents (family)

You'll find contribution rates for each plan and coverage level on the enrollment form enclosed with this guide.

Your Wellness Matters!

Horizon Blue Cross Blue Shield makes quality wellness programs available to you at considerable savings. You can get discounts and savings on popular products and services that you and your family may use, and would otherwise pay full price. The wellness programs cover topics such as weight loss management, nutrition services, smoking cessation, savings on health and welfare products (e.g., vitamins, herbal remedies) and alternative therapy.

Just present your Horizon ID card at participating businesses to receive the Horizon Wellness Discounts. For more information and easy online ordering, visit the Horizon Web site at www.horizonblue.com/nationalaccounts.

Standard PPO Plan and Premium PPO Plan

With the Standard PPO plan and the Premium PPO plan, you have a choice to make each time you use the plan: whether to receive care from a doctor, hospital or health care provider that's part of the plan's network, or from any provider outside the network. You'll receive a higher level of coverage (i.e., the plan will pay a higher percentage of the

cost of service) when you receive care through the network and your out-of-pocket costs will be lower compared to receiving care outside of the network. For most services, you will be required to pay a deductible and coinsurance.

You do not have to select a primary care physician to coordinate your care (e.g., when you need specialty services). However, it's always a good idea to maintain a relationship with a doctor that knows you and your medical history and who can help you make the right choices about your care.

What's the Difference?

The Standard PPO and the Premium PPO operate identically. They differ by the deductible and coinsurance amounts, and by the amounts you pay out of your paycheck for coverage.

Exclusive Provider Organization (EPO)

In contrast to the PPO plans, the EPO plan offers no out-of-network benefits. That means, in order to receive plan benefits, you must receive care from a doctor, hospital or health care provider that is part of the plan's network. The EPO includes comprehensive benefits, where you pay a copay and then the plan covers 100%. This means, at the time of service, you pay a set, flat amount.

Similar to the PPO, you do not have to select a primary care physician to coordinate your care (e.g., when you need specialty services). Before electing the EPO plan, you may want to check if your doctor(s) participate in the network.

Prescription Drug Coverage

You will receive prescription drug benefits through Horizon (Caremark is the prescription administrator under the Horizon plan). Benefits are available for generic drugs, preferred brand-name drugs (those on the preferred drug list) and non-preferred brand-name drugs (those not on the preferred drug list). You can fill your prescriptions at any pharmacy or through Caremark's mail-order program. See the *Health Care Coverage Comparison Chart* (beginning on p.8) to learn more about your prescription drug benefits and how you can get the best deal on your prescriptions.

Save with Generics

When using your prescription drug plan, you will pay less if you receive a prescription for a generic drug. A generic drug is chemically equivalent to a preferred drug. Generic drugs are just as safe as preferred drugs – they use the same active ingredients and are shown to work the same way in the body as preferred drugs meaning they have the same risks and benefits as their preferred drug counterparts.

When receiving a prescription from your doctor, ask him/her to prescribe a generic or to allow for generic substitution.

Using Mail-Order Services

If you take medications on an ongoing or regular basis, you may benefit from using Caremark's mail service pharmacy. Your doctor may call in your new prescription to Caremark. Or, you can just fill out the mail service order form and send it in to Caremark along with your prescription(s). A 90-day supply of your prescription will be sent to your home. Visit Caremark's Web site at <http://HorizonBCBSNJ.advancerx.com> to learn more.

Some of the benefits of mail-order service include: (1) easy, home delivery; (2) use of Caremark's Web site to refill prescriptions and check the status of your order; (3) savings on your out-of-pocket expenses.

New Identification Cards

You will be getting a new medical/prescription identification (ID) card from Horizon. For security reasons, Horizon has eliminated the use of social security numbers on the card and will issue you a new ID number. Your new ID card will be mailed to your home before January 1, 2006.

Preferred Drug List

Your prescription drug coverage levels are based on the plan's Preferred Drug List — also called a formulary. When your prescription is on the Preferred Drug List, you pay lower coinsurance than when your prescription is not on the Preferred Drug List. Using drugs on this list will ensure that you receive the highest clinical quality prescription drugs at the best value. If you receive a prescription for a drug that is not on the list, you should ask your doctor to determine if there is another drug that is on the preferred drug list for your specific condition.

To find out if your prescription is on the Preferred Drug List, call member services at the phone number listed on your ID card or log on to <http://HorizonBCBSNJ.advancerx.com>.

Dental

We've added a new dental plan this year to give you additional coverage options. For 2006, we're offering a standard dental plan and a premium dental plan. As in previous years, dental benefits will be bundled with the medical plan. The dental benefit you receive will vary depending on which medical plan you select — Standard PPO medical plan will include standard dental and Premium PPO medical plan and EPO medical plan will include premium dental. The dental plans offer both in-network and out-of-network benefits.

Your benefit levels are higher (and your out-of-pocket expenses lower) when you use Aetna in-network dentists. If you visit an out-of-network dentist, you are still covered, but your out-of-pocket costs will generally be higher. See the *Health Care Coverage Comparison Chart* to learn more about your dental benefits.

Find a Dentist...

To find a dentist or to see if your dentist participates in Aetna's provider network, go to www.aetna.com. You can also visit the Aetna Web site to request a new dental ID card without your social security number.

Vision

New for 2006, American Water is introducing vision coverage provided by EyeMed Vision Care. As with your dental coverage, vision coverage is included with the medical plan you select. Your vision plan provides benefits for many services, including eye exams, lenses, frames and contact lenses.

The EyeMed plan features:

- Access to one of the largest networks available, including private practice and optical retail providers
- Choice of any eyewear product
- Replacement contact lens by mail service
- Discount from the largest laser vision panel, U.S. Laser Network

Find a Provider...

To find a provider for your vision needs, or to make sure your provider participates in the EyeMed network, go to www.eyemedvisioncare.com. There are no ID cards with the EyeMed plan. Just call an EyeMed provider to make an appointment. You only need to provide your social security number.

Opt Out of Coverage

During open enrollment, you may choose not to enroll in medical coverage — meaning you may decide to receive only dental and vision coverage — or you may decide to not enroll in medical, dental and vision coverage altogether. You cannot opt out of vision or dental separately — these coverages are bundled. If you opt out of medical coverage, you will receive a \$100 monthly payroll credit. If you

elect to receive both dental and vision coverage only, you will receive premium dental and your monthly contributions will be deducted from your paycheck on a pre-tax basis.

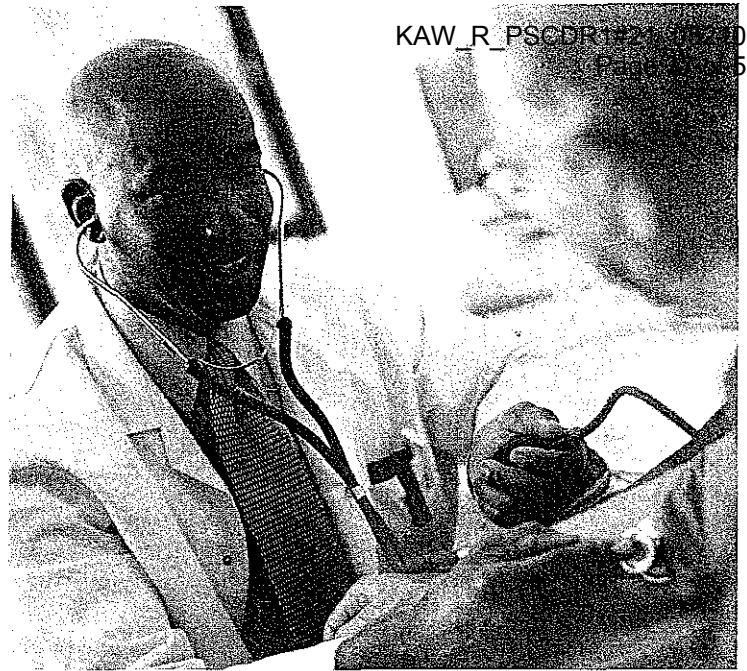
Because American Water believes every employee should have medical coverage, you should only opt out when you have medical benefits from another source.

Disease Management Programs

Disease management programs, which American Water provides to you at no cost, help you manage your health care if you have a chronic illness. These programs provide tools to help you better manage your condition and improve your quality of life in collaboration with your doctor's recommended treatment. If you participate in the program, you will have support in understanding:

- Your medications,
- How to communicate effectively with your health care professionals,
- How lifestyle changes (e.g., quitting smoking) can affect your condition, and more!

If you have an illness covered by a disease management program, Horizon will contact you about the program and how participation can help you better manage your condition. You can find more information about the disease management program through Horizon's Web site at www.horizonblue.com or by calling Horizon at 1-888-334-9006.



Health Care Coverage Comparison Chart

Selecting which health care plan is best for you is a big decision. This comparison chart gives you the details you need to help decide which health care plan is best for you and your family's health care needs.

2006 MEDICAL, DENTAL AND VISION BENEFITS					
Plan Feature	Standard PPO		Premium PPO		EPO
Network coverage type	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Deductible (single/family)	\$1,000/ \$3,000	\$1,500/ \$4,500	None	\$200/\$600	None
Coinsurance	80%	60%	90%	70%	100%
Out-of-pocket maximum (single/family)	\$3,500/ \$10,500	\$4,000/ \$12,000	\$1,000/ \$3,000	\$3,000 per person	None
Lifetime maximum benefit	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Routine physical exam	100% (up to \$250 per 24 months)	Not Covered	100% after \$15 copay (one every 24 months)	Not Covered	100% after \$15 copay
Immunizations	100%	Not Covered	100% after \$15 copay	Not Covered	100% after \$15 copay
Routine hearing exam	100% (one every 24 months)	Not Covered	100% after \$15 copay	Not Covered	100% after \$15 copay
Routine OB/GYN exam	100% (one per calendar year)	Not Covered	100% after \$15 copay (one per calendar year)	Not Covered	100% after 15 copay
Mammography	100% (one baseline between age 35-39, annual screening age 40 and above)	Not Covered	100% after \$15 copay (one baseline between age 35-39, annual screening age 40 and above)	Not Covered	100% (one baseline between age 35-39, annual screening age 40 and above)
Office visits (primary care and specialist)	80% after deductible	60% after deductible	100% after \$15 copay	70% after deductible	100% after \$15 copay
Allergy testing and treatment centers	80% after deductible	60% after deductible	100% after \$15 copay	70% after deductible	100%

Health Care Coverage Comparison Chart

2006 MEDICAL, DENTAL AND VISION BENEFITS					
Plan Feature	Standard PPO		Premium PPO		EPO
	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Diagnostic x-ray and lab	80% after deductible	60% after deductible	Independent Lab: 100% Physician's Office: 100% after \$15 copay	70% after deductible	100%
Outpatient surgery	80% after deductible	60% after deductible	100%	70% after deductible	100%
Emergency room	80% after deductible	60% after deductible	100% after \$25 copay (waived if admitted)	100% after \$25 copay (waived if admitted)	100% after \$35 copay (waived if admitted)
Ambulance (if medically necessary)	80% after deductible	80% after deductible	90% after deductible	90% after deductible	100% deductible
Inpatient hospital services	80% after deductible	60% after deductible	90%	70% after \$250 copay per admit	100% after \$100 copay per admit
Outpatient preadmission testing	80% after deductible	60% after deductible	100%	70% after deductible	100%
Home health care	80% after deductible (120-visit maximum per calendar year)	60% after deductible (120-visit maximum per calendar year)	90% (120-visit maximum per calendar year)	70% after deductible (120-visit maximum per calendar year)	100%
Private duty nursing	80% after deductible (70-shift maximum per calendar year)	80% after deductible (70-shift maximum per calendar year)	90% (70-shift maximum per calendar year)	90% after deductible (70-shift maximum per calendar year)	100%
Skilled nursing facility	80% after deductible (120 day maximum)	60% after deductible (120 day maximum)	90% (120-day maximum)	70% after deductible (120-day maximum)	100% (100-day maximum per calendar year)
Hospice inpatient	80% after deductible (90-day lifetime maximum)	60% after deductible (90-day lifetime maximum)	90% (90-day lifetime maximum)	70% after deductible (90-day lifetime maximum)	100%
Hospice outpatient	80% after deductible (\$5,000 lifetime maximum)	60% after deductible (\$5,000 lifetime maximum)	90% (\$5,000 lifetime maximum)	70% after deductible (\$5,000 lifetime maximum)	100%
Durable medical equipment	80% after deductible	80% after deductible	90%	90%	100%
Short-term rehabilitation	80% after deductible (60-day maximum per calendar year for acute conditions only)	60% after deductible (60-day maximum per calendar year for acute conditions only)	90% (60-day maximum per calendar year for acute conditions only)	70% after deductible (60-day maximum per calendar year for acute conditions only)	100%
Inpatient treatment of mental/nervous conditions	80% after deductible (45-day maximum per calendar year)	60% after deductible (45-day maximum per calendar year)	90% (45-day maximum per calendar year)	70% after deductible (45-day maximum per calendar year)	100% (30-day maximum per 12 consecutive months)
Outpatient treatment of mental/nervous conditions	80% after deductible (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$20 copay (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$25 copay (20-visit maximum per calendar year)

2006 MEDICAL, DENTAL AND VISION BENEFITS

Plan Feature	Standard PPO		Premium PPO		EPO
	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Network coverage type	In-network	Out-of-network	In-network	Out-of-network	In-network benefits only
Inpatient alcohol/drug treatment	80% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	60% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	90% (45-day maximum per calendar year, 2 courses of treatment during lifetime)	70% after deductible (45-day maximum per calendar year, 2 courses of treatment during lifetime)	100% (30-day maximum per consecutive 12 months in a substance abuse facility; 90-day lifetime)
Outpatient alcohol/drug treatment	80% after deductible (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% after \$20 copay (20-visit maximum per calendar year)	50% after deductible (20-visit maximum per calendar year)	100% for first treatment; the lesser of \$25 copay or 50% covered second and subsequent treatment courses (60-visit maximum per calendar year; 120-visit lifetime maximum)
Prescription drugs (participant coinsurance or copay)	Retail Generic: 10% Preferred Brand: 20% Non-preferred Brand: 20%		Mail Order Generic: \$14 Preferred Brand: \$30 Non-preferred Brand: \$70		

DENTAL

	Standard PPO	Premium PPO
Deductible (single/family)	\$100/\$200	\$50/\$100
Preventive care	80% covered expenses after deductible	100% covered expenses with no deductible
Basic services/major services	50% after deductible	80% after deductible/50% after deductible
Calendar year maximum	\$1,000	\$1,000
Orthodontia	Not Covered	\$1,500 lifetime maximum; pays 50% of covered expenses after deductible (covers dependents only)

VISION

Exam	100% covered after \$15 copay
Frames	In-network: 100% covered after \$50 copay Out-of-network: Covered up to \$120
Standard plastic lenses	In-network: 100% covered after \$35 single lenses; all other \$50 copay Out-of-network: Covered up to \$25 for single vision and up to \$70 for lenticular
Contact lenses	In-network: Covered up to \$100 (if medically necessary to wear contacts instead of glasses, then 100% of U&C)
Frequency for frames, lenses and contacts	Once every 24 months



Flexible Spending Accounts

Flexible Spending Accounts (FSAs) let you pay for out-of-pocket health care and dependent care expenses with tax-free dollars. Contributing money to an FSA is easy, with contributions taken through automatic payroll deductions. Your contributions are deducted on a pre-tax basis, reducing the amount of income on which you pay taxes.

To participate in an FSA, you must enroll each year during open enrollment – your contributions do not automatically renew.

Use It or Lose It

Because of the tremendous tax benefits of participating in an FSA, the Internal Revenue Service requires that any unused funds at the close of the claims period are forfeited. To help get the most benefit from your accounts, estimate how much you think you will spend on out-of-pocket health care and dependent care expenses during 2006.

Health Care Flexible Spending Account (HCFSAs)

You can contribute from \$120 up to \$2,500 to your HCFSAs. The HCFSAs cover eligible out-of-pocket health care expenses for you and your dependents, including medical, dental and vision expenses not covered by your insurance plan and considered deductible by the IRS. Eligible expenses include copays and deductibles in your medical plan, prescription drug costs, and even eligible over-the-counter drugs. You can find a complete list of eligible health care expenses on the Horizon Web site at www.horizon-healthcare.com/fsa.

The claims accumulation period for the HCFSAs is changing from the current 12 months to 14 1/2 months for 2006. This means you will be able to use the money in your HCFSAs for eligible expenses you incur from January 1, 2006 through March 15, 2007. The deadline to submit claims for reimbursement from your 2006 HCFSAs is April 30, 2007.

Remember, you will only be able to contribute to your 2006 HCFSAs from January 1, 2006 through December 31, 2006.

Health Care FSA Debit Card

Using the HCFSAs is now even easier! This year participants will be issued a debit card for added convenience. Simply use your card to pay for eligible medical-related expenses (e.g., deductible, copay) just as you would use your bank debit card. The money is automatically debited from your account – no need to submit receipts for most reimbursements. Remember, you should always keep a copy of your receipt for any expense you pay for from an HCFSAs. You should receive your FSA debit card at your home by December 31, 2005.

Dependent Care Flexible Spending Account (DCFSAs)

You can contribute from \$120 up to \$5,000 (\$2,500 maximum if married but filing separately) to your DCFSAs. The DCFSAs cover childcare and eldercare expenses incurred while you and your spouse are at work, or while you are at work and

your spouse is attending school full-time or is disabled. Eligible expenses include babysitters other than your dependent, day care, nursery school and elder care for dependents that live with you. You can find a complete list of eligible dependent care expenses online through the Horizon Web site at www.horizon-healthcare.com/fsa.

Like HCFA, the contribution period for the DCFA is from January 1, 2006 through December 31, 2006. Unlike the HCFA, you can only use the funds in your DCFA to pay for eligible expenses incurred during the contribution period (January 1, 2006 through December 31, 2006).

To receive reimbursement for 2006 claims from your DCFA, you need to submit a claim form and receipt to Horizon Healthcare by March 31, 2007.

You submit your claims to Horizon:

- By mail at Horizon Healthcare, 3 Penn Plaza East — PP — 9S, Newark, NJ 07105-2200 or
- By fax at (973) 466-6499.

To print a claim form, log on to Horizon's Web site at www.horizon-healthcare.com/fsa and click on the "Employee Downloadable Forms" link.

Insurance Coverage

Basic Life and Accidental Death and Dismemberment (AD&D)

American Water helps you provide financial security for your family in the event of illness. You also have coverage in case of a specific accidental injury or you die as the result of an accident. Your Basic Life coverage will increase this year to 1.25 times your base salary, up to a maximum benefit of \$200,000. You also receive \$10,000 in AD&D coverage. These coverages are offered at no cost to you. You must be actively at work to receive these benefits.

Imputed Income

Federal law requires you to pay income taxes on company-provided personal life insurance amounts that exceed \$50,000 and on certain additional life insurance coverage amounts.

The value of the coverage subject to taxation is called imputed income. The imputed income is reported as part of your annual compensation for income tax withholding and FICA (Social Security) purposes. This is done after taxes — you will have no payroll deductions for imputed income. The value of the imputed income is determined by the Internal Revenue Service using age-related rates.

An Example

Keep in mind that the taxes paid on imputed income are usually minimal. For example, if you are age 43 and your base pay is \$55,000, you must pay tax on the value of the coverage over \$50,000, or \$5,000. In this example, the estimated annual value of the coverage is \$1.20 per \$1,000 of coverage, or \$6.00 for the year (\$1.20 x 5). Only an additional \$6.00 would be taxable on your W-2.

Voluntary Supplemental Life Insurance

In addition to the life insurance provided to you at no cost by American Water, you have the option of electing additional life insurance coverage. You can purchase voluntary supplemental life insurance coverage equal to one, two or three times your base pay up to a maximum benefit of \$1,000,000. You may elect no more than one times your salary without providing evidence of insurability (EOI). For example, if your voluntary supplemental life coverage is already one times your base pay, you can increase your coverage to two times your base pay without providing EOI.

You will be required to provide EOI if you:

- Did not enroll previously for coverage
- Elect coverage over \$300,000
- Elect more than one times your current voluntary supplemental life insurance coverage amount

If EOI is required, your election will be pended until you receive approval from MetLife, our life insurance carrier.

The table below provides the premium levels for voluntary supplemental life insurance:

VOLUNTARY SUPPLEMENTAL LIFE INSURANCE PREMIUMS (PER \$1,000 OF BASE PAY)	
Age	Monthly Cost
Under 30	\$0.06
30-34	\$0.08
35-39	\$0.10
40-44	\$0.12
45-49	\$0.19
50-54	\$0.32
55-59	\$0.59
60-64	\$0.75
65-69	\$1.37
Over 70	\$2.21

Voluntary Spouse and Dependent Life Insurance

You can elect to purchase life insurance for your spouse and/or dependent child(ren). You are automatically the beneficiary in this plan, meaning that benefits will be paid to you if your spouse or child dies. You can elect the following coverage levels:

- Spouse: \$20,000
- Each dependent child: \$10,000

If you did not purchase coverage for your spouse and/or child in the initial offering of the benefit, they will have to submit evidence of insurability (EOI) to enroll at this time. If you are changing your amounts of coverage, complete the voluntary life section on the enrollment form. When your form is received and it is determined that EOI is needed, the Benefits Service Center will send you the EOI form for you to complete and return directly to MetLife. It is your responsibility to complete and send the EOI directly to MetLife. American Water should not receive the EOI form due to the confidential information contained within. It is also your responsibility to follow-up with MetLife on the status of your coverage. Please keep a copy of the EOI form for your record.

The table below provides the premiums for voluntary spouse and dependent life insurance:

VOLUNTARY SPOUSE AND DEPENDENT LIFE INSURANCE PREMIUMS	
Spouse	\$5.00 per month
Dependent Child(ren)	\$1.20 per month per family for \$10,000 coverage

Travel Accident Insurance

Travel Accident Insurance provides a benefit to your beneficiaries in the event of your death while traveling on company business. American Water

provides you with a benefit between \$400,000 and \$500,000 — depending on your base pay — at no cost to you and a benefit of \$250,000 if your spouse is traveling with you.

Disability Coverage

Short-Term Disability*

The short-term disability benefit (STD) provides income protection when you need it most — when you're unable to work because of an extended illness or injury.

The weekly STD benefit is increasing to a \$300 per week rate up to a maximum of 52 weeks. The weekly STD will continue to increase by \$10 per year through 2010.

**St. Louis, MO (UWUA Local 335) is not eligible for short-term disability.*

Sick Leave

To help you manage your health and well being, American Water provides you with paid sick leave. Your local bargaining agreement determines the amount of sick leave for which you are eligible.

Employee Assistance Program

The Employee Assistance Program (EAP), run by Carebridge, provides support for you if you face financial, legal, family or emotional challenges. All EAP services are free and confidential for you and your dependents.

Carebridge also provides a Web site, www.myliferesource.com, which puts a wealth of resources right at your fingertips. The Universal LifeHelps® Library is one of the most extensive resources on the Web with over 1,474 Resource Centers centered on the five major areas of modern

life: Myself, My Relationships, My Daily Life Concerns, My Wellness and My Work. Visit the new, improved Carebridge Web site at www.myliferesource.com. When visiting for the first time, enter the American Water organization code (HXSBJ) to register for your account.

You don't have to access the Internet to benefit from Carebridge services. You can contact an EAP counselor by phone 24 hours a day, seven days a week at 1-800-437-0911.

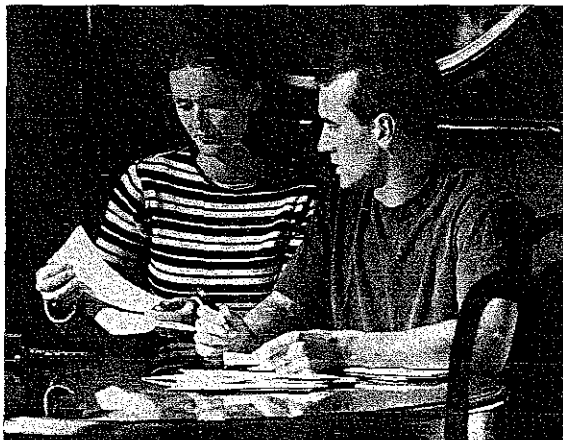
Educational Assistance Program

American Water encourages continuous learning throughout your career. That's why we provide financial assistance of up to \$5,250 per year to pay for tuition, registration, and required fees at certain accredited institutions. Employees may take advantage of this benefit to help pay for

eligible courses in which they enroll after their date of hire. Note that books, equipment, travel, parking, late registration, and insurance are the responsibility of the employee.

For more information, please contact your local Human Resources representative.

Retirement Income Plans



It's never too soon to start planning for retirement. In fact, the sooner you start planning, the better prepared you will be. American Water provides a variety of plans that can help you achieve a financially secure retirement. In addition to contributing toward social security, American Water provides you with the opportunity to participate in the 401(k) Savings Plan with an employer match on your contributions and they pay the full cost of your pension benefits.

Retirement benefits are based on your date of hire by American Water. If you came to American Water through an acquisition, your date of hire with your original employer will, in general, be used for retirement-eligibility purposes.

**For employees hired before
January 1, 2001**

401(k) Savings Plan

The 401(k) Savings Plan enables you to contribute to a tax-deferred savings account in order to increase your retirement income. Whether retirement is just around the corner or seems miles away, you need to think about how you'll pay for it. The 401(k) Savings Plan provides a flexible and simple retirement investment opportunity that can make a big difference in your future.



How the Plan Works

The value of your account will grow in three ways: contributions by you, contributions by American Water and investment returns.

- You can make voluntary contributions from 1% to 20% of your before-tax, eligible pay to the 401(k) Savings Plan, subject to federal maximums.
- Generally, American Water will automatically match your contribution with a 50% matching contribution on the first 5% of your base pay you contribute. This means if you contribute at least 5% of your base pay, American Water's contribution to your account will be equal to 2.5% of your base pay.
- St. Louis union has a 100% matching contribution on the first 3% of your base pay you contribute.
- The 401(k) Savings Plan offers a diverse selection of investment options for you to choose from depending on your investment goals.

Pension Plan

The Pension Plan is designed to be an important and dependable source of income during your retirement years. The plan pays you a monthly benefit based on your length of service and your average annual pay during your final years of employment. And American Water pays the full cost of this benefit — you contribute nothing!

How the Plan Works*

When you retire, you will receive a monthly pension benefit based on your years of service with American

Water. Your benefit is the sum of two key pieces:

- For service prior to July 1, 2001, your benefit will be calculated by using the prior plan formula and your final average pay as of your retirement, plus
- For service after July 1, 2001, your benefit will be calculated as 1.6% of your final average pay as of your retirement times your service after July 1, 2001.

Your final average pay (base plus overtime plus shift differential) is determined by adding together your highest five consecutive years of pay in the 10 years of service immediately before your retirement date and then dividing that number by five.

The normal retirement age under the plan is 65. The plan allows for early retirement at age 55, if the sum of your age plus your years of service equals at least 70 (called the Rule of Seventy). For example, you would be eligible for early retirement at age 55 with 15 years of service ($55 + 15 = 70$), age 58 with 12 years of service ($58 + 12 = 70$) or age 60 with 10 years of service ($60 + 10 = 70$).

You can receive an unreduced pension benefit as early as age 62 if you have at least 20 years of service.

**The details of your personal pension benefit (e.g., when the plan moved to a 1.6% formula; retirement eligibility) will vary depending on your union membership and the terms of your union's collective bargaining agreement. Please see your Summary Plan Description (SPD) for specific plan details.*

Disability Pension

If you become disabled while working at American Water, you are eligible to receive the disability pension benefit based on the 1.6% formula if you meet the following two criteria:

- You have at least 10 years of service, and
- You qualify for disability benefits from the Social Security Administration (SSA).

You will be considered disabled for SSA purposes if you cannot do the work you did before and it is decided that you cannot adjust to other work because of your medical condition(s). Your disability also must last or be expected to last at least a year, or to result in death.

Pension and 401(k) Example

Joe is 45 years old as of December 31, 2005 and he has 15 years of service with American Water. His base pay during 2005 is \$40,000 and his overtime earnings are \$2,000 for total pay of \$42,000 for 2005. Assume his five year final average earnings for the pension plan are \$39,600 at December 31, 2005. Assume that his pay increases are about 3% each year. Here's what his pension benefit looks like today and at retirement (see chart below).

Joe's current benefit under the pension plan as of December 31, 2005 is approximately \$879 per month (about \$10,500 per year) payable as a single life annuity at age 65. It is calculated as follows (a) + (b):

(a) 1.85% times Final Average Pay times Service up to July 1, 2001 = 1.85% x 39,600 x 10.5 years

(b) 1.6% times Final Average Pay times Service after July 1, 2001 = 1.6% x \$39,600 x 4.5 years

- This assumes that Joe's five year average total pay from 2001 - 2005 is \$39,600
- This also assumes that Joe has always worked for American Water and did not become part of American Water through an acquisition or similar transaction
- Joe cannot begin receiving a benefit until he is eligible for retirement

401(k) Savings Plan

Joe also participates in the 401(k) savings plan and contributes 5% of his total pay, which is 5% of \$42,000, or \$2,100 for 2005. American Water provides a matching contribution of 50% on 5% of his base pay. For Joe, American Water's matching contribution is 2.5% of base pay or \$1,000 for 2005. Joe chooses investment options for his contributions and for the AW contributions made on his behalf.

Note: Citizen employees who came to American Water through the January 15, 2002 acquisition will continue in their current plans.

PENSION PLAN			
	Current benefit	Joe continues working and retires at age 55	Joe continues working and retires at age 62
Estimated monthly benefit payable at age 65 as a single life annuity	\$879	\$1,900	\$2,900
Reduction factor for early retirement	N/A	.60	1.00
Estimated monthly benefit payable at immediate retirement	N/A	\$1,140	\$2,900

For employees hired on or after January 1, 2001

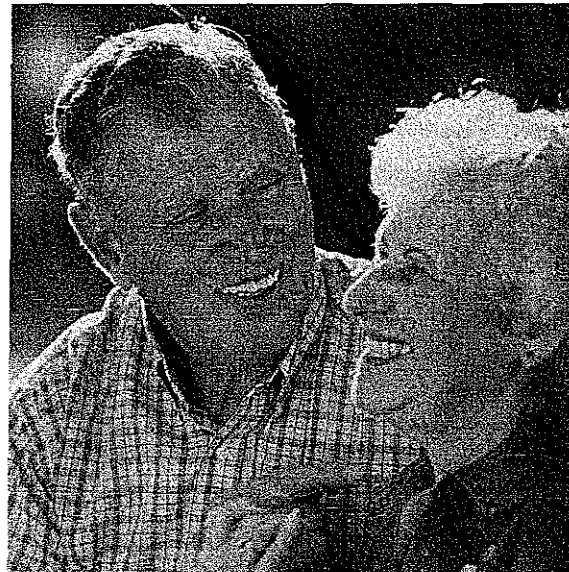
401(k) Savings Plan

The 401(k) Savings Plan enables you to contribute to a tax-deferred savings account in order to increase your retirement income. For employees hired on or after January 1, 2001, you will now have an enhanced employer match. Whether retirement is just around the corner or seems miles away, you need to think about how you'll pay for your retirement. The 401(k) Savings Plan provides a flexible and simple retirement investment opportunity that can make a big difference in your future.

How the Plan Works

The value of your account will grow in three ways: contributions by you, contributions by American Water and investment returns.

- You can make voluntary contributions from 1% to 20% of your before-tax, eligible pay in the 401(k) Savings Plan, subject to federal maximums.
- American Water will automatically match your contribution with a 100% matching contribution up to the first 3% of your base pay you contribute and a 50% matching contribution on the next 2% of base income you contribute. This means if you contribute at least 5% of your base pay, American Water's contribution to your account will be equal to 4% of your base pay.
- The 401(k) Savings Plan offers a diverse selection of investment options for you to choose from depending on your investment goals.



Pension Plan

If you were hired by American Water on or after January 1, 2001, you will see changes in your pension plan. Your current pension benefit will be frozen December 31, 2005 — you will no longer earn additional benefits under your old defined benefit pension plan. Since you will no longer earn a benefit in the current pension plan, American Water is establishing a new defined contribution plan benefit for you. In addition, if you leave American Water you will be able to receive your pension benefit in a lump sum, provided you are vested.

Current Pension Plan (Defined Benefit)

Your current benefit under this plan will be frozen after December 31, 2005 — meaning no additional service or pay will be recognized for benefit calculation purposes. However, if you continue to work at American Water, you can continue to earn additional service in the plan for vesting and early retirement eligibility purposes. In order to be

vested in your pension plan benefit, you must have five years of service. For example, if you currently have three years of service, you will have a frozen benefit in the pension plan but will not be vested in it unless you work two more years. If you leave before the two-year period, then you are not entitled to receive your frozen benefit from the pension plan.

New Defined Contribution Plan

As another retirement savings vehicle, the defined contribution plan helps you create the financial nest-egg you will need at retirement. Beginning January 1, 2006, you will earn benefits of 5.25% of base pay in the new defined contribution plan.

You are not required to contribute to this plan — American Water pays the full cost of this benefit. And your benefit in the defined contribution plan is portable, meaning that you get to keep the value of American Water's contributions even if you leave the company, provided you are vested. You are considered vested after one year of service.

How the Plan Works

- Every month, American Water will contribute 5.25% of your base pay into your account.
- Just like the 401(k) plan, you manage the investment options of your account. You will be able to select the investment option that best meets your investment goals.
- The first contribution will initially be placed in the Merrill Lynch Retirement Preservation Trust Fund. You can then direct this contribution and future contributions into the investment option

of your choice. If you do not select an investment option, your account balance will continue to be invested in Merrill Lynch Retirement Preservation Trust Fund.

- You are fully vested in your account balance after one year of service. If you were hired before December 31, 2004, you are already fully vested in this benefit.
- When you leave American Water, your account benefit will be paid in a single, lump sum payment, if you are vested.

As a convenience to you, the defined contributions will be made as a separate segment of your 401(k) Savings Plan. When looking at your 401(k) Savings Plan balance at www.benefits.ml.com, the balance you see will be the sum of your 401(k) contributions and American Water's defined contribution plan contributions. However, different plan provisions will apply (i.e., no loans/hardships).

Pension and 401(k) Example

Pat is 35 years old as of December 31, 2005 and has 3 years of service with American Water. Her base pay during 2005 is \$40,000 and her overtime earnings are \$2,000 for a total pay of \$42,000 for 2005 and final average earnings for the pension plan of \$40,800. For Pat, since she has less than five years of service, her final average earnings are averaged over her total service (three years).

Here's what her pension benefit looks like today (see chart on p.20) and how the new 5.25% defined contribution plan and the enhanced 401(k) plan will work. Values in the table are based

on an assumed investment return of an annual 6% in the Defined Contribution Plan and the 401(k) Savings Plan.

Pat's estimated lump sum benefit as of January 1, 2007, if she leaves American Water and is vested, is \$9,845 (\$3,800 + \$6,045) from the current pension plan plus the new defined contribution plan plus the enhanced 401(k) savings plan combined. Pat chooses her investment options for the defined contribution plan and the enhanced 401(k) plan and they grow with earnings based on the performance of the investments selected by Pat. Under the enhanced 401(k) savings plan American Water provides a matching contribution of 100% on the first 3% of base pay plus 50% on the next 2% of base pay. For Pat, American Water's matching contribution is 4% of base pay or \$1,648 for 2006 since she contributes 5% of pay.

Catch-Up Contributions

Your annual 401(k) contributions are limited to the lower of the plan maximum of 20% of your income and/or the IRS maximum contribution in 2006 of \$15,000. If you're age 50 or older, or turning 50

during 2006, then you are eligible to make additional catch-up contributions of \$5,000 above the IRS contribution limits. This means if you are age 50 or older in 2006, you may be able to contribute up to \$20,000 to the plan on a pre-tax basis in 2006.

Catch-up contributions **do not** automatically stop at the end of the plan year. If you are currently making catch-up contributions (employees over 50), your current percentage election will carry over for 2006. If you wish to change or stop your contribution, you must contact Merrill Lynch prior to December 20, 2005 for the change to be effective in your first pay in January 2006.

To learn more or to enroll in the plan, contact Merrill Lynch at 1-800-228-4015 or access Benefits OnLine® at www.benefits.ml.com. Through Benefits OnLine® you can enroll in the plan, change your contribution amounts, manage your investment choices and learn about different retirement savings plan options to meet your retirement savings goals. To access the Web site, you need your personal identification number (PIN) and your social security number.

PENSION PLAN			
	Current Pension Benefit	New 5.25% Defined Contribution Plan	Enhanced 401(k)-Plan
Estimated monthly benefit payable at age 65 as a single life annuity – frozen as of December 31, 2005	\$163	N/A	N/A
Base Pay for 2006	N/A	41,200*	41,200
Pat's contribution (assumed to be 5% of base pay)	N/A	N/A	\$2,060
AW's contribution (on base pay only)	N/A	\$2,163	\$1,648
Account as of 12/31/2006 with assumed investment earnings		\$2,227	\$3,818
Total 401(k) + defined contribution plan account as of 12/31/2006		\$6,045	
Lump sum as of 1/1/2007	\$3,800	\$6,045	

*Base Pay for 2006 assumes a raise of 3%.

Retiree Medical

For union employees covered by the RWE Promise, there will be no change to your retiree medical benefits or eligibility requirements.

RWE Promise

Commitments detailed under the RWE/American Water acquisition agreement will be honored. You receive lifetime retiree medical and life insurance benefits if you were covered under the American Water Works Pension Plan on the January 10, 2003 closing date, and if you were at least 55 years with at least 70 points on January 10, 2003 (i.e., your age plus your service are greater than 70). Specifically, if you meet these criteria on January 10, 2003, you will be eligible for the same post-retirement health care and life insurance benefits defined in the plan at the close of the RWE transaction on January 10, 2003. Employees who came to American Water through an acquisition where post-retirement healthcare was not provided or has been reduced are not covered under this RWE Promise.

If you retire before January 1, 2006 and are eligible to receive retiree medical benefits at the time of your retirement, you will remain eligible and will receive the benefits as described below. Remember, if you are covered by the RWE Promise, your retiree medical benefits will remain unchanged.

Pre-65 Coverage

If you retire before age 65, you will be able to choose between the three active medical plans and their corresponding dental coverage. See page 9 of this guide for details of the active medical plans. You will pay a monthly contribution consisting of two parts:

- The surcharge based on your age at retirement, and
- 50% of the current active monthly contribution, which will change annually.

The monthly surcharge is based on your age at the time of your retirement. This surcharge will be in place until you reach age 65 – meaning that it does not change each year. For example, if you retire at age 56, you will pay \$90 per month plus 50% of the current active contribution rate, until you reach age 65.

The surcharge rates are as follows:

EARLY RETIREMENT MONTHLY SURCHARGE RATES	
Age at Retirement	Monthly Surcharge
55	\$100
56	\$90
57	\$80
58	\$70
59	\$60
60	\$50
61	\$50
62-64	\$0

Eligible for Standard Retiree Medical Benefits

If your benefit package includes standard retiree medical benefits, we will continue to offer you retiree medical and dental coverage with some changes for 2006. The eligibility age to begin receiving retiree medical benefits has changed – effective January 1, 2006 – to the earlier of (a) 55 years of age with at least 20 years service or (b) age 65.

Post-65 Coverage (Medical and Rx Only)

Post-65 retirees need to enroll in both Medicare parts A and B. Then, your American Water post-65 coverage coordinates with your Medicare medical coverage. You will receive your prescription drug coverage through American Water. The prescription drug coverage for post-65 retirees is the same as the active prescription drug coverage. See page 6 of this guide for the details of the prescription drug benefit. Post-65 retiree monthly contributions will be \$50 for single coverage, \$100 for single and one dependent, and \$125 for family. The plan does not offer a vision or dental benefit.

This year, Medicare is introducing a new prescription drug benefit, called Part D. If you retire in 2006 and are age 65 or older, you will likely find that your American Water prescription drug benefit is more generous than Medicare Part D's benefit. If this is the case, you should seriously consider not enrolling in Part D.

Not Eligible for Standard Retiree Medical Benefits

The following unions receive retiree medical benefits according to their individual collective bargaining agreements:

- St. Louis, MO (UWUA Local 335)
- Woodbridge, IL (UFCW Local 1546)
- Gary, IN (Steelworker Local 13584 and Local 13584-01)
- Sacramento, CA (Operating Engineers Local 39)
- Franklin, OH (Operating Engineers Local 185)

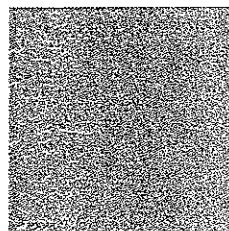
If you are in one of the above unions, you will receive a retiree medical reimbursement account (RMRA).

Retiree Medical Reimbursement Account

For employees listed in the prior section that do not receive the standard retiree medical benefit, we are introducing a retiree medical reimbursement account to help pay for retiree medical expenses. Beginning in 2006, American Water will contribute \$500 each year to your RMRA — you do not contribute anything. Once you retire, you can use your account to help pay for medical expenses.

Post-Retirement Basic Life Insurance

American Water provides you with post-retirement basic life insurance of \$10,000 at no cost to you.



What You Need To Do

- 1. Review your open enrollment materials.** You have a variety of resources at your fingertips to help you make your benefit elections. Share this benefit guide with your family and, if offered, attend an open enrollment meeting at a location near you.
- 2. Ask questions.** If you have questions about your benefits, you can ask your local Human Resources representative or call the Benefit Service Center at 1-866-888-8269.
- 3. Select your medical plan option.** Review the *Health Care Coverage Comparison Chart* on pages 9-11 for the details of each plan and your enrollment form for contribution rates. When picking a health care plan, you should look to balance the amount you pay for monthly contributions with the amount that you pay when you use the plan. For example, the Standard PPO has lower monthly contribution rates but you pay more when you visit the doctor.
- 4. Estimate Flexible Spending Account contributions.** To participate in an FSA, you need to make new contribution elections for 2006. Review your eligible expenses from last year and health care elections (medical, dental, vision, or opt-out) for this year to help determine appropriate annual contributions for this enrollment. Remember to estimate carefully — any money left in your accounts after the plan year ends is forfeited.
- 5. Determine Voluntary Life Insurance elections.** You can elect voluntary life insurance coverage for you, your spouse and/or any eligible child(ren). You'll find the monthly contributions for each coverage on page 14 of this guide.
- 6. Update your beneficiaries.** Your beneficiary(ies) is the person(s) who will receive benefits in the event of your death. You need to select a beneficiary(ies) for your Life, AD&D and Travel Accident benefits; your pension plan benefit (if single); and your 401(k) benefit. You need to complete the beneficiary designation forms even if you have named a beneficiary(ies) in the past.
- 7. Complete your enrollment form.** After you make your enrollment decisions, record your elections on your enrollment form. Return your completed form to your Human Resources representative by October 26, 2005.

Remember, you must enroll or you will have no medical, dental or vision coverage and will not receive the opt-out credit or be able to participate in an FSA for 2006.

Legal

Women's Health and Cancer Rights Act

On October 21, 1998, a new federal Women's Health and Cancer Rights Act became effective. This law requires group health plans that provide coverage for mastectomies to also cover reconstructive surgery and prosthesis following mastectomies.

All medical plan options are in compliance with this law. The law mandates that a member receiving benefits for a medically necessary mastectomy who elects breast reconstruction after the mastectomy, will also receive coverage for:

- Reconstruction of the breast on which the mastectomy has been performed
- Surgery and reconstruction of the other breast to produce a symmetrical appearance
- Prosthesis
- Treatment of the physical complications of all stages of mastectomy, including lymphedemas.

This coverage will be provided in consultation with the attending physician and the patient, and will be subject to the same annual deductibles and coinsurance that apply for the mastectomy.

If you have any questions about coverage of mastectomies or reconstructive surgery, please contact the Horizon Member Services number on the back of your Horizon BC/BS ID card.

Medicare Part D Notice of Creditable Coverage for employees over 65 still actively at work

If you are actively at work at age 65 or older and then you retire and become Medicare-eligible you must call the Benefits Service Center to request a Notice of Creditable Coverage to avoid the Medicare Part D late enrollment fee.

Continuing Coverage

If your coverage or a dependent's coverage is terminated during the year, you may be able to continue some benefits coverage as provided for under a federal law known as the Consolidated Omnibus Reconciliation Act of 1986 (COBRA), as amended.

Right to Amend or Terminate the Plans

American Water reserves the right to amend or terminate at any time the benefits described in this benefit guide subject to any collective bargaining agreements.

Plan Documents Govern

This benefit guide highlights some important information about these benefit plans. If a question ever arises concerning the nature and extent of the benefits under any of the plans described here, the terms of the plans as described in the actual legal documents of the plans will always govern.