Clarks | PENSIONS

PLAN 35

YOUR FUTURE PENSION

PROPOSED CHANGES AND THE CONSULTATION PROCESS

WHAT'S INSIDE?

WHY ARE WE MAKING THE PROPOSALS?

PLAN 35 IS A SECTION OF THE C & J CLARK PENSION FUND AND IS A DEFINED BENEFIT SCHEME. THIS MEANS THAT YOUR PENSION AMOUNT IS DEFINED UNDER THE RULES OF THE FUND AND CLARKS HAS TO PAY WHATEVER IT COSTS OVER AND ABOVE YOUR OWN CONTRIBUTIONS TO ENSURE YOU RECEIVE YOUR PENSION.

This exposes Clarks to large costs and risks. The 31 July 2016 actuarial valuation for Plan 35 was recently completed. This assessment of the Fund's financial position has led to a large increase in our pension costs compared with the previous valuation in 2014.

Following the recent actuarial valuation, the contributions the company has to pay to meet the cost of benefits has increased by around £3m a year. For Clarks, ongoing pension costs for Plan 35 have more than doubled over the last ten years. The cost of providing ongoing pensions in Plan 35 has now risen to on average 58% of Pensionable Pay, of which Clarks pays 48%.

In addition to these costs, as a result of the latest valuation, the company has agreed with the Trustee to pay additional contributions to pay off the deficit. Clarks paid £16m in 2017 and has agreed to make further payments of more than £10m a year from 2019 through until 2025.

WHAT'S IN THIS PACK?

This booklet and Questions & Answers sheet give you more information about our proposed changes, while the enclosed personal illustration shows you how the proposed changes could affect your pension.

During the consultation, you will be able to ask questions and give your feedback on the proposals (until 15 March 2018). This is explained on page 15 of this booklet.

It's really important you read this booklet and understand it. If you have any questions, you can email your questions to pensionshelpdesk@Clarks.com, call our dedicated pensions helpline on 01458 842664 or go online to www.clarkspensionsconsultation.co.uk

However, there is more to our proposal for change than just costs. Here are some other reasons why we believe we need to change our pensions:

1. REBALANCE OUR PENSION SPEND MORE EQUALLY BETWEEN EMPLOYEES

The increase in costs in Plan 35 creates a greater gap between what we spend on colleagues in Plan 35 and our colleagues saving into our other pension plans. This means there are significant variations in overall benefit packages for two people doing the same job.

For example, at the moment, we spend around 2/3rds of our annual pension spend on the 7% of our employees who remain in Plan 35 (this does not include the deficit payments mentioned earlier).

We want to share our pension spend more equally across our workforce.

2. MODERNISE OUR PENSION

The world of pensions has moved on in the last few years; there are new rules about how pension savers can take their defined contribution (DC) pension pots. We think many of our employees would welcome access to these flexibilities. For example, many DC savers can now take their pension as cash, or keep it invested and take money from it as and when they need it – with the added bonus that if they choose, they can pass their unused pension savings on to their loved ones as a lump sum.

This is explained in more detail on page 7.

3. OFFER MORE OPTIONS FOR SAVING

We want pension savings to be only one part of our reward package. We want to be able to offer our employees a variety of ways to save – not only for their retirement but also for their more immediate needs, such as saving up to buy a home.

This means creating a benefits package that is flexible enough to work for all of our employees, no matter what their age, circumstances or salary.

4. REDUCE THE COMPANY'S EXPOSURE TO RISK

As the figures on page 3 show, costs can increase substantially even over short periods. In general, the factors driving this are outside our control and the position could worsen still further.

But one area where Clarks can manage pension risk is by stopping the build-up of any further benefits in Plan 35 and therefore stop building any additional pension risk. This is important particularly in the current challenging business environment. We need to contain and control these costs to protect our business.

We are not alone in proposing to make these changes. When you started at Clarks and joined the Plan 35 Section of the Fund, many companies provided defined benefit (DB) pension schemes to all their employees. Since then, many things have changed and now a much smaller number of companies provide this type of pension, with many deciding to close their DB schemes because of the ever-increasing costs – and risks – associated with these schemes.

WHAT IS BEING PROPOSED?

CLARKS IS PROPOSING TO CLOSE ALL ITS EXISTING PENSION SCHEMES TO FUTURE ACCRUAL FROM 31 JULY 2018 AND OPEN A NEW PLAN FOR ALL EMPLOYEES FROM 1 AUGUST.

This means you would stop building up a pension in Plan 35 from that date. Your pension would be worked out using your Pensionable Service and Final Pensionable Pay on that date (further detail about how your Plan 35 benefits would be calculated is noted in the enclosed Questions and Answers sheet). This pension is promised to you and will be preserved in the Fund. This is called a deferred pension and this would then receive guaranteed increases in line with the Rules of the Fund and legal requirements between 1 August 2018 and your retirement. The enclosed Questions and Answers sheet contains further information on how the proposed changes would affect your ability to draw your Plan 35 benefits early.

The proposed new scheme is a new, modern, defined contribution pension scheme that would be open to all our employees.

The proposed new scheme would be called the Clarks Flexible Savings Plan and would offer generous company contributions (see page 9) to match your own contributions. Also, because we understand that Plan 35 members could be most affected by these changes, we are proposing to provide some additional contributions for you – see opposite.

TRANSITIONAL ARRANGEMENTS FOR PLAN 35 MEMBERS

We understand that for some employees, our proposals could represent a significant change in their future pension savings. Our proposals therefore include two additional company contributions, each calculated as 5% of your Basic Pay, that would be available to you during the first two years of membership of the Clarks Flexible Savings Plan. These payments could also be taken as cash (subject to tax) as an alternative. Additionally, we have included a special tier for ongoing contributions in the new scheme that would only be available for Plan 35 members.

FLEXIBLE WORKPLACE SAVINGS

We have a diverse workforce across all ages – and we know that many would prefer to save for their short- to medium-term needs rather than lock all of their money away in a pension.

Under our proposals, if you paid at least 4% of your salary into the Clarks Flexible Savings Plan, you would also be able to invest a portion of your contributions in another workplace savings product. For example, you might want to have some contributions paid into an ISA (Individual Savings Account) to help you build up a deposit for a property purchase.

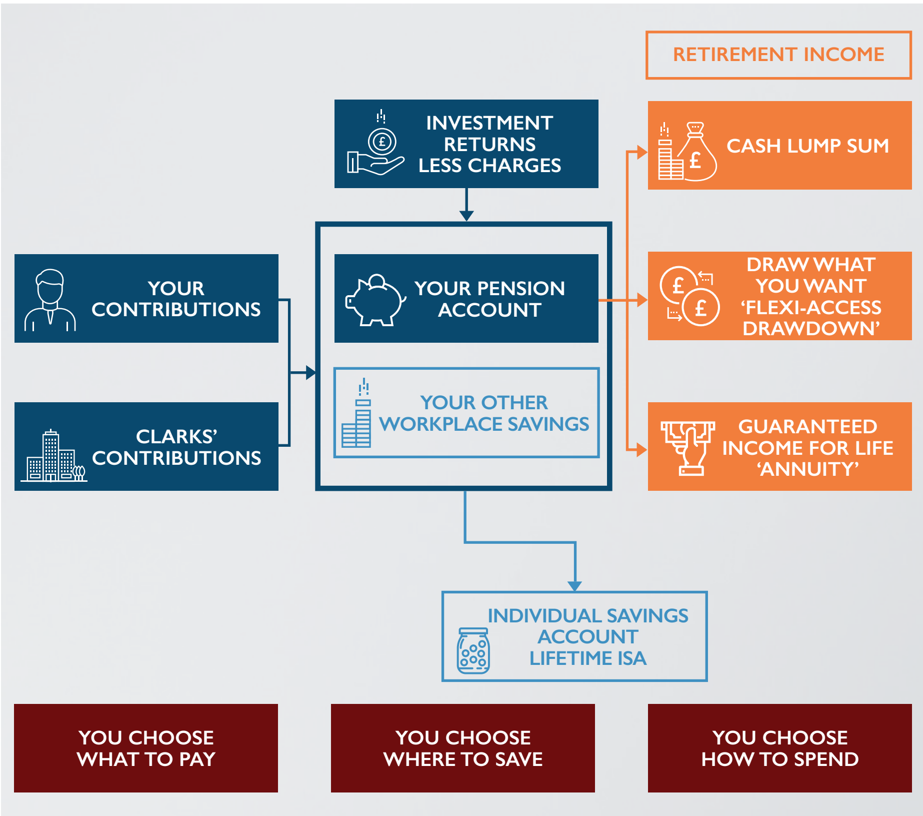
ENHANCED LUMP SUM DEATH-IN-SERVICE BENEFIT

If you died while working for Clarks and as an active member of the Clarks Flexible Savings Plan, your loved ones would receive an increased lump sum of 8 x Basic Pay. This is double the current lump sum benefit payable in Plan 35. Your dependants would also still receive a pension, but it would be based on your deferred pension in Plan 35. This would be lower than the dependant's pension that could have been payable if Plan 35 had remained open. See the Q&A sheet for further detail.

Remember: the pension you have built up so far in Plan 35 would be preserved. We are committed to meeting the obligations you have already built up in Plan 35.

BUILDING UP A DC PENSION

WE THINK OUR PROPOSED NEW DEFINED CONTRIBUTION (DC) PENSION SCHEME WOULD PROVIDE EVERYONE WITH A PENSION THAT IS VALUABLE, MODERN AND AFFORDABLE. THIS ILLUSTRATION SHOWS HOW YOUR BENEFITS WOULD BUILD UP IN A DC PENSION SCHEME:



PROPOSED CONTRIBUTION OPTIONS IN THE CLARKS FLEXIBLE SAVINGS PLAN

<table>
<tr><th>If you paid (% of Basic Pay)</th><th>Clarks would pay (% of Basic Pay)*</th><th>Total paid into your pension account (% of Basic Pay)</th><th></th><th></th></tr>
<tr><td>2%</td><td>5%</td><td>7%</td><td></td><td></td></tr>
<tr><td>3%</td><td>6%</td><td>9%</td><td></td><td></td></tr>
<tr><td>4%</td><td>7%</td><td>11%</td><td>Choice over 2%</td><td rowspan="4">If the total paid into your pension account was at least 9%, you would be able to choose to pay the balance into an alternative workplace savings product.</td></tr>
<tr><td>5%</td><td>8%</td><td>13%</td><td>Choice over 4%</td></tr>
<tr><td>6%</td><td>9%</td><td>15%</td><td>Choice over 6%</td></tr>
<tr><td>7%</td><td>10%</td><td>17%</td><td>Choice over 8%</td></tr>
<tr><td>8%</td><td>11%</td><td>19%</td><td>Choice over remaining 10%</td><td>This is an additional contribution tier that would only be available to existing Plan 35 members if the proposals go ahead.</td></tr>
</table>

*Under these proposals, transitional arrangements could see the total contribution paid into your pension account increased by 5% of your Basic Pay in 2018 and 2019, if you elect to receive an additional pension payment, rather than a cash payment.

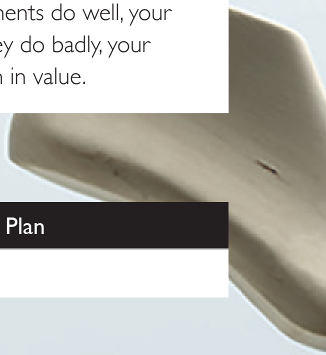
On the next page we explain how a DC pension, like the Clarks Flexible Savings Plan, is different from a defined benefit scheme like Plan 35.

UNDERSTANDING THE DIFFERENCES BETWEEN DB AND DC PENSIONS

THE FOLLOWING PAGES SET OUT THE KEY DIFFERENCES BETWEEN A DB SCHEME LIKE PLAN 35 AND A DC SCHEME LIKE THE CLARKS FLEXIBLE SAVINGS PLAN. AS A REMINDER, YOU WILL HAVE A PENSION IN PLAN 35 FOR SERVICE UNTIL 31 JULY AND A PENSION IN THE NEW PLAN, IF THE CHANGES GO AHEAD. FURTHER DETAILS ON SOME OF THESE ELEMENTS ARE AVAILABLE IN THE Q&A DOCUMENT.

HOW DOES IT WORK?

Plan 35	Clarks Flexible Savings Plan
Your pension is linked to your Final Pensionable Pay and the number of years you are a member of the Plan. Your contributions are pooled with those paid by other members, and your employer is responsible for making sure there is enough money to pay all the benefits promised.	Your pension is based on the contributions paid into your individual pension account, investment returns and any charges that are taken from your account by the pension provider. If your investments do well, your account will grow; if they do badly, your account could go down in value.



CAN I CHOOSE HOW MUCH TO PAY IN?

Plan 35	Clarks Flexible Savings Plan
✘	✔

CAN I CHOOSE WHAT SORT OF PENSION I GET WHEN I RETIRE?

Plan 35	Clarks Flexible Savings Plan
✘ Your pension is worked out according to a set formula – which for most Plan 35 members is 1/60th x Final Pensionable Pay x Pensionable Service. Your pension would receive annual increases, based on changes in the cost of living, as set out in the Rules of the Fund. The only way you could have the flexibility to choose a different sort of pension would be to transfer the full value of your Plan 35 pension into an individual pension arrangement.	✔ You can use the money that builds up in your pension account to purchase a pension (annuity), which you can tailor to your specific needs. For example, if you don't have a spouse, you might not need to make provision for a spouse's pension, which is an option that would cost more. If you are in poor health, you might able to get a higher pension. You don't have to buy a pension; you could also withdraw some or all of your pension savings as cash, as one lump sum or in stages.

CAN I TAKE PART OF MY RETIREMENT BENEFITS AS A TAX-FREE LUMP SUM?

Plan 35	Clarks Flexible Savings Plan
✔	✔

ARE THERE ANY OTHER COSTS?

Plan 35	Clarks Flexible Savings Plan
✘	✔ Administration and investment charges are applied to your pension account, but Clarks has negotiated very competitive rates with the proposed new pension provider.

WHAT DEATH-IN-SERVICE LUMP SUM DO I GET?

Plan 35	Clarks Flexible Savings Plan
4 x Final Earnings Refer to Note 11 in your personal illustration for a definition of Final Earnings.	8 x Basic Pay Refer to Note 11 in your personal illustration for a definition of Basic Pay.

WHAT OTHER BENEFITS ARE PAYABLE ON DEATH IN SERVICE?

Plan 35	Clarks Flexible Savings Plan
A pension is paid to your dependant/s, including qualifying children. Your contributions are refunded, usually as a lump sum.	The money in your pension account would be paid out as a lump sum. This would include the company's contributions and any investment growth.

WHAT BENEFITS ARE PAYABLE IF I DIE AFTER LEAVING CLARKS BUT BEFORE TAKING MY PENSION?

Plan 35	Clarks Flexible Savings Plan
A dependant's pension is paid to your dependant, as well as pensions for any eligible children. The contributions that you paid will also be refunded.	The money in your pension account would be paid out as a lump sum. This would include the company's contributions and any investment growth.

WHAT BENEFITS ARE PAYABLE ON DEATH AFTER RETIREMENT?

Plan 35	Clarks Flexible Savings Plan
A pension is paid to your qualifying partner and children. A lump sum is also paid if you die before your pension has been paid for five years.	It depends on your choices at retirement. For example, if you bought an annuity that included a spouse's pension, your spouse would receive a pension. If you took the money in your pension account as cash, or left it in a drawdown arrangement, then any remaining money would form part of your estate and could be passed on to your heirs.

WHAT ILL-HEALTH BENEFITS DO I GET?

Plan 35	Clarks Flexible Savings Plan
The Fund would pay you an enhanced ill-health early retirement pension (refer to the enclosed Questions and Answers sheet for further details).	Your pension account would be used to provide you with benefits.

YOUR OPTIONS AT RETIREMENT IF THE PROPOSALS GO AHEAD

IF THE PROPOSALS WERE TO GO AHEAD, YOU WOULD BUILD UP MONEY IN YOUR INDIVIDUAL PENSION ACCOUNT. AT RETIREMENT, YOU WOULD HAVE THE FOLLOWING OPTIONS WITH YOUR DC PENSION ACCOUNT:

1) TAKE IT AS CASH, EITHER AS ONE LUMP SUM OR A NUMBER OF WITHDRAWALS.

Under current tax rules, you can take 25% of your pension savings as tax-free cash. It used to be the case that you had to use the rest to buy an annuity (a pension – see below) but the pension flexibilities introduced in 2015 mean you can now take it all as cash, if you want – with everything over 25% being taxed as income at your highest marginal tax rate.

---

2) USE IT TO BUY AN ANNUITY (A PENSION)

You could use some or all of your pension savings to buy an annuity from an insurance company. In exchange for a lump sum payment, the insurance company would provide you with an income for life. You can tailor the annuity to meet your needs. For example, your annuity doesn't have to provide for a spouse's pension (which is an option that costs more). This may suit you better if you're not married or if your spouse has their own pension which provides sufficient income for them.

---

3) KEEP THE MONEY INVESTED AND 'DRAWDOWN'

'Drawdown' is a pension word that means you keep your pension savings invested and take an income from your account, as and when you need it. This means your money could carry on growing during retirement – but there is also a risk that your retirement income could fall or even run out, especially if stock markets fall.

---

4) A COMBINATION OF THE ABOVE

WHAT HAPPENS NEXT?

THE CONSULTATION RUNS UNTIL 15 MARCH 2018. THIS IS YOUR OPPORTUNITY TO ASK QUESTIONS ABOUT THE PROPOSALS AND PROVIDE YOUR FEEDBACK. WE WILL CONSIDER ALL FEEDBACK RECEIVED BEFORE MAKING A FINAL DECISION ABOUT THE PROPOSALS. WE MAY CHANGE THE PROPOSALS BASED ON YOUR FEEDBACK.

We are planning to run a number of drop-in sessions at our Distribution Centres and seminars at HQ. Colleagues in Distribution Centres will be able to attend a session during a shift in the next couple of weeks. Details of the HQ seminars and how to book are available on our consultation website:
www.clarkspensionsconsultation.co.uk
For those of you not able to get to a seminar in person, a video recording will be made available. You can also ask questions via email or phone.

We will update the consultation website regularly as the consultation progresses, so please do check back to see what updates there are.

We want everyone to get involved in this very important process to ensure that you all have had an opportunity to understand and comment on the proposals.

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).

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 expect to send a final update to all our employees in April, letting you know what decision has been reached.

HOW TO PROVIDE FEEDBACK

We have set up a dedicated pensions consultation website where you can provide your feedback: **www.clarkspensionsconsultation.co.uk**

OTHER WAYS TO SUBMIT YOUR FEEDBACK

Email us at: pensionshelpdesk@Clarks.com

If you do not have access to the internet, you can write to us at: Clarks Pensions Department, 40 High Street, Street, Somerset BA16 0EQ, Internal Box 123.

You can also call the dedicated pensions helpline on: 01458 842664

Once the consultation has finished, all the feedback received will be reviewed and a final decision about the proposal will be made. We will update you on the outcome and next steps which, if the proposals were to go ahead, would include documenting the changes to your pension provision.

We understand that your pension is very important to you. We have endeavoured to keep the current arrangements open for as long as possible but we do not believe that our current pension system is sustainable. We believe that we need to find a solution that ensures our pension remains affordable for the company and a valuable benefit for all our employees in the long term.

IF YOU NEED ADVICE

We want to provide you with all the information you need to understand the proposal. If you have any questions, there are lots of ways you can get in touch with us.

However, by law, we cannot give you financial advice. If you feel you need advice to help you understand the impact of the proposals on your future retirement benefits, you can find an independent financial adviser in your area through this website: **www.unbiased.co.uk**

An IFA will charge for their time and you will be personally responsible for meeting their fees, so please make sure you understand their charges before committing to anything.

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.