Dear Member

We are writing to you to inform you about the coming conclusion to a long period of work to put into effect the legal requirements to ensure sex equality in the element of member's pensions known as the Guaranteed Minimum Pension (GMP) and to resolve any differences between the GMP information the Fund holds and that held by HMRC.

Even if you don't have a GMP included as part of your pension, there is information at the end of this letter that will be important to you.

What is GMP?

GMPs arise as a result of the way in which the Fund incorporated an element of the state pension between 1978 and 1997. This was to be an earnings related addition to the flat rate State Pension. This was known as the State Earnings Related Pension Scheme or "SERPS" for short.

Employers could choose to contract their employees out of SERPS and instead provide prescribed minimum benefits in their occupational pension scheme. The rate of National Insurance contributions were lower for all employees contracted-out of SERPS.

Clarks decided to contract-out of SERPS on 1 November 1987 for some executives and on 6 April 1988 for all other active members of the C & J Clark Pension Fund. Many employees who had previously worked for K Shoes, J Farmer and Milwards were contracted-out prior to joining Clarks. It was not possible to build up GMP after 5 April 1997.

This GMP element of Fund pensions is subject to rules set by legislation, including about the age at which it is to be paid (65 and 60 for men and women respectively) and how it increases both before and in retirement.

What is the legal requirement?

GMP equalisation

There have been various court cases over the last 40 years on the difference in retirement ages between men and women in occupational pension schemes. There were 2 key cases.

First was the *Barber* case, with the European Court of Justice's judgment, published on May 17 1990, ruling that a difference in retirement ages was illegal sex discrimination and must end. After the *Barber* judgment, there remained uncertainty about how the decision applied to sex-based inequalities arising as a result of GMPs.

Second was the *Lloyds* case, with a High Court judgment in 2018 about the Lloyds Bank pension schemes finally resolving this ambiguity by ruling that pension schemes do need to equalise for the sex-based inequalities caused by GMPs. As a result, schemes needed to take action to remove these inequalities through a process called "GMP equalisation" (in respect of pensionable service between 17 May 1990, i.e. the date of the Barber judgment, and 5 April 1997, after which it was no longer possible to build up GMPs).

The *Lloyds* case also set out various approaches to achieve GMP equalisation, all of which are extremely complex.

GMP reconciliation

Separately, all pension schemes have in recent years been required to compare the information they hold about members' GMPs with the information held by HMRC, particularly regarding periods of service and salaries (a process known as "GMP reconciliation"), and to resolve any differences as appropriate.

<u>What is the Fund doing?</u>

We have been working, since 2018, to carry out these legal requirements which affect roughly 3,800 Pensioners and some 600 Dependants (as well as many members whose benefits have not yet come into payment).

The GMP reconciliation project involved checking our Fund records with those of the HMRC. Where there have been differences between these records decisions have been made as to what has been needed to determine the correct record.

Following reconciliation, the Fund then moved on to GMP equalisation and a phase of comparing each member with a GMP to an equivalent member of the opposite sex. This comparison set out to compare your current benefits (and what you have been paid in the past) to what you would have if you were a member of the opposite sex.

We are now approaching the point where we can implement the results of the GMP reconciliation and equalisation exercises.

The results are that the majority of members are not affected in any way. Of the remainder, in the great majority of cases, any corrections and adjustments are relatively minor. Changes are unique for each individual, and in some cases reflect the relative complexity of their benefits (e.g. transfers, unique service history etc.). We are currently working with our advisors and the Company to finalise the detail as to how corrections and adjustments will be applied.

For the majority of members these changes will be implemented in two separate phases over the next 3 months; however, for those of you with more complex benefits, implementation has been postponed to later in the year. Once the work is finalised and the changes are ready to put into effect, you will receive an individual letter detailing what, if anything, will change for you.

Finally, one unavoidable impact, for all pensioners, will be a delay in adding this year's Cost of Living increase. We have to get the GMP changes done before the increase can be effected. As a result, the increase will not be applied until June (the pension payment made to you on 21 May 2025) at which point you will also receive 2 months arrears of increase with interest to reflect the delay.

Finally, we want to make clear that this action is in response to legal requirements which apply to most pension schemes like ours. It has nothing to do with the Fund's recent arrangements with Pension Insurance Corporation (PIC), the insurer referred to in the recent Newsletter.

Libby Edwards, Chair, for and on behalf of C & J Clark Pension Fund Trustee Ltd