QUESTIONS & ANSWERS

WHO WOULD BE AFFECTED BY THE PROPOSED CHANGES?

The proposal affects all Clarks current and future employees in the UK because we are proposing to close all our existing pension arrangements to future accrual, not just Plan 35. We have around 600 employees in Plan 35, 2,900 employees in other pension arrangements and our remaining employees are not saving for a pension.

The proposals do not affect deferred or pensioner members of the Fund, who would continue to receive the benefits they have built up under the Fund.

WERE OTHER OPTIONS CONSIDERED?

Yes, as part of our comprehensive review, the company considered a number of potential options to change our pensions. We believe that the proposals we have outlined to you best meet our objectives.

HOW MUCH WOULD IT COST TO KEEP PLAN 35 OPEN?

A valuation was undertaken as at 31 July 2016 for the Fund, which includes Plan 35. This has resulted in significant increases in both deficit contributions and ongoing contributions to pay for future build-up of pensions:

- In respect of the benefits already built up, Clarks paid £16m last year and will pay more than £10m a year between 2019 and 2025. Clarks is committed to paying these amounts.

- Ongoing company contributions required to fund the cost of benefits still being built up have increased from 38% to 48% of Pensionable Pay and it is possible that these costs could increase further in the future. Clarks considers it is unable to absorb this increase in cost into the business and therefore believes that change is needed.

HOW WOULD THIS CHANGE BE IMPLEMENTED?

Following the consultation, if the proposals were to go ahead, we would propose to implement the changes by asking for your agreement to them (which would include you agreeing to opt out of Plan 35). If you provided your agreement to opt out, this would mean that you would become a deferred member of the Fund.

You should note that there are two ways commonly used to implement these types of changes: 1) the way we are proposing above, or 2) by the employer and the trustee agreeing a change to the rules that govern how a scheme is run and what benefits are paid under it.

In this case, however, the Rules of the Fund contain a restriction which means that it might not be possible for them to be changed so as to close the Fund and put in place the other elements of the proposals. This is why you would be asked to provide your agreement to the changes if they go ahead. We will provide further details on this during the consultation process.

CAN CLARKS LEGALLY PROPOSE CHANGES TO MY PENSION ARRANGEMENTS?

Yes, under pension law, Clarks can propose changes relating to the way in which future pension benefits are built up. The law requires that we actively engage in consultation with affected employees, which is what we're doing now. If the changes go ahead as proposed, we will be asking for your agreement to implement them.

WHEN DOES THE CONSULTATION END?

The law says we must consult on the proposed changes for a minimum period of 60 days. Our consultation runs from 15 January to 15 March 2018.

HAVE THE TRADE UNIONS BEEN INVOLVED IN THE PROCESS SO FAR?

We have made the appropriate trade unions aware of our proposals.

WHAT IS THE ROLE OF THE TRUSTEE IN THESE PROPOSED CHANGES?

The Trustee of the Fund is aware of the changes Clarks is proposing. However, the proposals being made are company proposals and the Trustee has not been involved in formulating them. The agreement of the Trustee is not required to implement the proposed changes if they go ahead and are implemented in the manner proposed (by having individual members enter into contractual agreements with their employers).

Clarks will continue to liaise with the Trustee about the proposals during the consultation process and, should the proposals go ahead, until any final changes are documented and brought into effect.

FROM WHAT DATE IS IT PROPOSED THAT THE CHANGES TAKE EFFECT?

Subject to the outcome of this consultation, Plan 35 would close to future accrual of benefits on 31 July 2018. After this date, your benefits from Plan 35 would no longer be linked to any future changes in your pay from Clarks. Your Final Pensionable Pay at 31 July 2018 would be used to calculate your benefits. In practice, this means that any salary changes after 5 April 2018 would not affect your benefits.

DO I HAVE TO JOIN THE CLARKS FLEXIBLE SAVINGS PLAN?

No but we expect that the Clarks Flexible Savings Plan will be our only pension arrangement, so you would be missing out on valuable Company contributions, if you choose not to join. Note that under current legislation, if you meet certain criteria, we have to automatically enrol you into a pension scheme. Even if you choose not to join the Clarks Flexible Savings Plan, you may be automatically enrolled into it at a later date.

WOULD I BE ABLE TO TAKE MY PLAN 35 BENEFITS BEFORE I LEAVE SERVICE?

No, the current policy will remain in place and you would need to leave service in order to take your Plan 35 benefits.

WOULD I STILL MAKE CONTRIBUTIONS VIA SMART PENSIONS?

Yes.

WHO WOULD RUN THE NEW CLARKS FLEXIBLE SAVINGS PLAN?

Should the proposals go ahead, Clarks would appoint a trusted and well-known UK pension provider to run the Clarks Flexible Savings Plan. We expect to make details available to you in the coming weeks.

WHAT ALTERNATIVE SAVINGS PRODUCTS WOULD BE AVAILABLE FOR EMPLOYEES?

The final details on the alternative savings products are still to be agreed but we expect ISAs to be one of the options available.

WHAT WOULD THE IMPACT ON MY TAKE-HOME PAY BE IF I JOINED THE CLARKS FLEXIBLE SAVINGS PLAN?

The table opposite illustrates how your monthly take-home pay may change if you joined the Clarks Flexible Savings Plan and paid contributions of between 6% and 10% of your Basic Pay, compared to the current contributions for most employees in Plan 35 of 10% of Pensionable Pay.

The figures shown are examples only. The figures assume that you pay your contributions through Smart Pensions (salary sacrifice) in both Plan 35 and the Clarks Flexible Savings Plan, and that your gross earnings are equal to your Basic Pay.

Contribution rate into Clarks Flexible Savings Plan (% of Basic Pay)	Approximate impact on your monthly take-home pay of joining the Clarks Flexible Savings Plan if your annual Basic Pay is…			
	£10,000	£20,000	£30,000	£50,000
6%	£20 lower	£11 higher	£38 higher	£68 higher
8%	£36 lower	£16 lower	£2 lower	£18 higher
10%	£53 lower	£42 lower	£42 lower	£32 lower

Please note that your Pensionable Pay is lower than your Basic Pay as it includes a deduction in respect of the State Pension Offset. For example, if your Basic Pay is £20,000 (and your gross earnings are also equal to this amount), then your Pensionable Pay would be £13,640 (based on the current Basic State Pension of £6,360 or a pro-rated amount if you work part time).

This means that, if you pay the same percentage of your Basic Pay into the Clarks Flexible Savings Plan as you currently pay into Plan 35 from your Pensionable Pay, you would be paying more into your pension and your take-home pay would therefore be likely to reduce. However, you would also get the benefit of Clarks paying contributions based on your Basic Pay rather than your Pensionable Pay.

I WORK PART TIME. WHAT DOES THIS MEAN FOR ME?

If the proposals go ahead and you join the Clarks Flexible Savings Plan, you would be able to choose to pay a contribution as a percentage of your pay. Contributions would be based on your actual part-time salary rather than full-time equivalent earnings.

WHAT WOULD THE CHANGES MEAN FOR ME PERSONALLY?

The impact of these proposals for all individuals would vary. Therefore, as part of the consultation and communication process, we have prepared personal illustrations as part of your consultation pack. These show your estimated pension, based on a number of assumptions about what might happen in the future, if the proposals go ahead, and also what your pension would be if Plan 35 stays open to future accrual of benefits.

WHAT IS THE DIFFERENCE IN RISK BETWEEN PLAN 35 BENEFITS AND THE BENEFITS THAT WOULD BE PROVIDED UNDER THE CLARKS FLEXIBLE SAVINGS PLAN IF THE PROPOSED CHANGES GO AHEAD?

The key difference in risk relates to investments, as this risk is effectively taken by Clarks in Plan 35 and by you in the new Clarks Flexible Savings Plan. Under Plan 35, if investments do not perform then Clarks will be required to increase its contributions (provided it is in a position to be able to do this), in order to ensure you receive the benefits promised. Under the new Clarks Flexible Savings Plan, if investments do not perform then in order to maintain your pension expectations, you may have to make higher contributions or a lower pension income may be available. The cost of purchasing an annuity will also vary.

WOULD THE SECURITY OF MY BENEFITS BE AFFECTED BY THE PROPOSED CHANGES?

No – in fact, it is likely that the security of your pension benefits accumulated to the date of closure may be increased if the proposed changes take effect, as it would be more sustainable for Clarks to provide the necessary funding for these benefits.

CAN I STILL RETIRE EARLY FROM PLAN 35 ON THE SAME TERMS?

It would still be possible for you to retire from Plan 35 on or after your 55th birthday if the proposed changes were to go ahead but only if you had also left service of the company. The terms on which your pension would be paid to you would be different. In particular, the reduction that would be applied to your benefits would be likely to be greater than if you had retired as an active Plan 35 member because the reduction factors that apply for deferred members who draw their benefits early are less generous than those that apply for members who retire early from active service. You would also need the consent of the Trustee (rather than the consent of the company) to take your benefits early.

For members who joined after 6 April 1992, under the current Rules of the Fund, it is possible for active members who are aged 62 and over to draw their pension without reduction, provided the company agrees. If the proposed changes go ahead, a reduction would be applied to all pensions paid before age 65.

For members who joined on or before 6 April 1992 (or those who are former members of the K Shoes Contributory Pension Scheme), it is possible for active members who are aged 60 and over to draw their pension without reduction. If the proposed changes go ahead, they will still be able to draw their pension from age 60 without reduction. However, different factors may apply for retiring before age 60.

For some members, these changes could make a substantial difference to the value of their pension if they chose to retire early. Further details of the impact of the changes for members taking early retirement will be available in the presentations and videos.

WOULD I STILL BE ENTITLED TO AN ENHANCED PENSION FROM THE FUND IF I LEAVE SERVICE BECAUSE OF INCAPACITY?

No, under the Rules of the Fund, if you retire from active service because of ill-health and the Trustee of the Fund believes that you satisfy the eligibility criteria for an incapacity pension paid from the Fund, you are currently entitled to an immediate, unreduced pension from the Fund that is calculated assuming that you remained in pensionable service until your 65th birthday. The consent of the company is also required.

If the proposed changes go ahead, you would still be entitled to draw your Plan 35 pension early with the consent of the Trustee but the pension you would receive would only take into account the pensionable service you had completed as a Plan 35 member of the Fund up to 31 July 2018 and would be calculated by reference to your 'Final Pensionable Pay' at that date (this would mean that any salary increases awarded to you after 5 April 2018 would not be taken into account). An adjustment would also be made to your pension to take account of increases in inflation between 31 July 2018 and the date of your retirement.

Further details of the benefits payable on incapacity are noted in the enclosed illustrations.

WOULD REDUNDANCY BENEFITS UNDER THE FUND STAY THE SAME IF THE PROPOSED CHANGES GO AHEAD?

If you are made redundant while you are an active member of the Fund and you joined the Fund before 1 January 1996, you are entitled to an unreduced pension from the Fund from age 55. If you joined the Fund after 31 December 1995, any pension paid to you early on grounds of redundancy would still be reduced but the reductions that currently apply are more favourable than those that apply to deferred members who take their pension early.

However, if the proposed changes to the Fund go ahead, the Plan 35 pension payable from the Fund to a member who is made redundant would be reduced in the same way as any other pension paid early to a deferred member and the favourable terms described above would no longer apply.

WOULD MY DEPENDANTS STILL GET A BENEFIT IF I DIE WHILE AN EMPLOYEE OF CLARKS?

Yes, there are three main benefits that would be paid to your dependants if you die while an employee of Clarks and a member of Plan 35 or the Clarks Flexible Savings Plan.

Lump sum: If you are contributing to the new Clarks Flexible Savings Plan and die, your dependants would receive a lump sum equal to 8 x your Basic Pay. This is more than would currently be paid under Plan 35, where a lump sum of 4 x Final Earnings is payable. A further lump sum equal to the value of the contributions you have paid into Plan 35 would also be paid, whether the proposals go ahead or not.

Dependant's pension: A dependant's pension would be paid from Plan 35. If the proposals go ahead, your spouse or spousal equivalent would be due a pension equal to 50% of the Plan 35 pension you have built up to the date of closure at 31 July 2018. This is different from the pension that would currently be paid, which is equal to 25% of Final Earnings, regardless of the service you have in the Fund. Generally, we expect the dependant's pension paid from Plan 35 to be lower if the proposals go ahead. Children's pensions are also paid to any children who are financially dependent on you at the time of your death.

Pension account: In addition, the value of your pension account in the Clarks Flexible Savings Plan would be paid to your dependants.

Note: some individual members have special benefits which are not covered in the above description.

WHAT IS A BRIDGING PENSION AND WOULD THIS BE IMPACTED BY THE CHANGES?

If you joined the Fund before 6 April 1988 on either non-staff or permanent staff conditions of employment and joined Plan 35 with effect from 6 April 1992, you are currently entitled to an additional pension if you retire from active service before your 65th birthday. This additional pension is normally paid as a temporary pension or 'bridging pension' until a date determined by the Trustee but can instead be taken as a smaller pension element, payable for life. This additional pension is only available while the Fund remains open and would cease to be available if the proposed closure goes ahead.

WHAT HAPPENS TO MY ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)?

AVCs paid into Plan 35 before 31 July 2018 would continue to be available to provide benefits on retirement. Note: you can choose to transfer your AVCs into the Clarks Flexible Savings Plan if you wish. It would not be possible for you to pay any further AVCs into Plan 35 after 31 July 2018. However, you could pay AVCs into the Clarks Flexible Savings Plan if you wished (although the company would not pay any additional contributions over and above the agreed contribution rates – refer to the enclosed booklet for further information).

I HAVE BENEFITS UNDER PLAN 35 AND PLAN 18 OF THE FUND. HOW WILL THE CHANGES AFFECT ME?

The information provided in the enclosed documents describes how your Plan 35 benefits would be affected if the proposed changes go ahead. Further information will be provided to you separately about how your Plan 18 benefits would be affected by the changes.

WHO IS THE PENSIONS REGULATOR?

The Pensions Regulator (TPR) is the UK regulator of work-based pension schemes. It works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them. If you have any concerns about this consultation process that you are unable to resolve by speaking to the Clarks Pensions Department first, you can contact TPR:

Napier House
Trafalgar Place
Brighton
BN1 4DW

Telephone: 0845 600 0707
Email: customersupport@tpr.gov.uk

HAVE A QUESTION?

We know that the proposed changes might raise a number of questions, so we will try to answer as many of these as possible in a set of questions and answers on the website. The questions and answers will be updated regularly in response to questions raised by employees during the consultation.
If you can't find the answer to the question you are looking for, you can submit a question through the website, via email to pensionshelpdesk@Clarks.com or call us on 01458 842664.

Some of you will also be able to attend one of the seminars we are holding at our Distribution Centres or HQ, where you can put questions directly to members of the Pensions Team and our advisers.

PLEASE NOTE

This document and its contents are intended for consultation purposes only and do not confer any rights to benefits. If there is any conflict between the Trust Deed and Rules of the C & J Clark Pension Fund (Plan 35) and this document, the Trust Deed and Rules would prevail. This document is based on our understanding of current tax and pensions law at January 2018.