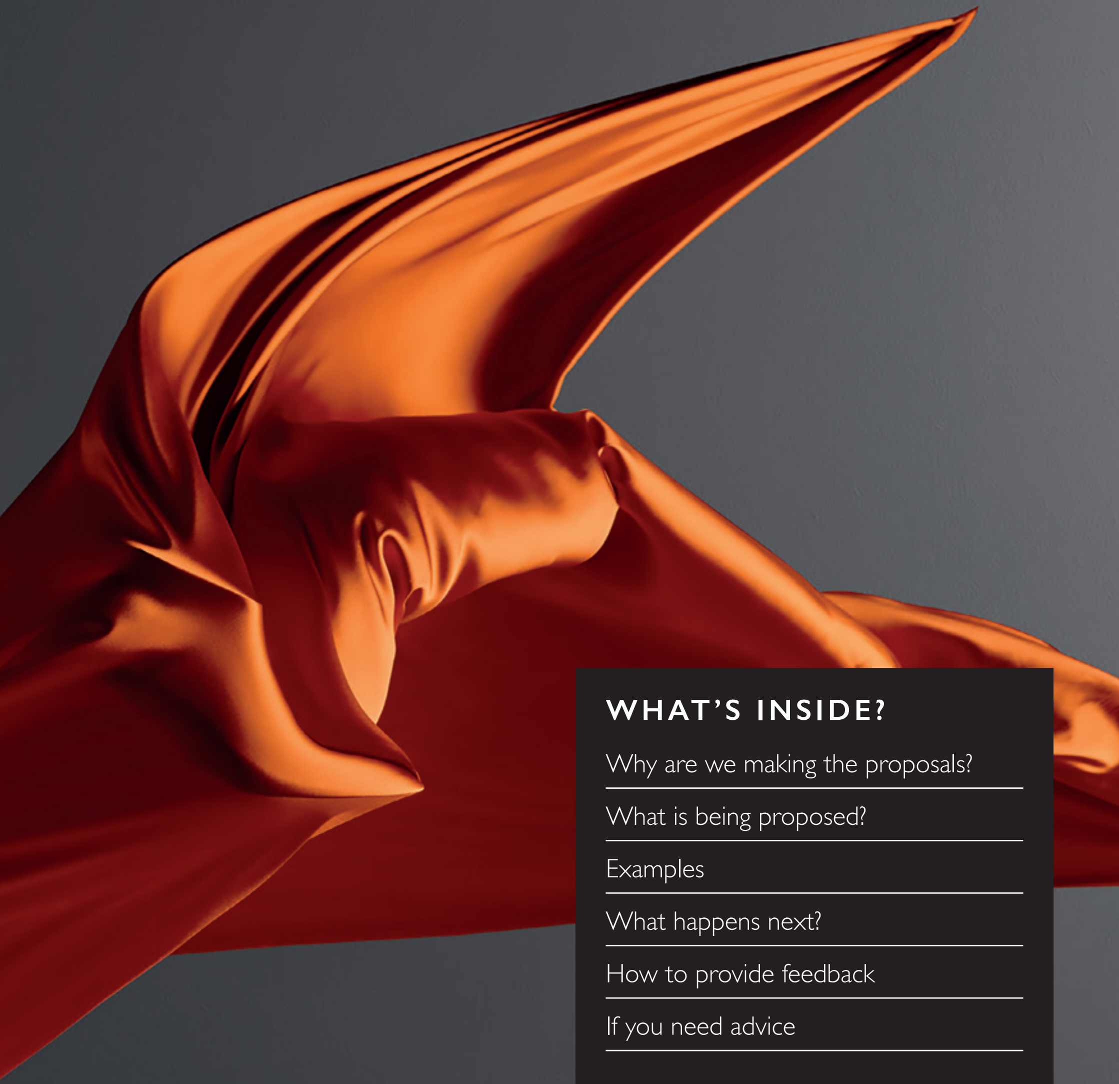
Clarks | PENSIONS

PLAN 18

YOUR FUTURE PENSION

# PROPOSED CHANGES AND THE CONSULTATION PROCESS



## WHAT'S INSIDE?

# WHY ARE WE MAKING THE PROPOSALS?

**CLARKS HAS A NUMBER OF PENSION SCHEMES, INCLUDING THE C & J CLARK PENSION FUND. PLAN 18 IS THE DEFINED CONTRIBUTION (DC) SECTION OF THE FUND. THERE IS ALSO PLAN 35, WHICH IS THE FUND'S DEFINED BENEFIT (DB) SECTION.**

In a scheme providing a DB pension, the pension amount received is defined under the rules of the scheme and the company has to pay whatever it costs to meet that pension over and above employee contributions. The costs of providing any form of DB pension have escalated hugely over recent years. For example, ongoing pension costs for Plan 35 members in the C & J Clark Pension Fund have more than doubled over the last ten years. This has made these types of arrangements unsustainable for Clarks and many other companies. Although, the cost of our DB arrangements has been a major driver for our review, there are other factors that currently impact Plan 18 members which we want to address.

## WHAT'S IN THIS PACK?

This booklet and the Questions & Answers sheet give you more information about our proposed changes. There are also some examples in this pack that give an idea of how a typical Plan 18 member's benefits might be affected. All of these documents are also on the consultation website: **www.clarkspensionsconsultation.co.uk**

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 19 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 DB pension costs and risks. Here are some other reasons why we believe we need to change our pensions:**

## 1. REBALANCE OUR PENSION SPEND MORE EQUALLY BETWEEN EMPLOYEES

At the moment, we spend the majority of our annual pension spend on a minority of our employees in DB pension schemes. This means there are significant variations in overall benefit packages for two people doing the same job. 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 (subject to tax), 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 on death. This is explained in more detail on pages 14 and 15.

## 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.

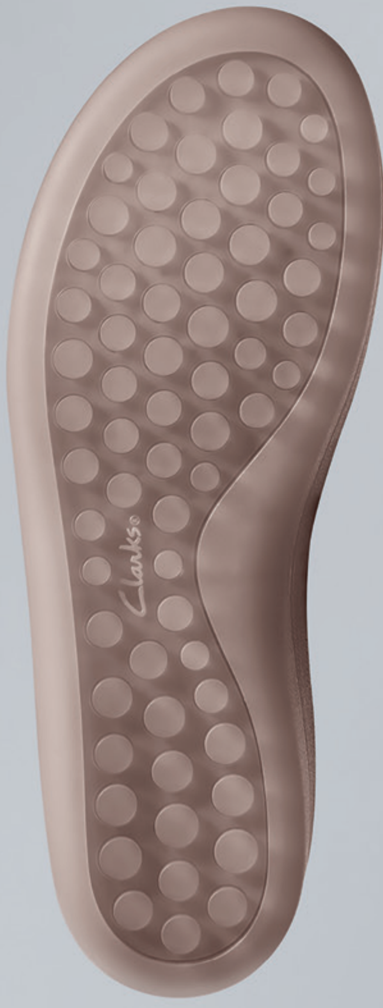
This means creating a benefit package that is flexible enough to work for all of our employees, no matter what their age, circumstances or salary.

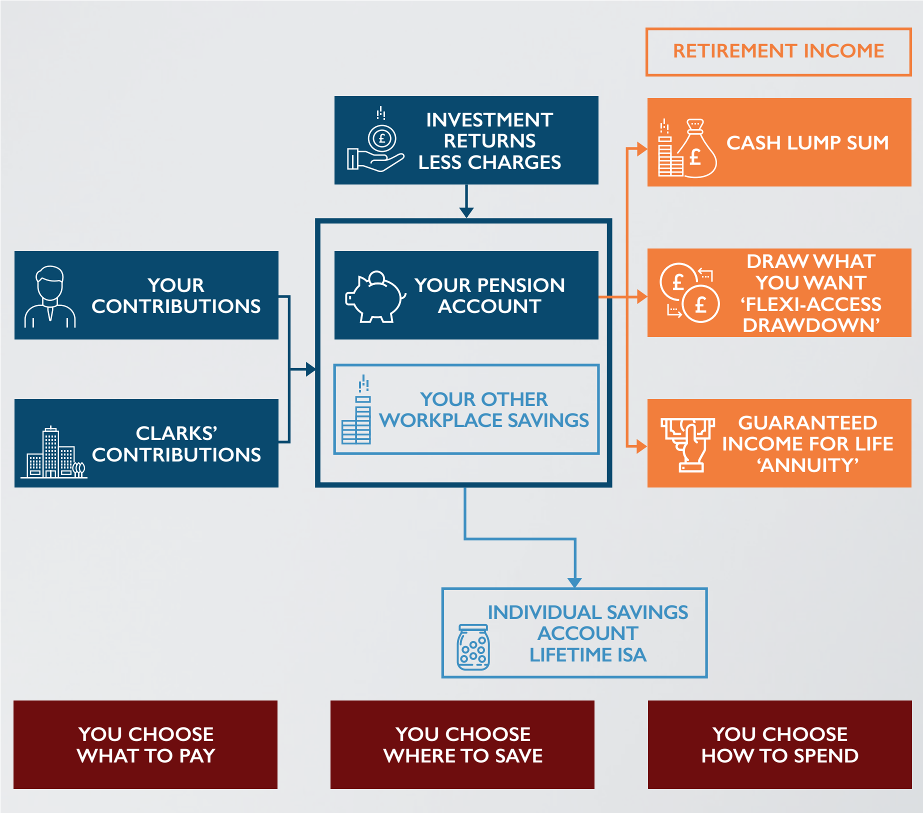
# WHAT IS BEING PROPOSED?

**CLARKS IS PROPOSING TO CLOSE ALL ITS EXISTING PENSION SCHEMES TO FUTURE ACCRUAL FROM 31 JULY 2018 AND SET UP A NEW, MODERN, DEFINED CONTRIBUTION (DC) SCHEME THAT ALL OUR EMPLOYEES CAN JOIN.**

This means you would become a deferred member of the Plan 18 section of the C & J Clark Pension Fund and stop paying contributions into this Fund.

The new scheme would work in the same way as Plan 18 – so, you and the company pay contributions into a pension account, which is then invested.






At retirement, however, the new scheme would provide a number of new options which would give you much greater flexibility on what to do with your pension account. (You could also access similar flexibilities in terms of how your Plan 18 benefits are used but only if you chose to transfer these benefits to an individual pension arrangement).

The new scheme would offer generous company contributions (see overleaf) to help more employees to save more. The company matching contributions that are available would increase for Plan 18 members. You would also have greater flexibility on some of the contributions which can be directed to other workplace savings options, which means you may be able to access these savings earlier than your pension.

# PROPOSED CONTRIBUTION OPTIONS IN THE CLARKS FLEXIBLE SAVINGS PLAN

| If you paid (% of Basic Pay) | Clarks would pay (% of Basic Pay) | Total paid into your pension account (% of Basic Pay) | | |
|---|---|---|---|---|
| 3% | 6% | 9% | | |
| **4%*** | **7%** | **11%** | **Choice over 2%** | **Flexible workplace savings**<br>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 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. 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. |
| 5% | 8% | 13% | Choice over 4% | |
| 6% | 9% | 15% | Choice over 6% | |
| 7% | 10% | 17% | Choice over 8% | |

*If you carry on paying 4%, you would get a higher contribution from Clarks (7% instead of the 6% we pay into Plan 18) and you could get up to a 10% contribution from Clarks that hasn't been available to you before. Therefore, you would have greater opportunity to build up a larger pension with Clarks.

## PENSIONABLE PAY

In the proposed Clarks Flexible Savings Plan, your contributions would be based on Basic Pay (further details on what is included in Basic Pay is outlined in the Q&A document). This is different to the pay we use to work out your current contributions to Plan 18.

In Plan 18, your contributions are based on 'Pensionable Pay', which is broadly Basic Pay less the single person's Basic State Pension (£6,360 in 2017/18). So if you currently earn £22,000 a year, you pay and Clarks pays contributions on £15,640 a year.

In the proposed Clarks Flexible Savings Plan, contributions would be based on the whole £22,000. This means you could get higher contributions from Clarks but there would also be an impact on your take-home pay (see the Questions & Answers sheet enclosed in this pack).

For someone earning £22,000 a year, a 3% contribution into the proposed Clarks Flexible Savings Plan would be similar to the amount of a 4% contribution into Plan 18.

## FAMILY BENEFITS UNDER THE PROPOSAL

Under our proposals, if you died while working for Clarks and as an active member of the Clarks Flexible Savings Plan, your family or loved ones would be eligible to receive an increased lump sum of 8 x Basic Pay. The value of your pension account in the Clarks Flexible Savings Plan would also be paid as a lump sum.

The benefits that would be payable in respect of your Plan 18 membership if you died in service would also be different if the proposals were to go ahead. For further details, please see pages 14 and 15 of this booklet.

# EXAMPLES

## THESE EXAMPLES SHOW HOW A MEMBER'S PENSION MIGHT BUILD UP IF PLAN 18 REMAINS OPEN, COMPARED WITH WHAT MIGHT HAPPEN IF THE PROPOSED CHANGES GO AHEAD.

The figures that follow are illustrative estimates only. The actual retirement income you may get is dependent on a number of factors including future increases in inflation, the contributions you and we make and the investment returns on your pension account. These factors cannot be known in advance, so they have been estimated using the information set out in the 'Notes' section. What actually happens to these factors in the future could be different and lead to different benefits to those set out in the illustrations below.

### ANDY

Andy is 40. He earns £17,000 a year and currently pays 4% of his Pensionable Pay (£10,640) into Plan 18. Clarks pays in 6%. His Plan 18 pot is currently worth £40,000. In our example, we assume that he pays 4% of Basic Pay into the Clarks Flexible Savings Plan assets, and Clarks pays in 7%.

### IF ANDY REMAINS WITH CLARKS UNTIL NORMAL RETIREMENT AGE

**If there is no change**

| | |
|---|---|
| Plan 18 pension account value | £94,500 |

This could provide Andy with an annuity for life of £2,100 a year.

**If the proposals go ahead**

| | |
|---|---|
| Plan 18 pension account value | £60,300 |
| **PLUS** | |
| Clarks Flexible Savings Plan pension account value | £56,000 |
| **Total pension account value** | **£116,300** |

This could provide Andy with an annuity for life of £2,500 a year or a drawdown income of £6,100 a year (assuming a drawdown period of 20 years).

| | |
|---|---|
| **Total account value if Andy paid in 7% and Clarks paid in 10%** | **£146,900** |

## IF ANDY LEAVES CLARKS IN 5 YEARS

| If there is no change | |
|---|---|
| Plan 18 pension account value at age 65 | £69,900 |

This could provide Andy with an annuity for life of £1,500 a year.

| If the proposals go ahead | |
|---|---|
| Plan 18 pension account value at age 65 | £60,300 |
| PLUS | |
| Clarks Flexible Savings Plan pension account value at age 65 | £13,300 |
| **Total pension account value** | **£73,600** |

This could provide Andy with an annuity for life of £1,600 a year or a drawdown income of £3,900 a year (assuming a drawdown period of 20 years).

## TONY

Tony is 45. He earns £22,000 a year and currently pays 4% of his Pensionable Pay (£15,640) into Plan 18. Clarks pays in 6%. His Plan 18 pot is currently worth £70,000. In our example assets, we assume that he pays 4% of Basic Pay into the Clarks Flexible Savings Plan, and Clarks pays in 7%.

### IF TONY REMAINS WITH CLARKS UNTIL NORMAL RETIREMENT AGE

**If there is no change**

| | |
|---|---|
| Plan 18 pension account value | £134,600 |

This could provide Tony with an annuity for life of £3,000 a year.

**If the proposals go ahead**

| | |
|---|---|
| Plan 18 pension account value | £96,100 |

PLUS

| | |
|---|---|
| Clarks Flexible Savings Plan pension account value | £55,300 |
| **Total pension account value** | **£151,400** |

This could provide Tony with an annuity for life of £3,400 a year or a drawdown income of £8,000 a year (assuming a drawdown period of 20 years).

| | |
|---|---|
| **Total account value if Tony paid in 7% and Clarks paid in 10%** | **£181,600** |

## IF TONY LEAVES CLARKS IN 5 YEARS

| If there is no change | |
|---|---|
| Plan 18 pension account value at age 65 | £108,800 |

This could provide Tony with an annuity for life of £2,500 a year.

| If the proposals go ahead | |
|---|---|
| Plan 18 pension account value at age 65 | £96,100 |
| **PLUS** | |
| Clarks Flexible Savings Plan pension account value at age 65 | £15,700 |
| **Total pension account value** | **£111,800** |

This could provide Tony with an annuity for life of £2,500 a year or a drawdown income of £5,900 a year (assuming a drawdown period of 20 years).

# DEATH BENEFITS

**IF THE CHANGES GO AHEAD, A LUMP SUM DEATH BENEFIT OF 8 X BASIC PAY WOULD BE PAYABLE TO YOUR LOVED ONES.**

## ANDY

Let's assume Andy dies while still an employee of Clarks and an active member (but before age 65). His Basic Pay was £17,000.

| If there is no change | | If the proposals go ahead | |
|---|---|---|---|
| Death-in-service benefit of 4 x Final Earnings* | £68,000 | Death-in-service lump sum of 8 x Basic Pay | £136,000 |
| PLUS | | PLUS | |
| The value of the contributions he has paid into Plan 18 | | The value of his pension account in Clarks Flexible Savings Plan (including his contributions, Clarks' contributions and investment growth) | |
| PLUS | | PLUS | |
| A dependant's pension of 25% of Final Earnings* | £4,250 a year | Spouse's/dependant's pension based on value of Plan 18 account (only if your Plan 18 account remains in the Fund) | |
| PLUS | | | |
| A child's pension based on 5% of Final Earnings* (for up to 4 children) | | | |

* Final Earnings means the annual rate of earnings payable at death or, if higher, gross earnings in any complete tax year in the five years before death.

If Andy took an early incapacity retirement and Plan 18 was still open, he would receive an enhanced pension of £4,655 a year (this would be calculated on the basis described in the enclosed Questions and Answers sheet). If the proposals go ahead, he would no longer receive an enhanced pension from the Fund and would instead receive a pension from Plan 18 and the Clarks Flexible Savings Plan, based on the value of the accounts at that time.

## TONY

Let's assume Tony dies while still an employee of Clarks and an active member (but before age 65). His Basic Pay was £22,000.

### If there is no change

Death-in-service benefit of 4 x Final Earnings* £88,000

**PLUS**

The value of the contributions he has paid into Plan 18

**PLUS**

A dependant's pension of 25% of Final Earnings* £5,500 a year

**PLUS**

A child's pension based on 5% of Final Earnings* (for up to 4 children)

* Final Earnings means the annual rate of earnings payable at death or, if higher, gross earnings in any complete tax year in the five years before death.

### If the proposals go ahead

Death-in-service lump sum of 8 x Basic Pay £176,000

**PLUS**

The value of his pension account in Clarks Flexible Savings Plan (including his contributions, Clarks' contributions and investment growth)

**PLUS**

Spouse's/dependant's pension based on value of Plan18 account (only if your Plan 18 account remains in the Fund)

If Tony took an early incapacity retirement and Plan 18 was still open, he would receive an enhanced pension of £6,256 a year (this would be calculated on the basis described in the enclosed Questions and Answers sheet). If the proposals go ahead, he would no longer receive an enhanced pension from the Fund and would instead receive a pension from Plan 18 and the Clarks Flexible Savings Plan, based on the value of the accounts at that time.

Note: on death in service after age 65, the benefits payable from the Fund if there is no change would be limited to the dependant and child pensions described in the above illustrations.

# A NOTE ABOUT OUR CALCULATIONS

1) These examples are provided for illustrative purposes only and are intended to give you an indication of how the proposed changes might affect sample members of Plan 18. The figures assume that the proposed changes go ahead as set out in the consultation pack, taking effect from 1 August 2018. Should the proposals change, so too could the figures shown in these examples.

2) All figures in the examples are presented in today's prices. The assumed inflation rate used to produce these figures is 2.5% a year. We have also assumed that future increases in Pensionable Pay (or Basic Pay) will be in line with future inflation, until the member either retires or stops working at Clarks. These are standard assumptions used for illustrations like this and are not an indication of any promise or expectation of future pay increases from Clarks.

3) Pension accounts in Plan 18 and the proposed Clarks Flexible Savings Plan are assumed to increase through investment returns by an average of:
   - 4.8% each year until the member is within five years of their 65th birthday, and
   - 3.7% each year during the five years immediately prior to their 65th birthday.

4) Annual charges are assumed to be 0.4% each year in the proposed Clarks Flexible Savings Plan and 0.25% a year in Plan 18. These charges are deducted from the investment returns above.

5) The drawdown pension amounts assume that the member withdraws an income that increases with inflation from their pension account in annual instalments over a 20-year period after retirement. During that time, it is assumed that the remaining pension account earns returns of 2.9% each year (after allowing for any charges). Payments available under drawdown may be lower than the amounts shown if actual returns are lower.

6) The annuity rates used in the examples are calculated in line with the technical guidelines relevant to illustrations like this, and assume that the member's retirement income receives annual increases in line with inflation (assumed to be 3.5% p.a.), is guaranteed for five years and provides a pension for any surviving spouse/partner following the member's death. For information, the net interest rate assumed is 1.3% p.a.

7) It is assumed that the sample members retire at their 65th birthday and that they continue to work for Clarks and contribute towards their pension until they retire. These examples also consider the possible impact to the sample members of leaving Clarks on 31 July 2023, five years following the implementation of the proposed changes.

8) These examples and underlying assumptions should not be taken as an indication of the likely future or a commitment from Clarks. Your own circumstances and future investment returns and inflation are not known and may be different from the examples given.

9) All illustrations are based on current legislation. From time to time, the government may make changes to legislation which could affect pensions, tax and salary exchange and may result in different illustrations.

# 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 news there is.

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 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 18).

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.

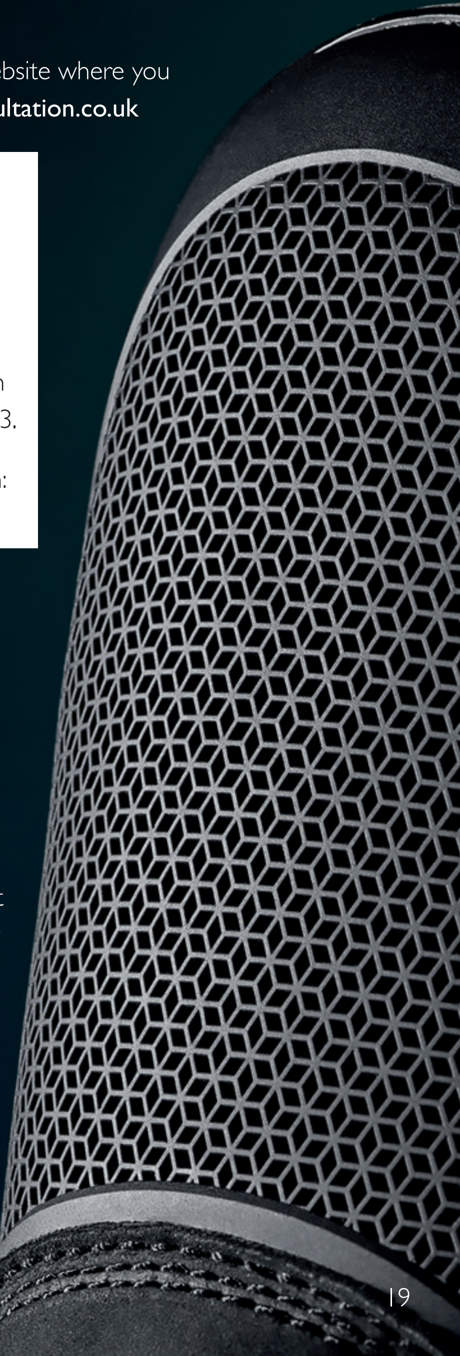
You can also call the dedicated pensions helpline on: 01458 842664

## 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 booklet 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 18) and this booklet, the Rules would prevail. This booklet is based on our understanding of current tax and pensions law at January 2018.