

ANNUAL REPORT 2021-22

for the year ended 31 March 2022

**To the Minister for Personnel & Veterans on
the Armed Forces Pension Schemes**

Robert Branagh

Chair, Armed Forces Pension Board

Executive Summary

Welcome to this seventh annual report on the Armed Forces Pension Schemes (AFPS). I am pleased to report that we have continued to build on strong foundations as the body charged with assisting the Scheme Manager in administering the schemes, or in layperson's terms, assisting with the oversight and governance of the Armed Forces Pension Schemes.

2021/22 was a challenging year for the wider armed forces community. As we began to emerge from the severe disruption of the COVID-19 pandemic, we had to navigate significant economic and societal challenges, although most impact and pressure inevitably came onto our people, our members, their families, and of course the wider UK public at large. I am pleased that we were able to continue to effectively manage the pension schemes, deliver service to our members and continue to meet our regulatory, compliance and governance requirements throughout this period.

Our people supporting the pensions system around the country continued to respond admirably to the pandemic. They demonstrated personal resilience and a caring and supportive approach both to colleagues and the members we serve in very difficult circumstances. They also showed an agile and collaborative approach to work. I am especially grateful to our administration colleagues who were unable to work from offices for significant periods of time, to maintain their professionalism, empathy for members and pride in their work to provide another year of effective and efficient service to our c1.2 million members.

I would also like to thank my fellow Board members for their support during the last 18 months. I fully appreciate that they have other responsibilities to the department or their own organisations and charitable bodies that have equally been affected by the pandemic, but they have all continued to put members of the Schemes best interest at heart and been particularly supportive of everyone's efforts to maintain the smooth administration and payment of benefits.

The Board continues to meet every quarter albeit via videoconference and reviews the quality and quantity of the pension's administration service provided by our colleagues at DBS Veterans UK, (DBS), who act as the Scheme Authority. Primarily serviced from its Glasgow operation, they continue to provide a quality service to our members with relatively few formal complaints. DBS attend our Board meetings and continue to enjoy a transparent and collaborative approach to dealing with core business issues, projects or on areas of improvement.

DBS have also had to contend with the transition to a new pensions software system that will, within a few years, be capable of providing robust single platform technology to allow for more efficient, automated and member centric servicing. Significant time and energy have gone into the planning, early transition of services and beginning the large transformation project attached to the IT changes associated with this major project. Service has remained strong during this time and the new contractor, SSCL, are stepping up to the plate in understanding our members, governance, and wider needs within the AFPS Pension Schemes system.

Of almost equal challenge has been the significant volume of government intervention, consultation, regulation, and legislation being applied not just to AFPS - but all public service pension schemes. Significant legal, technical, and operational impact is being managed from multiple areas of government including, the Pensions Regulator, Government Actuary's Department, Treasury, and indirectly, the Department for Work and Pensions.

Although there is much more detail contained in this report, my principal message of one of continuing high levels of service to members, increasing and transparent delivery against significant legislative challenges and a very pleasing report on significant collaboration and common purpose amongst everyone involved in managing the pensions of the AFPS again this year.

Next year will see significant implementation issues surrounding the legislative challenges of 2021/22, more system and technology transformation activity, alongside existing challenges for the Department. Having successfully navigated and learnt lessons from the 2021/22 scheme year, I am confident that we can again support you across these numerous fronts this year whilst maintaining a high level of service to members next year.

Introduction

1. Lord Hutton's Independent Public Service Pensions Commission (IPSPC) Report in 2011 outlined key recommendations for the reform of all public service pension schemes. This led to the Public Services Pension Act 2013 (PSPA 13), and Scheme specific secondary legislation under the Armed Forces Pension Scheme 2015 (AFPS 15). The new pension schemes system has now been operating in the public sector for seven years.
2. Lord Hutton's overarching principles were that public service employees and taxpayers should expect public service pensions to be:
 - designed to protect the taxpayer from rising costs, through a 'cost cap' mechanism;
 - fair and sustainable for future generations, with elements protected for a period of time (such as the extent to which the pension is on a career average (i.e. not a final salary) pension scheme, or members' contribution rates); and
 - subject to better governance and greater transparency for members. For the Armed Forces, this was through the establishment of a Pensions Board to ensure member interests are protected, and more recently with the Pensions Regulator providing independent oversight of all schemes.
3. AFPS 15 is a Career Average Re-valued Earnings pension scheme which replaced the earlier final salary scheme, AFPS 05. It is a non-contributory, defined benefit scheme which has been designed in accordance with the PSPA 13 and was launched on 1 April 2015. AFPS 15 increased the normal pension age from 55 to 60 and linked the deferred pension age to the State Pension age. It retained the Early Departure Payment (an income stream and tax-free lump sum designed to compensate individuals for the early age at which they leave the Armed Forces), ill-health benefits and dependents' benefits schemes. AFPS 15 is the only open scheme for members of the Armed Forces.
4. There are two main legacy pension schemes for members of the regular Armed Forces: The Armed Forces Pension Scheme 1975 (AFPS 75), which closed to new entrants on 6 April 2005; and the Armed Forces Pension Scheme 2005 (AFPS 05), which was introduced thereafter and closed to new recruits on 31 March 2015. Further pre-AFPS 15 schemes still exist; therefore, management and oversight of the current pensions systems remains complex.

Fuller details can be found at: <https://www.gov.uk/government/publications/armed-forces-and-reserve-forces-pension-schemes-guidance-booklets>

Pension Governance

5. Lord Hutton's report identified a perceived separation between those responsible for the governance of public service pension schemes and those delivering the benefits. Additionally, he highlighted a lack of member involvement in the analysis and decision-making process. The PSPA 13 introduced a framework designed to ensure better governance and greater transparency, including the oversight of all public service pension schemes by the Pensions Regulator, (tPR). The PSPA 13 mandated a formal Governance Structure specifically for Public Service pensions, with two new roles and two new boards. I believe the Pension Board continues to adequately meet the aspirations of the Hutton Report and the legislative environment we now operate in.
6. Roles:
 - The Responsible Authority
 - i. The PSPA 13 specifies that the Secretary of State for Defence (S of S) must be the Responsible Authority. The Responsible Authority has the power to make and amend Scheme Regulations
 - The Scheme Manager
 - i. The Scheme Manager is responsible for managing and administering the AFPS. S of S appointed themselves the Scheme Manager but delegated the management of the AFPS to two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager.
7. Boards:
 - Scheme Advisory Board
 - i. The Scheme Advisory Board has responsibility for providing advice on the desirability of changes to the schemes when required to do so by the Responsible Authority. Chaired by the Permanent Under Secretary, the Scheme Advisory Board will only be required to make decisions on major changes to the scheme design, and as such, it sits by exception. It has authority to make recommendations to the S of S on major changes to the Scheme rules and is advised, amongst others, by the Pension Board and HM Treasury. The Chair of the Pension Board is a member of the Scheme Advisory Board.
 - Pension Board
 - i. The Pension Board was borne out of the PSPA 13, following the mandate for a governance structure specific to public service pensions. The Board is responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to governance and administration, as well as any requirements imposed by the Pension Regulator. The existing chair, Robert Branagh, was reappointed for a further three-year term in January 2021 as the Non-Executive chair of the Pension Board and member of the Scheme Advisory Board above.
8. The AFPS is supported by Defence Business Services, Veterans UK (Veterans UK). Veterans UK have delegated authority to deliver pension administration through a contractual arrangement covered later in this report. This arrangement includes agreement on governance, audit, and pension reporting. Specific groups, such as the Audit, Risk &

Assurance Committee (ARAC), have been established to provide objective advice and support in the areas of risk, control, governance process and associated assurances. The following measures support this governance:

- SSCL Q&A team carry out 100% check on all awards going into payment.
- SSCL administer a programme of Internal Assurance reviews of pension processes, awards and calculations. Quarterly reports detail the checks undertaken, detailing findings and corrective action taken.
- Monthly checks carried out by Contract Performance Monitoring Team (CPMT), averaging 87 checks per month.
- Monthly checks carried out by Armed Forces Pension Scheme (AFPS) Assurance Team (AT) on awards made by both the contractor and MOD Authority staff. 75 checks per month) and with additional targeted checks on areas identified as potential areas of risk.
- Annual programme of checks carried out by Defence Internal Auditors (DIA), at least four per year.
- Annual check by the National Audit Office (NAO).

9. Overall governance arrangements, and that of day-to-day management control, are in place and effective. During 2021-22 a Full Assurance was awarded for Early Departure Payment audit and Substantial Assurances were awarded for General Data Protection Regulation (GDPR), SSCL Management Reporting and Ill Health. The positive result and additional assurance measures in place contributed to DIA awarding AFPS an overall Substantial Assurance for 2021-22.

10. I am pleased to report that the 2021-22 Armed Forces Pension Scheme financial statement was certified by the Controller and Auditor General with an unqualified audit opinion without modification. As Chair of the Pensions Board, I have a standing invitation to and regularly attend the DBS Audit and Risk Committee where the accounts and wider scheme assurance are currently monitored and overseen.

11. We continue to deliver on all three main schemes, AFPS 15, AFPS 75 and AFPS 05.

The Pension Board

Membership

12. There are currently 15 members (including the Chair), and a small number of attendees are invited in an advisory capacity. The make-up of the Pension Board has been maintained to ensure the interest of the Scheme's beneficiaries and stakeholders are represented, with seven employee representative and seven employer representatives. Details on the composition of the Pension Board (along with the Terms of Reference) are at Annex B.

Financial Cost

13. There is a direct cost in running the Pension Board, ranging from fees for the Non-Executive Chair, training, and development for Pension Board members, to travel and subsistence costs for those attending Board business. A breakdown can be found below:

Direct Costs 2021/2022 (Approx.) Cost:

Non-Executive Chair	£ 10,800
Training and development	£ 0
Travel and subsistence costs ¹	£ 0
Total	<u>£ 10,800</u>

Meeting Attendance & Training

14. During the period, the Pension Board has met four times. The Pension Board is committed to complying with the statutory duty of monitoring its training needs to ensure a better understanding of Armed Forces Pension Schemes. Training and continuous learning and development are key elements to this, aiding the effectiveness of the Board. Consequently, all Pension Board members have completed the Pension Regulator Public Service Toolkit, which provide the foundations for a stronger understanding of pensions to allow them to appropriately discharge their responsibilities as a Board. A record of training undertaken by Board members sits at Annex C.

Conflicts of Interest

15. No Conflicts of Interest have arisen in the year. All members are required to confirm this annually in writing.

Defence Internal Audit (DIA) & The Pension Board

16. As set out above, DIA undertake a number of audits each year to assist with the overall scheme governance and assurance. DIA is responsible for providing the Permanent Under Secretary and Defence Audit Committee with an independent, objective assurance on the effectiveness of MOD's systems of governance, risk management and internal control.

Pension Board Areas of Interest

Since its inception, the Pension Board has concentrated on a number of areas, principally:

Review of Veterans UK Performance

17. Key performance indicators (KPIs) are used to monitor the performance of Veterans UK. This is to ensure appropriate service delivery for all pension scheme members. In addition to monitoring routine administration, we continue to monitor other professional advisors, such as the Government's Actuary Department (GAD).

18. In addition, the AFPS Authority Assurance team continue to address routine aspects of pension administration. During the scheme year, the team quality assured 1,566 awards, focusing on the following areas:

¹ Pension Board meetings have been held via videoconferencing during this period. As a result, there are no costs for member travel and subsistence.

Audit programme	81
Internal Case Work Assurance	319
Q&A check sheet	1,002
Equiniti Paymaster reconciliations	94
Targeted Checks	70
Total	1,566

Source: AFPS Assurance

Communication with Members

19. The Pension Board continues to monitor closely the development of this important area of business. Communicating pension information to members is a key element of any pension scheme and we know this has a clear impact on morale and retention of Service Personnel.
20. The DBS Communications Team continue to provide extensive support to Veterans UK reactive media issues and produce campaigns to alleviate demand on the Operational Teams. The Pension Board are actively involved, alongside REM, with all Communications aspects and have played a substantial role in the rollout of a second phase of AFPS animated videos; covering the scheme rules, as well as providing information on 2015 remedy and pension taxation. Continued membership of the AFPS Communications Working Group has ensured we maintain a strong stakeholder partnership between DBS, REM, the Single Services, FPS and other relevant third sector parties to aid in aligned key messaging and objectives in support of all AFPS Communications.
21. The Veterans UK Social Media channels continue to be utilised with approximately 15,000 followers on each site indicating developing audience reach figures and frequent signposting and sharing of relevant stakeholder and third sector posts. Audience analytics show that the main demographic we are reaching through the socials are males aged 45 upwards. Veterans UK GOV.UK Pensions page average visits remain steady at approximately 25,000 per month over the last 12-month period and visits to the site landing page are also stable at approximately 10,000 visits per month.
22. During the year, we continued to utilise a Pension Communications Working Group, that sits under the governance structure of the Pensions Board. In addition to fulfilling legislative requirements, the Working Group considers three distinct areas of interest on behalf of members:
- Aiding in the improvement of communications laid down by regulation;
 - Aiding in the improvement of communications that increase the understanding that Service Personnel and Veterans have of their pensions; and
 - Supporting the Ministry of Defence to enable effective and efficient scheme administration.
23. The Scheme has issued four editions of the AFPS Quarterly Digest within the year, focusing on a range of topics from 2015 Remedy to Annual Allowance. The Quarterly Digest continues to be the most useful way for administrators to share important pensions information with members and, crucially, increases engagement between the Scheme and its members.

Risk & Assurance

24. In addition to the work of the Pension Board, to help us understand our risks further, I as Chair, have attended four DBS Audit, Risk & Assurance Committee (ARAC) meetings this year. This allows me to contribute to the assurance oversight of the Schemes via that forum. In linking the Pensions Board with ARAC, we can benefit from work undertaken by Defence Internal Audit and National Audit Office activity. This in turn builds on the existing internal controls and assurance activities performed by DBS and MOD, supported by the Internal Contract Performance Monitoring Team (CPMT) and the dedicated AFPS Assurance Team. I am satisfied with the coverage of this assurance activity. Further to this, the Board does consider 'risk awareness' to ensure process and protocol (with respect to risks surrounding the AFPS) are considered appropriately.

Forward view of the Pension Board Programme

25. As the Board increases its capability in challenging and providing overview on pensions, the breadth of topics and issues under consideration has increased proportionately. The Board operates a process of continuous reassessment of the current and future landscape and understanding that prioritisation is key. Our priorities remain those that are legal and mandated, followed by those deliverables that are assessed as providing the greatest opportunity to benefit our members. It also remains important that new Board members are quickly brought up to speed through our formal training piece and wider informal briefings. Based on our knowledge, we capture tasks in a forward plan. Further details are at Annex D. This will be reviewed regularly to ensure we are still balancing opportunities with risk but compliance with tPR's requirements, assurance and member communications will be our main areas to evolve and refine going forward. These remain particularly relevant given the transition to a new pensions software system and the attendant transformation of service programme that will follow to maximise the technology step change we aspire to.

26. At the end of the seventh year of Pensions Board operation I remain encouraged. We continue to face ongoing challenges to deliver pensions accurately and on time, to answer queries sympathetically and fairly, to respond with agility to changes in the pension's world, and to present our activity to those regulating us. However, good progress is being made and I judge we continue to be fit for purpose, and that we compare very well with other major public-sector schemes. This is not to say that we cannot get any better; indeed, we must get better as the demands on us increase.

Membership & Transactions

Contracted Support Arrangements

27. Veterans UK has a major Commercial Partner, assisting them with the administration of the schemes. Shared Services Connected Ltd (SSCL, the contractor) are the primary contractor delivering the core AFPS services and their sub-contractor, Equiniti Paymaster deliver the pension payroll and administration services to 442,831 pensioners and dependents. To enable this, the MOD provides our commercial partner with access to appropriate expertise to enable them to discharge its obligations. Whilst the MOD has

responsibility for ensuring that pension casework is processed in accordance with appropriate guidelines, the Authority for making such discretionary decisions is delegated to Veterans UK from the Admiralty, Army and RAF Boards.

28. The operational service commencement date was 1st June 2020. Under the agreement of a new service contract, we could not carry out a Benchmark Review of any services during the first 12-month period from the Operational Commencement date of the new contract. Benchmarking did resume from 2021-22 with CEM Benchmarking. Further details of this can be found in the following section entitled ‘Quality of Service’.

29. In the year 2021-22, the contractor brought into payment:

- 5,774 Immediate Awards
- 7,457 Preserved Pensions
- 7,021 Forces Family Payments

Source: SSCL

AFPS Membership	31 Mar 21	31 Mar 22
Active Members (inc. Reserves)	295,681	287,025
Pensioner Members	447,853	454,000
Deferred Members (inc. Reserves)	517,289	513,522

Source: AFPS Finance, DBS

30. The total transactions processed by the commercial partner are detailed at Annex E. Only 5% of complaints received by the commercial partner were upheld – the majority were challenges to policy, not customer service – further information is provided in Annex F. The Commercial partner has comfortably met the contractual measures of performance required during 2021-22, as detailed in Annex G.

Quality of Service

31. The AFPS75, AFPS05, and AFPS15 schemes are administered in partnership with SSCL and Equiniti against contractual measures of performance relating to accuracy and timeliness. Varying levels of audit and assurance are provided by the NAO, Defence Internal Audit and internal teams who check monthly compliance. The contract includes penalties for any failures that are identified. As part of the Board’s oversight of the administration performance each quarter, I believe that our suppliers have provided us with a good service this year. The Pension Board will continue to monitor performance closely, and work with stakeholders to ensure good levels of performance endure, going forward. It will also contribute to discussions on how services can be enhanced for members going forward.

CEM Benchmarking

32. As previously stated, CEM completed a benchmarking exercise this year which assessed the quality of service of the Armed Forces Pension Scheme. It makes comparisons with peer-group pension schemes and makes useful suggestions for further improvement of service provision.
33. The report concluded that the Scheme 'member service score' was increased by two points since the last benchmarking exercise in 2019. CEM found that the AFPS Enquiry Centre was the most accessible of the large public-sector pension schemes; members able to contact a live person 60 hours per week and connection time is over 4.5 times quicker than comparable schemes. AFPS resolved 10% more enquiries on first contact than peer-group schemes and monitors 4 times more calls. Furthermore, AFPS issues benefit statements to members more than 8 times quicker than peer-group schemes and has been credited for the level of content included compared to other schemes.
34. Areas for the Scheme to improve include more face-to-face engagement with membership; increased level of detail in pension forecasts; and improving timescales for payment of pension commencement lump sums. Veterans UK and the contractor recognise that service can be improved and will work closely on service improvements with a view to increasing service provision where possible in these areas. More detail is provided in 'Future Improvements'.

COVID19 Pandemic & Response

35. Throughout the COVID19 pandemic, all Armed Forces Pensions, War Pensions and Armed Forces Compensation Scheme regular payments continued to be made as usual into members' nominated accounts. We maintained urgent welfare support for Service leavers, veterans, and their families via the Veterans Welfare Service (VWS), Defence Transition Services (DTS) and Integrated Personal Commissioning for Veterans (IPC4V).
36. The COVID19 pandemic provided the Scheme with the challenge of continuing to deliver an excellent service to members against a context of unexpected absence of team members and restrictions on both MOD and its contractor's ability to attend pension administration offices to deliver outputs. The Scheme has met these challenges head-on, and used the opportunity to establish more modern, digital working practices to reduce risk and deliver outcomes for members as efficiently as possible. Cases are now digitally work-flowed between teams, reducing timescales for members, and digital communication media is used to bring stakeholders together to make decisions and provide direction to administrators more quickly in response to change and challenges. Additionally, the Board continued to meet to a formal schedule, although these meetings were remotely via videoconferencing rather than in person.

2021-22 Service Highlights

The AFPS Quarterly Digest

37. This communication tool has continued to react and evolve in line with feedback from members and selects content to meet their needs. The Quarterly Digest has empowered members to get the most from their Armed Forces Pension. The Quarterly Digest has received an approval rating of 4.1/5 for the most recent edition (February 2022), with 92% of readers saying they will read the next edition. This demonstrates the true value of the publication and the Board, in collaboration with the Pension Communications Working Group, will continue utilise the Quarterly Digest to increase engagement and understanding of pensions among Service Personnel. The next step will be for Veterans UK to investigate capability to deliver the Quarterly Digest electronically to pensioner and dependent members (already distributed electronically to serving members).

Decision Making

38. An analysis of appeals and disputes within the Armed Forces Pension Scheme was presented to the Board by Veterans UK. This demonstrated strong decision making and proportionately few complaints to the Pensions Ombudsman, with even fewer complaints upheld by the Ombudsman. Veterans UK made 1,999 challengeable decisions within the scheme year, compared with 267 appeals/reviews (14% of decisions). The Ombudsman closed 34 AFPS complaints this year, with just 14 reaching adjudication (where the member and the Scheme remain in disagreement). Of the 14 cases reaching adjudication, 3 cases were upheld in full, and 3 cases were partially upheld. The low rate of appeal generally, and very low rate of upheld complaints to the Ombudsman, demonstrate reasonable and well communicated discretionary decisions in the majority. Veterans UK learns from every appeal/complaint and lessons are learned and service is improved where appropriate.

'Gone Away' Members

39. An exercise was undertaken to contact existing pensioners for whom a 'gone away' notification has been received because of returned postal communications. 9,962 declarations were issued and 9,494 have been returned to-date, with 81% of pensions reinstated. The aim is to continue to promote the importance of keeping contact details up to date to ensure the right pension benefits are paid to the right people at the right time. The project to identify and trace historic cases has now concluded, and this work has moved to 'business as usual', with the National Fraud Initiative being used to support tracing on a regular and ongoing basis.

Unclaimed Pensions

40. The exercise to identify members who may be entitled to a pension but had not yet claimed that pension, has identified 29,479 members in this category so far. At the end of the year, 5,784 pensions have been put into payment, the total value of annual pensions exceeding £13 million. The Scheme is now reducing the number of pensions going unclaimed by using tracing, on an ongoing basis, on deferred pensioners as their pensions become due for payment. Furthermore, regular communications are being used to remind members of the need to keep contact information up to date.

Membership Data

41. Following the conclusion of two successful Membership Data Improvement (MDI) Projects, ongoing analysis of membership data this year raised just 10,689 potential anomalies in a combined database of 1,083,082 records. This gave GAD a 99.05% assurance for scheme valuation purposes. Further analysis established that just 2,096 records remained anomalous, and the rest were deemed non-questionable.

Benefit Information Statement (BIS) Review

42. The annual BIS sent to serving members has been improved following member feedback and a full review by the Communications Working Group. Improvements have clarified areas of the BIS which could have been confusing or ambiguous to members, updating language, and improving the layout. In the future, the BIS will be produced in full colour. The Communications Working Group currently review the BIS routinely with stakeholders to ensure the product is fit for purpose.

Digitisation of Forecast Requests

43. The process for requesting and receiving a pension forecast has now been digitised for Service Personnel. Digital submissions now account for around 30% of all submissions and in the 25-week period since release, 1255 requests were made. Digitisation of this process for Service Personnel has made the service more accessible and delivers outcomes for members faster and at a reduced impact on cost of delivery and the environment.

Future Improvements

Customer Service

44. Veterans UK plan to introduce webinars for members to share their 'lived experience' of pension scheme service provision, with findings used to improve service, in line with CEM Benchmarking highlights.
45. In addition, text messaging is being introduced to the formal Internal Dispute Resolution Procedure and the Complaints Resolution Team processes to keep members up to date on the progression of their appeal or complaint as it progresses. Text messaging will then be further rolled out to cover other areas of service provision within AFPS.
46. To increase the transparency of how AFPS delivers its services, 'customer journey roadmaps' will be produced and published in the public domain. This will guide members and manage their expectations in terms of timescales.

Member Self-Service Portal

47. Veterans UK's aspirational final destination is to see the digitisation of service provision for Serving Personnel and Veterans, both in the short and long term; all forming part of the MOD Modernisation agenda. Working alongside its contractor, DBS are continuing their

own digital rollout to help with improved member service which will include a Member Self Service portal which will allow members to run their own forecasts, update personal details and view information such as P60 and the Quarterly Digest.

48. In the short-term, Veterans UK will be further digitising online forms to increase accessibility and efficiency of its service in the digital age.

A Single IT Platform

49. Linked to the Self-Service Portal, Veterans UK are transitioning to a single IT platform which will bring membership data and some processes onto one system. This will incorporate a full data cleansing programme and will eliminate duplication of records on multiple systems. This is expected to be ready in early 2024.

Further Digitisation of Forms/Services

50. Veterans UK will consider and implement changes to other forms and processes in line with the improvements already made to the forecast request process detailed previously. This will allow the service to be more accessible to and deliver outcomes for members faster and at a reduced impact on cost of delivery and the environment.

Improved Guidance for Dependants

51. Veterans UK will work in the coming year to make a number of improvements to the service it delivers to Children of AFPS members. This will include the creation of a new guidance booklet to be available in the public domain, the revision of forms to simplify the process, and the removal of the need for third party educational institutions to verify ongoing education.

The Pension Landscape 2021- 2022

The McCloud Judgement

52. This refers to the Court of Appeal's ruling that the Government's 2015 public sector pension reforms unlawfully discriminated against public sectors based upon members' age on the 1 April 2012.

53. As part of the 2015 reforms which applied to most public service pension schemes, those within 10 years of retirement were allowed to remain in their legacy pension scheme; this was known as 'full protection'. Following legal challenges in December 2018, the Court of Appeal found that the transitional protection arrangements applied to judicial and firefighters pension schemes, gave rise to unlawful discrimination against younger members. As a result, in July 2020, the Government published a public consultation where it was confirmed that they would remove the age discrimination. This would be achieved by giving eligible public sector workers the opportunity to choose which scheme benefits they would wish to receive (legacy scheme or the reformed 2015 scheme) for the period of 1 April 2015 – 31 March 2022 - known as the remedy period. The remedy applies to pension scheme members who were in service both on or before 31 March 2012 and on 1

April 2015, including those with a gap in service no longer than 5 years. From 1st April 2022, all public servants, including all Armed Forces personnel, will be moved to the AFPS 15 to ensure equal treatment in future.

54. In order to implement the prospective remedy for McCloud, the MOD are undertaking a public consultation which details the changes that will be made to the Armed Forces Pension Scheme regulations and the effect on members. The consultation will explain the impact of the draft regulations, including the closing of the legacy pension schemes to further accrual from 31 March 2022, and the updating of transitional provisions to include those who previously did not move to AFPS 15. In addition, the regulations will make some retrospective changes to transitional provisions introduced in 2015 to remove age discrimination. The consultation will apply to the Regular and Reserve UK Armed Forces personnel who will continue in service on 1 April 2022 as members of the AFPS 15. Views will be encouraged from Serving Personnel and Veterans in response to the Prospective Consultation. The MOD will then review the submissions and publish a consultation response.
55. The MOD are working to deliver a McCloud calculator to help assist members in making their decision regarding which scheme to remain in for the remedy period. It will go live in Summer 2023.

Pensions Tax

56. The Government's decision to retain a static annual allowance limit of £40,000 has resulted in more Service Personnel breaching their savings limit and attracting a tax charge, which is likely to be further amplified by high inflation. The Senior Salaries Review Body (SSRB) have raised concerns over the impact pension taxation is having on the morale of senior talent. The Ministry is further cognisant of the announcement by the Department of Health and Social Care on proposals to introduce pension flexibilities for senior clinicians within the NHS. In response, work is underway to better understand the impact that pension taxation will have on Service Personnel and, to provide guidance and support to our Service Personnel that are impacted - this has already included the creation of digital content to supplement the comprehensive guidance and advice published last year.

Cross Whitehall Participation

57. The Department is keen to ensure that the pensions offered to Service Personnel reflect the unique nature of the Armed Forces and are in line with other Government departments. The Department regularly engages with the HM Treasury Official Committee on Occupational Pensions (MOCOP), who are in place to ensure that a cross Departmental view is taken for any significant policy changes. This ensures that the requirements of the Armed Forces are being considered across Whitehall. The Pension Board are committed to building upon relationships to improve the Board's effectiveness and I regularly meet with the Chairs of the other Big 4 public sector pension schemes, (Civil Service, NHS, Teachers and AFPS), and with tPR's public service schemes forum where information and best practice are shared on central and local government pensions. The Department also participates in cross Whitehall meetings with public sector scheme representatives and HMT to consider the issues that may be involved in deciding a remedy, following the McCloud judgment.

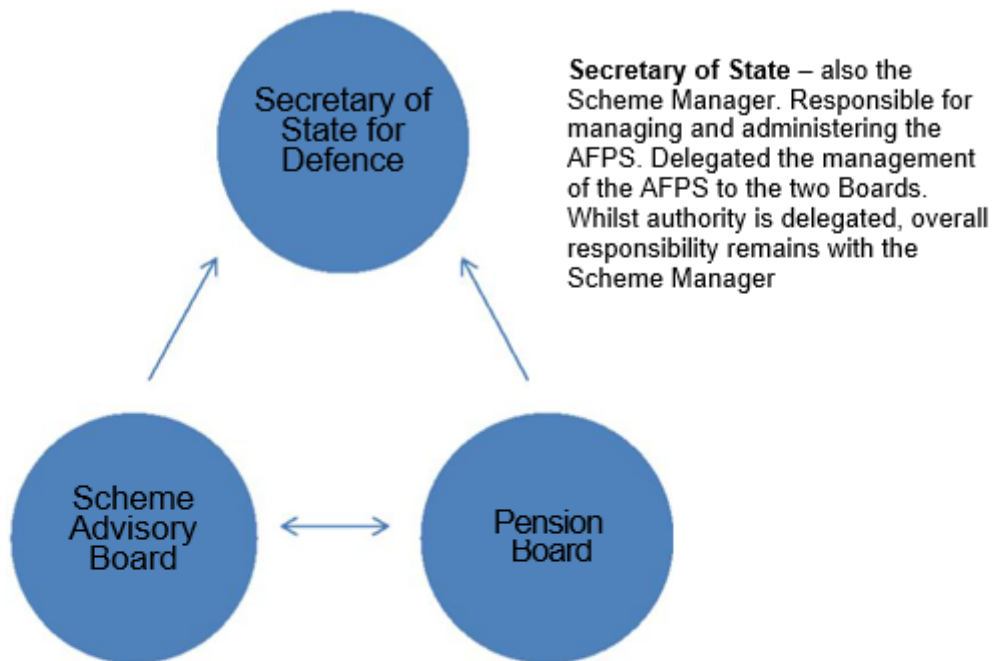
Valuation Exercise

58. Pensions are paid from Annually Managed Expenditure with the employer's contribution paid from the Departmental Expenditure Limit through the Superannuation Contribution Adjusted for Past Experience (SCAPE) mechanism. SCAPE partially funds in-year AFPS pension payments and HM Treasury funds the remainder. The rate of SCAPE contributions is set following a valuation carried out, under HM Treasury direction, by the Government Actuary's Department every four years.
59. The employer cost cap framework was introduced by the Public Service Pensions Act 2013 – this is aimed at maintaining the affordability of public service pensions. At the previous scheme valuation, if the cost of AFPS (as measured by this framework), changed by more than 2% of payroll, this would've required action to return the scheme to its original level of cost. Initially, the cost cap technically breached in excess of the 2% of pensionable pay, but acknowledgement of the cost of the Deferred Choice Underpin as the McCloud remedy returned the scheme to within 2% of target cost. The 2016 valuation was therefore finalised with no changes to AFPS 15 benefits. Work is now underway to conduct the next scheme valuation, and the cost cap mechanism will be reformed in three areas following consultation by the Government.

Conclusion

60. I am pleased to be able to present a positive report for a year that has had a wide range of challenges for all those involved with the Schemes. Service and communication with members continue to positively evolve and next year will be equally challenging with increasing regulatory, operational, and commercial issues to address but I am confident that Board members will continue to assist with the delivery of a well governed and high-quality service for all members.

Annex A - GOVERNANCE STRUCTURE FOR ARMED FORCES PENSION SCHEME



Secretary of State – also the Scheme Manager. Responsible for managing and administering the AFPS. Delegated the management of the AFPS to the two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager

Scheme Advisory Board – has responsibility for providing advice on the desirability of changes to the scheme when required to do so by the Scheme Manager. Chaired by the Permanent Secretary, the Scheme Advisory Board will only be required to make decisions on major changes to the scheme design; as such, it sits by exception.

It has authority to make recommendations to the Scheme Manager on major changes to the Scheme rules.

Pension Board - responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to governance and administration, as well as requirements imposed by the Pension Regulator.

Annex B - PENSION BOARD TERMS OF REFERENCE

General

1. The Pension Board was established as of 1 April 2015 in compliance with the Public Service Pensions Act 2013. The Board is responsible for assisting the Scheme Manager in ensuring compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it.

The Pensions Regulator

2. The Pension Board is also responsible for assisting the Scheme Manager in securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator (tPR). The Pension Board will, always, work to protect the reputation of the scheme for effective governance and administration and for proper use of taxpayers' money in accordance with such good practice guidance that may be issued by the Pensions Regulator. The Pension Board will respond to any requests/directions made by tPR and ensure that they oversee the development and ongoing delivery of processes and systems to incorporate any new statutory requirements.

Purpose of the Pension Board

3. In addition to its' statutory responsibilities² the Pension Board has key functions in addition to ensuring that those in receipt of a benefit receive accurate, timely benefits under the scheme rules and satisfactory customer service thereby ensuring that schemes are administered correctly and appropriately, and in accordance with regulations as follows;

- Responsibility for the effective and efficient governance of the Armed Forces Pension Schemes.;
- Oversee and advise on pension delivery and represent Pension Schemes interest in MOD's management of the wider Shared Services contract;
- Provide advice on policy issues which affect members' interests;
- Contribute to the planning and influencing of the risk management and audit activity for Armed Forces Pension Scheme, to include internal audit programmes, internal control procedures and the making and reviewing of recommendations arising from such activities;
- Advise and influence the selection, appointment and reappointment of all third-party providers including the Scheme Administrator in conjunction with the provision of wider people services;

² Section 5 of Public Services Pension Act 2013

- Oversee and contribute to communications on pension management issues;
- Monitor all Pension Scheme material issues to ensure consistency of application and a seamless service for members; and
- Develop positive, co-operative working relationships with all the stakeholders and provide a forum to receive feedback from them on issues affecting the scheme.

Changes to the Terms of Reference

4. The Terms of Reference will usually be reviewed every year but can be amended outside of the review period subject to Chair agreement.

Chair

5. The Pension Board will be chaired by an independent, voting Non-Executive Director (NED) who has responsibility for ‘...assisting the Scheme Manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the Pension Regulator.’³ Chief of Defence People (CDP) will appoint the Chair on behalf of the Scheme Manager.

Pension Board Members

6. The Pension Board will have an equal number of employer⁴ and employee⁵ members. All appointments to the Pension Board are personal. All members will represent the interests of all of the Schemes’ beneficiaries and stakeholders. There are 15 members (including the Chair) and 4 attendees in an advisory capacity. At the time of writing;

Name	Role
Employer representatives	
Helen Helliwell	Director Armed Forces People Policy (People-AFPPol-D) – 2* Civil Servant
Adrian Bettridge	Head of Armed Forces Remuneration (Hd AF REM) - 1* Military
James Freemantle	Deputy Director Defence Resources (D Res-DD) - 1* Civil Servant
TBC	Reserve Forces & Cadets Assistant Head Capability (RFC AHd Cap) -
Mark Cox	Royal Navy Pay Colonel – Captain Royal Navy
Louise Green	Army Pay Colonel - Colonel

³ tPR Draft Code of Practice.

⁴ Employer representatives means persons appointed to the board for the purpose of representing employers for the scheme and any connected scheme.

⁵ Employee or member representatives means persons appointed to the board for the purpose of representing members of the scheme and any connected scheme.

Gordon Bettington	Royal Air Force Pay Colonel – Group Captain
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Member/ employee representatives	
Neil Marshall	Forces Pension Society
Collette Musgrave	Single representative from the Forces Families’ Federation
Stephen Bennett	SIIAP (Services Insurance and Investment Advisory Panel)
William Grove	Reservists Members’ representative: a volunteer from the Chain of Command
David Smith	Members representative from the Royal Navy; a volunteer from the Chain of Command
Sarah Cox	Members representative from the Army; a volunteer from the Chain of Command
Lee Twyning	Members representative from the Royal Air Force; a volunteer from the Chain of Command
<p>Not Board Members, but can be invited to attend to provide technical, legal, and actuarial advice as and when required:</p> <ul style="list-style-type: none"> • Defence Business Service (DBS), the Service Provider • Command Legal Service (CLS) • Government Actuary’s Department (GAD) • Assistant Head Armed Forces Pension Schemes (AHd AFPS) – Secretary • SSCL Project and BAU representatives • MoD – Commercial/ Change 	

Tenure and Attendance

7. The Chair’s appointment was for an initial 3 years but this has since been extended. The Chairs’ current term ends on 5 January 2024. Military employer members will typically change every 2 to 3 years as this is the normal length of an assignment. Where the Board member is a Civil Servant, the tenure will endure whilst the incumbent is in the appointment. Employee members can remain for an indefinite period but must put themselves forward for re-election to the Board by its members every 4 years; allowing the Board to consider alternative representation. The Chair will need to consult with Pension Board members to try, if possible, to avoid too many Board members changing at the same time.

8. Pension Board members are expected to attend all meetings in person. Any alternate representation must be cleared by the Chair in advance. If a short notice meeting is called, all Board members should make their best efforts to attend.

9. Each member must agree that information provided or gleaned in the course of their duties as a member of the Board (which may include confidential/personal information) will not be used for purposes outside of the delivery of the Board's function unless specifically agreed.

10. For the Board meeting to be quorate, there must be the Chair, and at least 3 employer and 3 employee representatives present.

Removal

11. Pension Board members (including the Chair) may only be removed from office during a term of appointment by the Scheme Manager.

12. Members of the Pension Board may resign from the Pensions Board by giving one month notice in writing to the Chair.

13. In the event of resignation or other removal the Chair will work with the Secretary to ensure that an alternative member is appointed within three months of the date of resignation or removal.

14. Members of the Pension Board may be removed should they fail to attend three consecutive meetings.

15. In the event of resignation or other removal, the Pension Board can continue to meet and conduct its business, subject to 10 above, although every effort should be made to ensure that there is a balance of employers/employees.

Voting

16. All 15 members of the Pension Board are voting members. Items arising at any meeting will be decided by a majority of voting members present. –The Chair will have the casting vote. Nominated deputies attending meetings are unable to vote.

Conflict of Interest

17. Conflict of interest means a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).

18. Subject to the agreement of the Scheme Manager, the Chair must be satisfied that none of the members have any conflict of interest. If it is determined that a member of the Pensions Board has an enduring conflict of interest, the appointment of the member must be terminated.

19. All members are to sign the Conflict-of-Interest declaration form, and these should be held as a record and reviewed annually. Any individual conflict of interest should be declared before each meeting. Conflict of interest will be a standing agenda item.

Conduct of Business

20. The Chair of the Pension Board will report annually at the end of the FY on the activities of the Pension Board to the Responsible Authority (S of S). This is to include a suitable response to the Pension Regulator's annual report. This annual report should include input and support from Pension Board members.
21. The Pension Board will meet at least every six months but usually no more than 4 meetings a year.
22. The Chair of the Pension Board may call a meeting at any time providing two weeks' notice is given, if practicable. Such meetings may be in person, via telephone, video conference or other media as appropriate.
23. Minutes of all Pension Board Meetings will be recorded. Draft minutes will be circulated to the Pension Board and will be ratified by members at the next meeting; paperwork should be circulated at least 5 days before the next meeting.
24. A standing agenda will be used to guide the meeting and where there are specific issues to discuss, these will be put in as separate agenda items. A template of the agenda can be viewed at annex C.
25. The Pension Board can decide to ask its professional advisers, representatives from third party suppliers, including the scheme administrator, and any other person to attend its meetings as it sees fit.
26. The Secretary will update the training log quarterly, or as and when necessary.
27. The Pension Board may agree on a decision outside of a meeting if the Chair, as well as 3 employee representatives and 3 employer representatives confirm their agreement either in writing or by electronic mail. Any such decision will be as valid and effective as if it had been passed by a meeting of the Board.

Committees and Sub-Groups

28. The Pension Board may establish such committees and sub-groups as it sees fit. They will decide if they need to have separate ToRs and if so, they will take responsibility for writing them within the Pension Board ToRs; any ToRs will be approved by the Chair.
29. Minutes of any subcommittee meetings will also be recorded. The Chair of the Pension Board will appoint the Chair of each sub-group.

Pension Board's Responsibilities

29. The Pension Board will monitor the effectiveness and efficiency of the scheme administration and focus on scheme performance, continuous improvement, value for money, risk management and compliance with statutory requirements.

30. The Pension Board will:

- monitor and advise the Responsible Authority on the performance of the service administration of the Pension Schemes including performance of the third-party scheme administrator throughout the implementation phase and into the future through the analysis of management information and key performance indicators, providing challenge where appropriate;
- ensure that an appropriate risk management strategy is in place for the scheme and monitor the Scheme Administrator's risk management framework and internal control procedures;
- ensure that the Scheme Administrator has an effective audit strategy in place for the scheme and monitor the internal audit programme to check compliance;
- ensure there is a process to allow compliance with data management requirements and compliance with the record keeping requirements as set out in [The Public Service Pensions \(Record Keeping and Miscellaneous Amendments\) Regulations 2014](#);
- monitor the process and viability of the System Administrator's electronic data storage to assist with data extracts needed for actuarial valuations;
- reviewing trends and patterns in the information provided by the DBS and SSCL, and making recommendations to the Scheme Manager as appropriate;
- report breaches of the law to the Regulator, when they have reasonable cause to believe that a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions;
- may consider and advise on (but not give final approval as not solely a pension's contract) any amendments to the terms of the Commercial Contract in place with the Scheme Administrator;
- may request (if Department funding is agreed) additional services from the Scheme Administrator.
- carry out its responsibilities, having due regard for compliance with the Public Sector Equality Duty.

Pension Board Member's Responsibilities

31. Members will be expected to:

- contribute in a way that will benefit scheme members, employers, and the taxpayer;
- contribute to any discussion on policy issues as it affects the management and oversight of the Armed Forces Pension Schemes;
- be a credible and visible consultative body for Armed Forces Pension Schemes;

- have or be prepared to develop, appropriate knowledge and understanding of pensions legislation and best practice pensions governance; have a good understanding of and conversance⁶ with the Armed Forces Pension Schemes⁷ and allocate sufficient time to consider Pension Board Papers prior to boards;
- take part in training to gain and retain, up to date and working knowledge of the Armed Forces Pension Schemes. Thereafter keep their knowledge up to date by undergoing training as required; this will include but not be limited to:
 - a. taking part in themed training on administration, actuarial practice, benchmarking, and member experience as provided at Board meetings by external contacts; and
 - b. completion of the Public Service Toolkit provided by the Pension Regulator within six months of taking up post.
- know where scheme rules and administration policies are relevant and where a particular provision or policy may apply;
- be aware of the range and extent of pensions law applying to the scheme and recognise when and how it impacts on their responsibilities;
- be able to challenge failures to comply with the scheme rules and legislation relating to governance and administration;
- make every effort to attend any short notice meetings;
- understand that if they fail to attend three consecutive meetings, they may be removed as a member;
- will be expected to inform the Chair of any changes in respect of possible conflicts of interest.

⁶ Conversance is working knowledge of scheme rules and policy documents, so members can use them effectively in carrying out their duties.

⁷ AFPS 75, AFPS 05, AFPS 15, FTRS 97, RFPS 05 and NRPS

Annex C – Armed Forces Pension Board Training Log

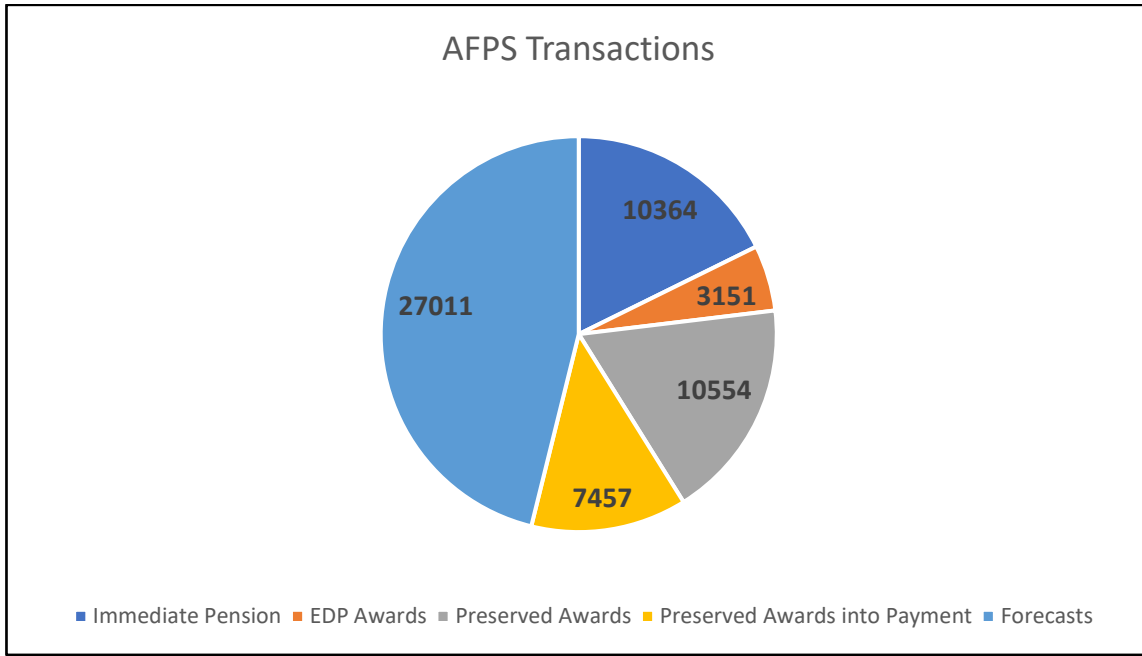
	TOPIC	ROBERT BRANAGH	HELEN HELLIWELL	Adrian Bettridge	James Freemantle	Ali Sahan	Mark Cox	Louise Green	Gordon Bettington	Neil Marshall	Collette Musgrave	William Grove	Ian Wilson	Dean Morgan	Lee Twynning	Stephen Bennett	Sarah Cox
	Public Service Pensions toolkit																
8th Mar 22	26th PENSION BOARD MEETING:																
	The Pensions Regulator brief	✓	✓	✓	absent	absent	✓	✓	✓	✓	absent	✓	✓	absent	✓	Not yet in post	Not yet in post
	CEM Benchmarking brief																
30th June 22	27th PENSION BOARD MEETING:																
	The Pensions Regulator brief	✓	absent	✓	✓	Left Post	absent (sent rep)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	CEM Benchmarking brief						absent (sent rep)	absent (sent rep)	absent (sent rep)	✓	absent	✓	✓	left post	✓	absent	absent
15th September 22	28th PENSION BOARD MEETING:																
	The Pensions Regulator brief	✓	✓	✓	✓												
	CEM Benchmarking brief																

Annex D – Armed Forces Pension Board Work Programme

March 2021	SSCL and Commercial update DBS update New Members Annual Report Annual Allowance Valuation and Cost Cap Gurkha Pension Scheme
July 2021	SSCL and Commercial update DBS update Gibraltar Gurkha Pension Scheme McCloud judgment – PDD's GAD review Consultation Exercises
November 2021	SSCL and Commercial update DBS update McCloud Pension Taxation Communications Transformation/Planning Consultation Exercises
March 2022	SSCL and Commercial update DBS update McCloud Remedy Pension Board Refresh tPR Engagement
June 2022	SSCL and Commercial update DBS update McCloud –PDD's Valuation Exercise & Discount Rate Communications Risk & Assurance
September 2022	SSCL and Commercial update DBS update Transformation Pension Calculator McCloud Communications Risk & Assurance
November 2022	SSCL and Commercial update DBS update Transformation Pension Calculator McCloud Pension Taxation Communications Risk & Assurance

Annex E - AFPS High Level Transactions

The following data has been provided by our commercial partner and details the number of AFPS high level transactions processed during 2021-22 by transaction type.



Source: SSCL

Benefit Information Statement (BIS)

Veterans UK continuing to monitor BIS feedback following the review carried out in 2021-22 and will consider enhancements to the process and BIS template on an ongoing basis.

	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22
No. BIS Issued	17,258	17,441	16,892	18,214	16,887	16,358	17,011	15,447	16,128	16,552	14,569	16,199

Source: SSCL

Annex F - Appeals and Disputes

The number of complaints in relation to the population remains exceptionally low and represents a strong service delivered to customers in the majority of cases.

SSCL Complaints:

Total complaints received by SSCL was 54; 3 were justified. The majority were queries/disagreements with policy.

Thank you

In the last year 2,971 Thank You were received by our Complaints Resolution Team, WP and AFCS Operations and Vets UK Helpline.

IDRP & Reviews:

Members of an occupational pension scheme have a legislative right to have their complaint/appeal reviewed if they are dissatisfied with any decisions made in relation to the AFPS Schemes. This review process is known as the Internal Disputes Resolution Procedure. If members are unhappy with the decisions made by the administrators of the scheme under this process they will have recourse to the Pensions Ombudsman, whose decision is final and binding on both parties (unless the case is taken to the appropriate Court on a point of law).

Total Internal Disputes Resolution Process (IDRP) and Discretionary Awards Reviews processed by AFPS Authority staff during 2021-22:

Discretionary Award Review (DAR)	111
Discretionary Award Appeal Review (DAAR)	22
Internal Dispute Review Process (IDRP)	156

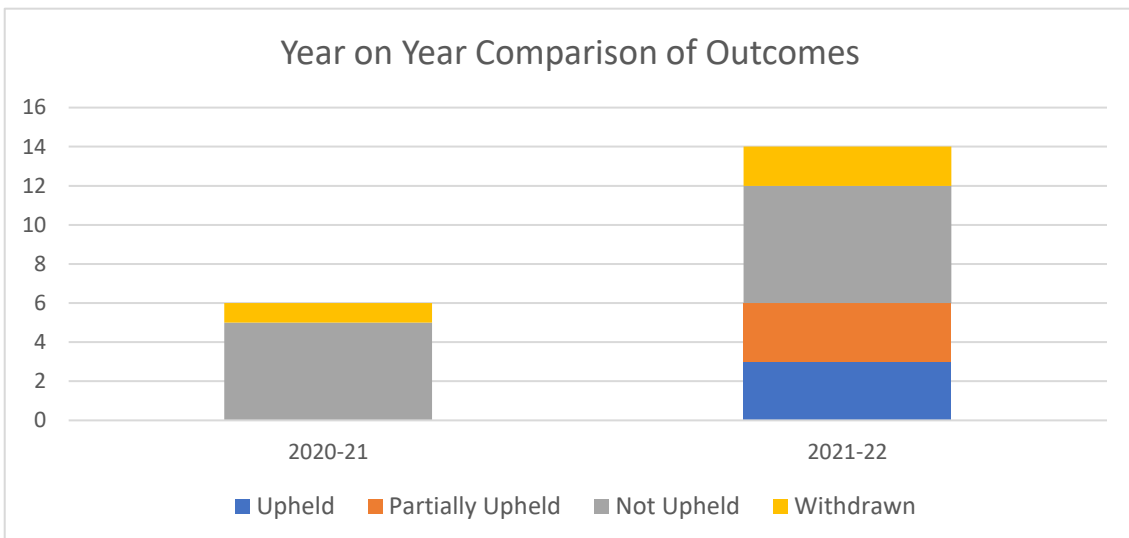
The IDR procedure is broken down in to two types, formal complaints and ill-health appeals against ill-health Tier assessments. Appeals under DAR/DAAR were down 27% from last year

- Of cases closed during the performance year, approximately 45% (70) of IDRPCs were ill-health Tier appeals; 55% (86) were IDRPC formal complaints for maladministration.
- 1,260 ill-health Tier assessments were closed in the period. Total ill-health appeals closed in comparison was just 70 (appeal rate of less than 6%) and were upheld at a rate of 13% during the period.

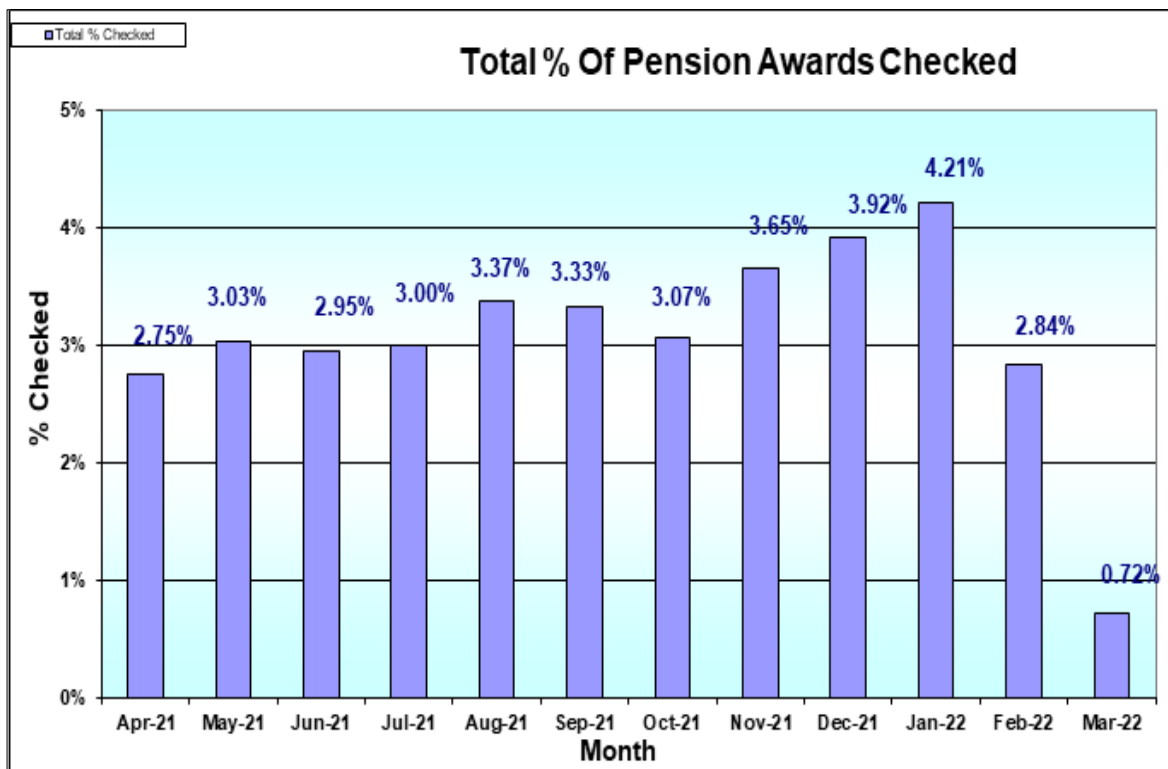
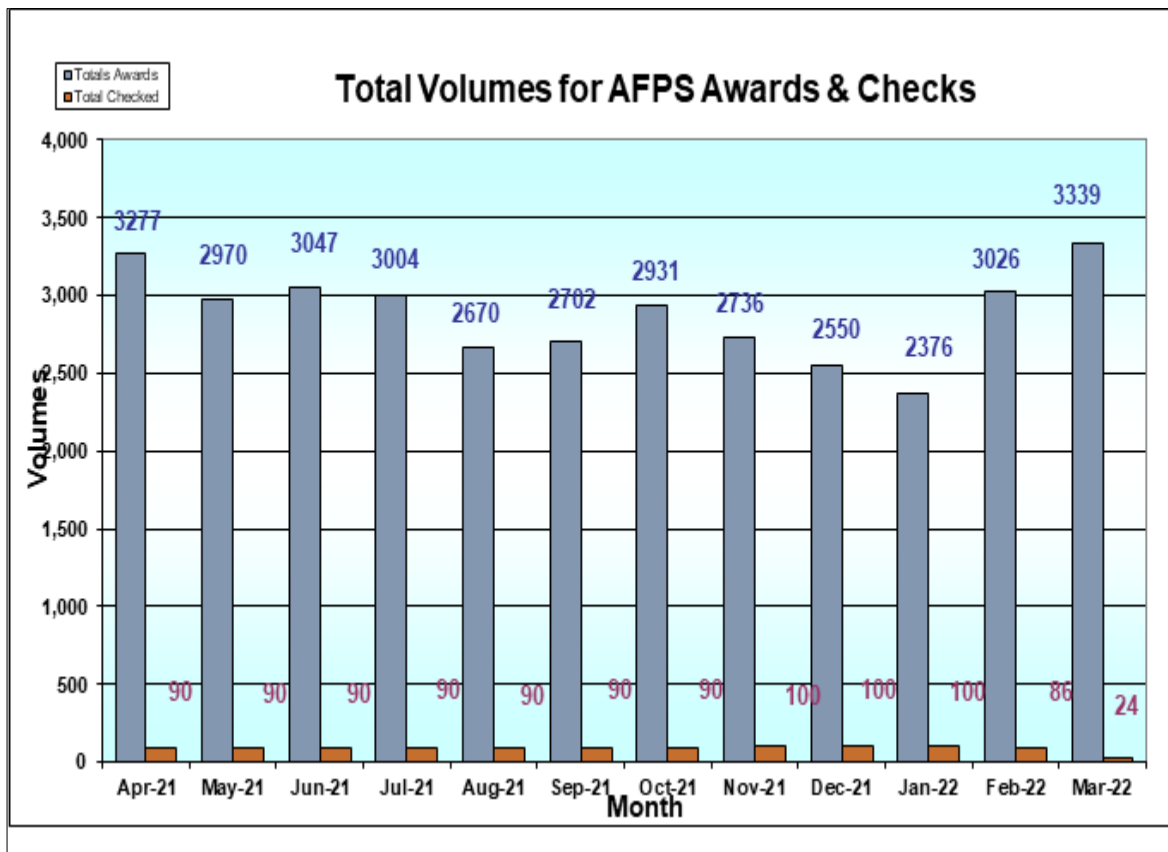
Investigations by Pension Ombudsman

Ombudsman adjudication outcomes in the year 2021-22:

Complaint Topic	2021-22	Outcome
Ill-health Pension	4	2 withdrawn, 1 upheld, 1 partially upheld
Injury Benefits (AFAB)	1	Upheld
Misquote/Misinformation	3	1 partially upheld, 2 not upheld
Overpayment	2	1 partially upheld, 1 not upheld
Death Benefits	1	Not upheld
Pension Liberation	1	Upheld
Retirement Benefits	1	Not upheld
Scheme Rules	1	Not upheld
Total	14	8 not upheld, 3 partially upheld, 3 upheld



Annex G – Data on AFPS Awards and Checks



Source: Contract Performance Management Team (CPMT)