HYMANS ROBERTSON

# C&J Clark Pension Fund - Flexible Section

## Actuarial valuation as at 5 April 2023

## Scheme funding report

27 February 2024

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Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

# Contents

# 1 The results of the valuation

I have carried out an actuarial valuation of the C&J Clark Pension Fund - Flexible Section (‘the Flexible Section) as at 5 April 2023 (‘the valuation date’) and this is my report on the results of the valuation. This is a scheme funding report.

### Funding objectives

The Trustee is required to adopt a ‘statutory funding objective’. The statutory funding objective is that the Flexible Section must have ‘sufficient and appropriate’ assets to meet the expected cost of providing members’ past service benefits which we refer to as ‘technical provisions’[1].

The ‘statement of funding principles’ sets out the Trustee’s policy for meeting the statutory funding objective.

### Summary of results

The Flexible Section’s funding position as at 5 April 2023 is shown below alongside the position at the last valuation for comparison.

| (£m) | Previous valuation<br>6 April 2020 | This valuation<br>5 April 2023 |
|---|---|---|
| **Assets**<br>***See the Trustee's Report and Accounts as at the valuation date for further details*** | **30.8** | **17.2** |
| **Technical provisions liabilities**<br>***An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee's (see appendix A)*** | **33.8** | **19.2** |
| Deferred liabilities | 28.5 | 15.1 |
| Pensioner liabilities | 2.8 | 2.2 |
| Expenses | 2.4 | 1.9 |
| **Surplus/(deficit)** | **(3.0)** | **(2.0)** |
| **Funding level**<br>***Assets divided by Technical Provisions*** | **91%** | **90%** |

The technical provisions deficit has reduced from £3.0m in the last valuation to £2.0m at this valuation. Changes since the previous valuation are covered in section 3.

### Contributions

Following discussions, it has been agreed the sponsor will pay £0.7m p.a. in regular quarterly instalments for three years commencing from January 2024 (with the first payment due in relation to the quarter ending 31 March 2024). This includes an allowance for the ongoing expenses of the Flexible Section.

[1] The phrase used in the legislation to refer to the expected cost of providing members’ past service benefits.

# 2 What would happen if the Flexible Section was wound up?

The results in the previous section of the report were prepared on the assumption that the Flexible Section will continue to operate with the financial backing of the employer. If the employer were no longer able to support the Flexible Section, it may then be necessary to 'wind it up'. This would involve selling the Flexible Section's investments and using the proceeds to buy annuities from an insurance company. The insurance company would then be responsible for paying pensions to members and their dependants. I have therefore estimated the cost of securing members' benefits in this way, had the Flexible Section wound up on the valuation date.

### Summary of results

| (£m) | Previous valuation<br>6 April 2020 | This valuation<br>5 April 2023 |
|---|---|---|
| **Assets**<br>*See the Trustee Report and Accounts as at the valuation date for further details* | 30.8 | 17.2 |
| **Solvency liabilities**<br>*Estimated cost of buying annuities from an insurance company* | 40.1 | 20.2 |
| **Expenses**<br>*Expenses of winding up the Flexible Section (included in above liabilities)* | 2.1 | 1.2 |
| **Surplus/(deficit)** | (9.3) | (3.0) |
| **Funding level**<br>*Assets divided by solvency liabilities* | 77% | 85% |

On a wind-up further funds may be recovered from the employer under section 75 of the Pension Act 1995 and the employer debt regulations. The impact of any such recovery has been ignored in this assessment. If the assets on a wind-up are insufficient to secure the benefits in full, then a statutory priority order applies.

- Benefits corresponding to those covered by the PPF would be met first (either by the PPF or, if there were sufficient funds, by securing these benefits with an insurance company)
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

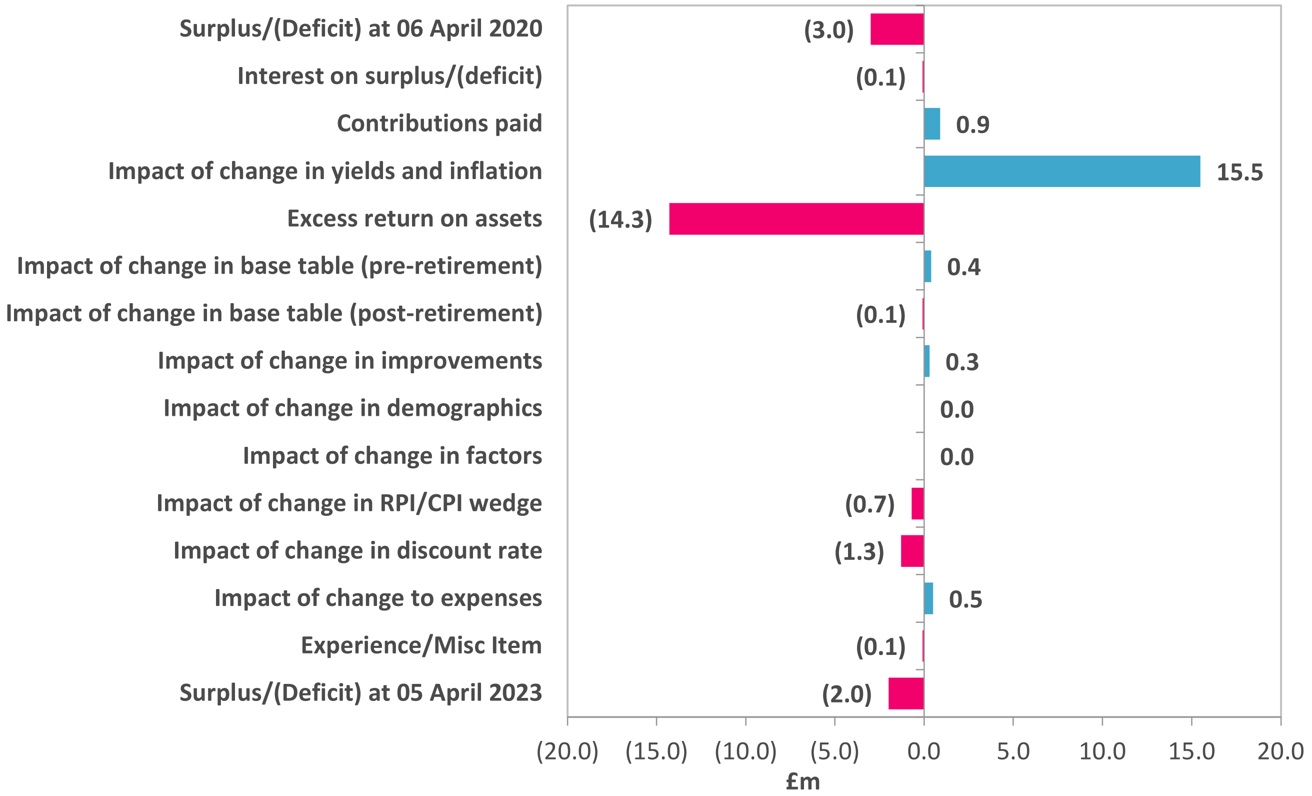
### Why are the solvency liabilities different to the technical provisions?

The assumptions used to estimate the solvency liabilities differ from those used to calculate the technical provisions (see Appendix A). This is because they are intended to reflect the assumptions which would be used by an insurer to calculate the cost of the annuities they sell.

The solvency estimate has been calculated using a basis that produces values consistent with our experience of bulk annuity quotations and the general levels of pricing in the market as at the date of valuation. Please note the results are a guide and should not be viewed as a quotation. The true cost of insurance can only be determined by obtaining quotations from providers active in the market and following completion of wind-up.

# 3 Changes since the previous valuation

Since the previous actuarial valuation of the Flexible Section, there have been changes to the scheme membership, the value of its investments, the economic environment in which the Flexible Section operates and the valuation assumptions. These changes have affected the Flexible Section's funding position as follows:




The analysis shows the main factors affecting the funding position since the last valuation have been as follows:

- Changes to market conditions and asset valuations (c.£1.2m reduction in deficit)
- Contributions paid by the Company (c.£0.9m increase in assets)
- A change to the financial assumptions (discount rate and RPI/CPI wedge) (c.£2m increase in liabilities)

# 4 Risk management

In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section I discuss the key risks to the Flexible Section and the potential implications of the actuarial assumptions not being met in the future.

## Funding, investment and covenant risks

The Trustee should understand the risks to their funding plans, particularly those related to funding, investment and the employer covenant.

| Risk | How the Trustee manages this risk |
| --- | --- |
| *Employer covenant*<br><br>The employer may not be able to continue to pay contributions or make good deficits in the future. The impact of this scenario is considered in section 2 of this report. | The Trustee manages this risk by setting actuarial assumptions (and therefore the level of assets it believes is required to provide members' benefits) that reflect the strength of the employer covenant and the risks to it. The Trustee commissioned Penfida to undertake an independent covenant review; this concluded that the Company covenant is tending to weak. |
| *Investment*<br><br>If future investment returns are lower than allowed for in the valuation assumptions, assets will not grow in value as expected, and the funding level will fall. This places greater reliance on the employer covenant since the employer would need to help put scheme funding back on track. | The Trustee manages this risk by:<br><br>• investing in assets that are not expected to result in material adverse volatility relative to the movement in the CJC Section's liabilities over time.<br><br>• taking opportunities to reduce investment risk, when appropriate.<br><br>• adopting actuarial assumptions that take account of both the expected return on the Flexible Section's assets and the potential volatility in that return.<br><br>• receiving regular updates on the performance of the Flexible Section's investments. |
| *Funding*<br><br>Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In particular, if life expectancy improves at a faster pace than allowed for in the valuation assumptions, then pensions will need to be paid for longer, so the liabilities will increase and the funding level will fall. | The Trustee use Club Vita analysis to understand the key drivers of the members' specific longevity.<br><br>By incorporating an allowance for future longevity improvements in the actuarial assumptions the Trustee can lessen the future adverse impact of such improvements. The Trustee allows for a long-term rate of improvement of 1.5% p.a. which is considered a prudent approach. |

## Other risks

There are a range of further risks which the Trustee keeps under review. These include the development of legislation relating to pensions and the impact of options offered to members.

There is also an increasing body of evidence demonstrating that climate risk, both the direct physical implications and society's transition to a low(er) carbon economy in response to this risk, pose potentially significant and expansive risks and opportunities to the companies that sponsor pension schemes, to investment portfolios and to the wider economy (with implications for funding assumptions). Climate-related risks include factors such as rising and/or volatile energy prices, resource shortages, property damage (e.g. flooding, storms) and air, water and land pollution (e.g. clean-up costs, health effects, reputational damage).

These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Flexible Section, I have not explicitly incorporated such risks in these valuation results. The Trustee may wish to seek direct advice on these risks (e.g. from Hymans Robertson regarding future investment markets and/or longevity, or from a covenant adviser regarding the employer).

## Sensitivity of key assumptions

| Scenario | Funding position surplus/(deficit) | Comments |
|---|---|---|
| Base case | (2.0) | This is the technical provisions position. |
| 0.2% p.a. decrease in discount rate | (2.6) | The Trustee should have regard to the sponsor's ability and willingness to support the funding and investment risks within the Flexible Section. If the risks being run appear to be too great then the Trustee could target reaching a lower risk position by reducing the assumed investment returns within the discount rate. |
| 0.25% p.a. increase in future inflation | (2.7) | For illustrative purposes I have shown the position if inflation-linked benefit increases linked to RPI or CPI grow at a faster rate. In practice your hedging assets would be expected to increase in value in this scenario. |
| 0.25% p.a. decrease to RPI/CPI 'gap' | (2.6) | The assumption for CPI is rather subjective due to a lack of CPI related instruments which can be invested in. If CPI increases are greater than assumed then the funding position will deteriorate. |
| Broadly a 1 year increase in life expectancy at retirement age | (2.8) | The valuation results are sensitive to changes in future life expectancy. If longevity improves in the future at a faster pace than allowed for in the valuation assumptions then the funding position will deteriorate. |

### Longer-term projection

If the actuarial assumptions were borne out over the period from the date of this valuation to the next, then, provided employer contributions are paid at the rates shown in Section 1 of this report, the funding level would be expected to have increased to around 97%, and the solvency level to have increased to around 92%.

# Appendix A: Methodology and assumptions

## A1. Methodology

Using the actuarial assumptions set by the Trustee I have estimated the payments which will be made from the Flexible Section throughout the future lifetimes of deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line with the assumed discount rate. This is the technical provisions. I compare these technical provisions with the value of the assets. The ratio of the asset value to the technical provisions is known as the 'funding level'. If the funding level is more than 100% there is a 'surplus'; if it is less than 100% there is a 'deficit'.

It is a requirement of the legislation that an 'accrued benefits funding method' must be used for valuing the technical provisions. In their application to technical provisions, such methods vary in only one material respect: the extent to which future pensionable pay growth is anticipated for employee members (noting that the Flexible Section has no members for whom benefits are linked to future pensionable pay growth).

.A2. Assumptions

The Trustee and Sponsor are responsible for setting the funding assumptions for the actuarial valuation as at 5 April 2023. The assumptions adopted as at 5 April 2023 are set out in the statement of funding principles dated 27 February 2024.

| | **Technical provisions**<br>6 April 2020 | **Technical provisions**<br>5 April 2023 |
|---|---|---|
| **Key financial assumptions** | | |
| RPI increases | Market implied gilt yield curve | Market implied gilt yield curve |
| CPI increases | RPI curve less 0.75% p.a. | RPI curve less 1% pre 2030, and RPI less 0% post 2030 |
| Pension increases | Relevant LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor | Relevant LPI Pension Increases curves derived from RPI, adjusted for the impact of the cap and floor |

| | Technical provisions<br><br>6 April 2020 | Technical provisions<br><br>5 April 2023 |
|---|---|---|
| Discount rate | Market implied gilt yield curve plus 0.4% p.a. until 5 April 2024 then tapering to 0.2% p.a. over the period from 5 April 2024 to 5 April 2028. | Market implied gilt yield curve with no addition. |
| **Key demographic assumptions** | | |
| Longevity base tables (pre retirement) | No allowance | S3NA tables |
| Longevity base tables | 2020 VITA tables | 2022 VITA tables |
| Longevity future improvements | CMI 2019 model with a long term rate of improvement of 1.5% p.a., a core smoothing parameter (Sκ=7) and addition to improvements (A=0.5%) with “peaked” short term future improvements and new style tapering. | CMI 2022 model with a 25% weighting on 2022 data and no weighting on 2021 and 2020 data, a long term rate of improvement of 1.5% p.a., a core smoothing parameter (Sκ=7) and addition to improvements (A=0.5%) with “peaked” short term future improvements and new style tapering. |
| Early retirement | All members are assumed to retire at the earliest date at which benefits are payable unreduced | |
| Late retirement | No allowance other than members already above normal retirement age are assumed to retire immediately using late retirement factors currently in force | |
| Ill health retirement | No allowance | |
| Cash commutation | No allowance | |
| Transfers out | Allowance for members to take their CETV if this is greater than the technical provisions reserve | |
| Expenses | An expense reserve of £2.4m | An expense reserve of £1.9m |

| | **Technical provisions**<br><br>6 April 2020 | **Technical provisions**<br><br>5 April 2023 |
|---|---|---|
| Marital status | The option which members have to commute part of their pension in retirement for a spouse's pension will be ignored for non-pensioners. Where a pensioner has elected to exchange pension for a spouse pension we will assume 100% married at date of retirement | |
| Dependant's age difference | Male members are assumed to be 4 years older than their female dependants and female members are assumed to be 2 years younger than their male dependants. | Male members are assumed to be 3.5 years older than their female dependants and female members are assumed to be 2 years younger than their male dependants. |

### A3. Solvency assumptions

With the exception of the following changes I have used the same demographic and financial assumptions as for assessing the technical provisions:

- I have used a discount rate based on swap market curves +0.3% p.a. pre and post retirement for deferred members and a discount rate based on Gilt market curve +0.8% p.a. for pensioners.
- Inflation has been set in line with implied inflation from swap market curves.
- I have assumed that future CPI inflation gap is assumed to be 0.75%p.a. below RPI pre 2030 and 0.15%p.a. below RPI post 2030. The gaps are different than used for technical provisions because there is no deep and liquid market for CPI linked assets that insurers could use to hedge CPI in their annuity book and so they need to hold additional reserves for CPI risk.
- I have used the same longevity base tables as for assessing the technical provisions as these are intended to reflect the expected future experience of the Flexible Section's membership; I would expect an insurer to take account of the Flexible Section's demographics in a similar way. Future improvements have been assumed as CMI 2021 with an A parameter of 0.25% and long term improvement rate of 1.5%p.a. for both men and women.
- Within the liabilities I have allowed for insurer expenses in line with our understanding for transactions of this size.
- No allowance has been made for members commuting pensions for a cash lump sum on retirement.
- Discretionary benefits have been ignored.

# Appendix B: Data – benefits, membership and assets

## B.1 Benefits

The Flexible Section provisions that I have taken into account in this valuation are set out in the membership booklet dated 6 April 2006 and the subsequent deeds of amendment dated 18 September 2009, 28 February 2013, 22 September 2015, 6 July 2016, 30 July 2018 and 31 July 2018, as well as the merger agreement dated 8 January 2020 between the C&J Clark Pension Fund and the Clarks Flexible Pension Scheme and are summarised below.

The Trustee closed the Flexible Section to future accrual on 31 July 2018. There are therefore no longer any active members in the pension scheme. Active members are referred to as employed-deferred members since they retained their active early retirement and ill-health decrements upon Closure of the Flexible Section.

The scheme provisions that I have taken into account in this valuation are summarised below.

| | |
|---|---|
| Normal pension age (NPA) | 65 |
| Pensionable Pay | A Member's pay, based on their basic hours and basic hourly rate of pay. |
| Final Pensionable Pay | Calculated at the earlier of the date that the Member's service ends, or 31 July 2018. It is the Member's pensionable pay earned in the last tax year before leaving service multiplied by a full-time equivalent factor. If a member is not in service at the end of the last tax year, it is their pensionable pay at date of service ending multiplied by a full-time equivalent factor. |
| Pensionable service | A Member's last or only period of Flexible Section membership whilst in service, up until 31 July 2018, plus any additional period credited from transfers or augmentation. Service is only reflected for periods where the member elected to join the Final Salary Section. |
| Accrual rate | Accrual rate was based on the Unit Percentage applicable to that scheme year (as calculated by the actuary for each scheme year prior to closure). See the Rules for full details. |
| Pension at NPA | An immediate normal pension is payable for members retiring on their normal retirement date. |

| | |
|---|---|
| Early retirement pension | Subject to Employer approval a member can retire from age 50 (if it is before 6 April 2010) or from age 55 (after 6 April 2010) with normal retirement benefits reduced to take account of early payment. The reduction factors are decided by the Trustee after having consulted the Actuary.<br>The Trustee must be reasonably satisfied that the pension is equivalent to normal retirement benefits. |
| Late retirement pension | A member who remains in service after their Normal Retirement Date can defer taking their pension until age 75. The pension is calculated as at the date normal contributions stop and then increased to take account of the period before date of payment. The uplift factors are decided by the Trustee after having consulted the Actuary. |
| Pension increases | The lower of 2.5% and the percentage increase in Retail Prices Index measured over the year to the previous December. |
| Death after retirement | If the member chose to provide additional death benefits then any such pension will be paid. |
| Deferred Pension Revaluation | Based on statutory revaluation (but with CPI capped at 5% p.a. in respect of all periods of accrual). |

All benefits under the Flexible Section are subject to limits laid down from time to time by the HM Revenue & Customs.

## Discretionary benefits

There is no history of providing discretionary benefits (i.e. benefits or increases to benefits in excess of those payable under the scheme's rules).

## B.2 Membership

The membership data as at the valuation date is summarised below:

| Status | 6 April 2020 | | | 5 April 2023 | | |
|---|---|---|---|---|---|---|
| | **Number** | **Salaries / Pensions** | **Average age** | **Number** | **Salaries / Pensions** | **Average age** |
| Deferred | 1,180 | £0.8m p.a. | 45.6 | 1,132 | £0.8m p.a. | 48.9 |
| Pensioner | 82 | £0.1m p.a. | 64.8 | 95 | £0.1m p.a. | 67.0 |
| **Total** | **1,262** | | | **1,227** | | |

The Flexible Section membership has changed since the previous valuation, as members have retired and died.

The pensions shown in the table above are as at the valuation date for pensioner members and deferred pensioners. Average ages in the table are weighted by liability.

The data has been provided by the Trustee via the administrator. I have carried out some general checks to satisfy myself that the information used for this valuation is sensible compared with the information used for the previous valuation and also with that shown in the report and accounts. However, ultimately I have relied on the accuracy of the information provided.

## B.3 Assets

The market value of assets at the valuation date was £17m as shown in the audited accounts for the period ending on the valuation date.

The Trustee's investment strategy as at the valuation date was as follows:

| Asset class | Allocation as at 6 April 2020 (%) | Allocation as at 5 April 2023 (%) |
|---|---|---|
| Cash | 6% | 6% |
| Corporate bonds | 52% | 50% |
| LDI Portfolio | 42% | 44% |

| | | |
|---|---|---|
| **Total** | 100% | 100% |

Full details of the Trustee's investment strategy are contained in the Flexible Section's Statement of Investment Principles.

# Appendix C: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: C&J Clark Pension Fund - Flexible Section

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 5 April 2023 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the statement of funding principles dated 27 February 2024.

| | |
|---|---|
| Signature | DocuSigned by: |
| Date | 27 February 2024 |
| Name | Richard Shackleton |
| Qualification | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP |
| Address | One London Wall, London, EC2Y 5EA |

# Appendix D: Reliances and limitations

### Purpose of the valuation

This valuation has been carried out to comply with the statutory requirements of Part 3 of the Pensions Act 2004, which requires trustees to periodically obtain an actuarial valuation, defined as "a written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its technical provisions".

### Addressee

This report is addressed to the Trustee's of the Flexible Section who commissioned the work and is provided solely for their purposes in the management of the Fund and in particular to fulfil their statutory obligations and requirements of the Flexible Section governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. The Trustee is obliged to pass a copy of the report to the sponsor within 7 days. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustee unless we have expressly accepted such liability in writing.

### Compliance

This report complies with the requirements of the following Technical Actuarial Standards (TASs): TAS 100 and TAS 300.

The following communications are also relevant to this report:

- Assumptions advice dated May 2023
- Flexible Section Preliminary results dated September 2023

### Climate-related risks

The weight given to climate-related issues should depend on a scheme's circumstances, including its funding position and maturity, its investment strategy and its sponsor's industry sector. These risks exist and may prove to be material. Given the lack of relevant quantitative information available specifically relevant to the Fund, I have not explicitly incorporated such risks in these valuation results.

The Trustee has decided not to commission any specific advice on this matter but may wish to consider these at subsequent valuations when industry thinking in this area has further advanced.

### Covenant risk

I have not advised on factors particular to the sponsor, or the sponsor's industry. I am not, in my opinion, best qualified to advise the Trustee on these sponsor-related matters. The Trustee commissioned a formal covenant review as part of the valuation to get an assessment of sponsor support.