

JSP 854 Armed Forces Pension Scheme 1975

Part 1: Directive

Foreword

People lie at the heart of operational capability; attracting and retaining the right numbers of capable, motivated individuals to deliver Defence outputs is critical. This is dependent upon maintaining a credible and realistic offer that earns and retains the trust of people in Defence. In order to achieve this, all personnel must be confident that, not only will they be treated fairly, but also that their families will be treated properly and that Service veterans and their dependants will be respected and appropriately supported.

This support includes the provision of a financial package for serving personnel, veterans, their families, and those who have been bereaved due to service, one aspect of which is access to an Armed Forces Pension Scheme. There are three Armed Forces Pension Schemes, (1975, 2005 and 2015) all of which are a significant part of the financial offer to serving personnel. Part One of this JSP 854 provides a reference point for the current version of the legislation for the Armed Forces Pension Scheme 1975, which was open to serving members of the regular Armed Forces from 1 April 1975 but closed to new members from 6 April 2005. Part Two explains how this legislation should be interpreted so that the scheme can be administered accordingly.

Lieutenant General James Swift Chief of Defence People People Functional Owner

Preface

How to use this JSP

- 1. JSP 854 is intended as a practical guide for Armed Forces personnel who are members of the Armed Forces Pension Scheme 1975 (AFPS 75) and is designed to be used by DBS Veterans (DBS Vets) UK, formerly known as Service Personnel and Veterans Agency (SPVA), who are the Pension Scheme's administrator, as well as unit admin personnel and scheme members. This JSP contains the legislation and policy for the current scheme rules and guidance on the processes involved and best practice to apply when awarding pensions to scheme members. Where you have any doubts or concerns over any aspect of this guidance, you should seek the advice of those detailed below. This JSP will be reviewed at least annually.
- 2. The JSP is structured in two parts:
 - a. Part 1 Directive, which provides the direction that must be followed in accordance with statute or policy mandated by Defence or on Defence by Central Government.
 - b. Part 2 Guidance, which provides the guidance and best practice that will assist the user to comply with the Directive(s) detailed in Part 1.

Coherence with other Policy and Guidance

3. Where this document contains references to policies, publications and other JSPs which are published by other Functions, these Functions have been consulted in the formulation of the policy and guidance detailed in this publication.

Related JSP	Title
764	The Armed Forces Pension Scheme 2005 (AFPS 05)
905	The Armed Forces Pension Scheme 2015 (AFPS 15)

Further Advice and Feedback – Contacts

4. The owner of this JSP is Chief of Defence Personnel, Head of Remuneration. For further information or advice on any aspect of this publication or to provide feedback on the content, contact:

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1 Introduction to the Armed Forces Pension Scheme 1975

Section 1.1 - Introduction to the Scheme

- 1.1.1. Serving members of the Regular Armed Forces from the 1 April 1975 up until (and not after) the 6 April 2005 were automatically enrolled in the Armed Forces Pension Scheme 75 ('AFPS 75') scheme. Time served before 1 April 1975 is only counted as pensionable service for Service Personnel ('SP') who left after 6 April 1975, having also met the qualifying criteria of AFPS 75 (5 years qualifying service and reached 26 years of age, which were subsequently reduced to 2 years qualifying service and the age qualification was removed completely, these changed were not made retrospectively)¹. From 6 April 2005, AFPS 75 closed to new members (except those that transferred from the Gurkha Pension Scheme under the offer to transfer).
- 1.1.2. Annex A has an overview and links to the legislation and amendments underpinning AFPS 75.
- 1.1.3. New entrants to the Armed Forces on or between 6 April 2005 and 31 March 2015 joined the Armed Forces as members of Armed Forces Pension Scheme 2005 ('AFPS 05').
- 1.1.4. On 1 April 2015 a new pension scheme, the Armed Forces Pension Scheme 2015 ('AFPS 15'), was introduced. Members of AFPS 75 and AFPS 05 who had not reached the age of 45 by 1 April 2012 were automatically transferred into the new scheme, with the benefits they had accrued in AFPS 75 and/or 05 protected.
- 1.1.5. The main benefits in AFPS 75 include:
 - a. Defined benefit scheme based on final rank and length of service. For ranks 1* and below, this is based on representative rates of pay. For ranks 2* and above, it is calculated on final pensionable earnings.
 - b. There were no member-contributions for AFPS 75; nothing was taken out of active members' wages towards the pension.
 - c. An Immediate pension is available after at least 16 years qualifying service (for Officers, from age 21) and 22 years qualifying service (for Other Ranks, from age 18). In addition to an immediate pension a lump sum equal to three times annual pension (tax free) is also payable.

¹ The Social Security Act 1986 changed the qualifying period from 5 years to 2 years (effective from 6 April 1988). The Social Security and Pensions Act 1975 removed the age qualification requirement (effective from 6 April 1978).

- d. Maximum pension can be earned after 34 years' reckonable service for Officers and 37 years' reckonable service for Other Ranks.
- e. Deferred pension² payable at age 60 for service before 6th April 2006 and

65 for service post 6 April 2006, which is for members who do not reach the immediate pension point plus a lump sum of three times pension.

- f. Surviving Spouse/Civil Partner may receive a taxable pension up to 50% of the member's pension. Pensions for eligible children may also be payable. Pensions for eligible partners may be payable if death is attributable to service.
- g. Death in Service lump sum is normally three times the representative pay for the rank.
- 1.1.6. Benefits for members and their dependants under the Armed Forces Pension Scheme 75 do not differ between the three Services. The Army legislation includes an additional section detailing the pension benefits for Gurkha members who transferred from the Gurkha Pension Scheme.
- 1.1.7. The terminology used throughout this JSP is defined in Annex B: Glossary of Terms. Throughout this JSP the relevant legislative rules have been identified.

Section 1.2 - Governance

- 1.2.1. The Public Service Pensions Act 2013 mandated formal Governance to manage public sector pensions efficiently, effectively and with transparency. The Scheme Advisory Board and Pension Board were set up in compliance with the Act.
- 1.2.2. The Secretary of State is the Scheme Manager of all the Armed Forces Pension Schemes and delegates this management to two boards: the Scheme Advisory Board and the Pension Board. The Scheme Advisory Board is responsible for advising Secretary of State in relation to the desirability of changes to scheme rules. The Pension Board ensures compliance with the regulations.
- 1.2.3. The Pension Board is responsible for ensuring that all Armed Forces Pension Schemes are managed and administered efficiently and effectively and with transparency. The Board consists of an equal number of employer and employee representatives. All members will represent the interests of all the Schemes' beneficiaries and stakeholders, and there must be at least 4 employer and 4 employee representatives at each meeting.
- 1.2.4. The Pension Board is responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory Pension Scheme that is connected

 $^{^{2}}$ This JSP will be using the term Deferred pension throughout, this was previously known as a Preserved pension.

with it. It also assists the Scheme Manager in securing compliance with requirements imposed by the Pensions Regulator ('tPR').

- 1.2.5. The Board reports annually on the activities of the Pension Board to the Scheme Manager (the Secretary of State), which includes a Pension Board Annual Report, written by the Chair. The Chair is reviewed every 3 years.
- 1.2.6. The Scheme Advisory Board ('SAB') is accountable to the Secretary of State. Its main function is to provide advice on major changes required to the Armed Forces Pension Schemes. The Advisory Board is responsible for providing advice on the desirability of changes to the AFPS 75 when required to do so by the Responsible Authority.
- 1.2.7. Changes to the AFPS 75 can only be made by laying amended Prerogative Instruments before Parliament. The Scheme Advisory Board (at the top of the governance hierarchy for the Armed Forces pensions schemes) would also have to approve major changes. The scheme actuary will be consulted on changes which could affect accrued benefits (although this is highly unlikely to occur).
- 1.2.8. The Scheme Administrator is Veterans UK. The Scheme Manager is the Secretary of State for Defence, however in practice the scheme management is delegated to the Pension Board and the Scheme Advisory Board.
- 1.2.9. The members of the Scheme Advisory Board are:
 - a. Permanent Secretary (Chair).
 - b. Non-Executive Director (separately, Chair of the Pension Board).
 - c. Vice Chief of the Defence Staff (VCDS).
 - d. Director General Finance (DG Fin).
 - e. Chief of Defence People (CDP).
 - f. Director of Armed Forces People Policy (DAFPPol).
- 1.2.10. The SAB also has technical, legal and actuarial attendees to provide advice when required:
 - a. Defence Business Services (DBS).
 - b. MOD Legal Advisers (MODLA).
 - c. Government Actuary's Department (GAD).

Section 1.3 - Types of Member

1.3.1. Active Members. Members are active members of the AFPS 75 if:

- a. they were in service on or before 5 April 2005 and have continuously (although a break which is less than one month or training as a member of a reserve force can be discounted) been in pensionable service since that date as a member of the Regular Armed Forces;
- b. they were aged 45 or over on 1 April 2012 and therefore were not transferred to AFPS 15 on 1 April 2015³;
- c. the member has not opted to cease to be in pensionable service; or
- d. having so opted, the member chose (before 6 April 2005) to resume membership of the scheme and has not again opted out of the scheme; and
- e. the member did not transfer to AFPS 05.
- 1.3.2. AFPS 75 is a closed scheme. It closed to new members from 6 Apr 2005. The only exception to this rule is if a scheme member is recalled under section 30 or 31 of the Reserves Forces Act 1980 or recalled for permanent service under section 70 of the Reserve Forces Act 1996. They are eligible to be an active member during the period of recall unless that member previously opted not to be a scheme member.
- 1.3.3. If the period between the individual leaving the Regular Armed Forces and rejoining is one month or less, this is considered continuous service for pension purposes. When determining whether a break in service exceeded one month, any period during which the individual was training as a member of a reserve force is disregarded.
- 1.3.4. **Fixed Protection Members**. A member of the Regular Armed Forces who has opted to cease to be an active member and notified HMRC (by notifying the Scheme Administrator) of their intention to rely upon their lifetime allowance transitional protection will not accrue further benefits within the AFPS 75; service as a fixed protection member is not pensionable service.
- 1.3.5. A fixed protection member may opt to cease to be a fixed protection member and resume membership of the AFPS 75 as an active member. A fixed protection member can only exercise the option to resume membership once; if resumption is granted then the fixed protection member will resume membership of the scheme as an active member on the last day of the calendar month in which the option is exercised. The membership can be resumed as an active member if the period of which the member was a fixed protection member does not count as pensionable service. However, any promotion during the fixed protection service will be considered when determining the member's pension rank and rank addition (see Section 2.8 and Section 2.12).
- 1.3.6. **Pensioner Members**. Pensioner members have a pension in payment; either an immediate pension on leaving or a deferred pension payable at deferred pension

³ From 1 April 2022 all active members have been transferred to the AFPS 15 scheme under the McCloud judgement.

age. Pensioner members are those in receipt of a pension for whatever reason and so this includes those on an ill health pension.

- a. **Immediate pension**. Members of the scheme that leave service having reached the immediate pension point are entitled to an *immediate pension*, which is an annual pension and a pension lump sum. The pension is paid at a flat rate until age 55 when all the inflation (CPI) increases are applied.
- b. For officers this means a member has at least 16 years qualifying service from age 21, with at least five years being served as an officer. For other ranks this means the member has at least 22 years qualifying service from age 18.
- 1.3.7. **Deferred Members**. Scheme members who left the Armed Forces without reaching the immediate pension point are eligible to receive a *deferred pension* at age 60 in relation to service up to and including 5 April 2006 and age 65 for service thereafter.
- 1.3.8. **Pension Credit Members**. A pension credit member is a former spouse or civil partner who is entitled to a percentage of the value of a member's benefits due to a Pension Sharing Order. A Pension Sharing Order can apply to an active, deferred, fixed protection or pensioner member of the scheme. A Pension Credit Member is entitled to a pension for life. A lump sum may also be payable if the Pension Sharing Order was implemented before the member became a pensioner member and received their pension lump sum.
- 1.3.9. A scheme member can be a member in more than one capacity. For example, they could be an active member or a fixed protection member as well as a deferred member in respect of an earlier period of service (in any of the Regular Forces).
- 1.3.10. **Flexible Service**. The Armed Forces (Flexible Working) Act 2018 (which became law on 1 April 2019) enabled service personnel to apply to serve part-time and for their service to be restricted on geographical basis, for defined periods of time. This type of service is called flexible service. Working for reduced hours will result in a proportionate reduction in pay and benefits (including pensions).

Section 1.4 - Opting Out

1.4.1. An individual may opt to no longer be an active member of the AFPS 75. They must write to the Scheme Administrator (Veterans UK) to inform them of their decision. They will no longer be an active member from the end of the calendar month in which they do so, or on a later date as directed by the Defence Council. No compensation for death or ill health benefits will be paid to a member who has opted out of the scheme⁴. Members who have opted out become 'fixed protection members' (see 1.3.4) and are able to re-join the scheme, but can only do this once. If there has been a break in service of more than one year then it is not possible to opt back into AFPS 75.

⁴ Members may be entitled to compensation under the Armed Forces Compensation Scheme (AFCS).

2 Retirement Benefits

Section 2.1 - Entitlement to Benefits

- 2.1.1. The general rule is that a Scheme member is entitled to a taxable pension for life and a tax-free pension *lump sum* when they:
 - a. have ceased reckonable service that qualified them to belong to the scheme; and
 - b. have at least two years' *qualifying service* and either:
 - (1) leave the Armed Forces at or beyond the *immediate pension* **point**; or, when the ill health condition is met,
 - (2) leave paid service before reaching the *immediate pension point* and claim payment of their deferred pension rights on reaching *pension benefit age*.

Section 2.2 - Qualifying and Reckonable Service

- 2.2.1. **Qualifying Service**⁵. Qualifying service is the service that a member gives that will count towards the minimum service needed for them to qualify to receive a pension. It is measured in completed years and whole days and it includes all the following:
 - a. The total period during which the member received pensionable earnings (other than a period during which the member was absent without leave) or is treated as having received 'assumed pay'. An 'assumed pay' for pension (qualifying and reckonable service) is when an active member receives the basic rate of pay appropriate to their pension rank during any of the following periods:
 - (1) on a secondment to another employer under an arrangement that provides for the member to continue to be an active member of the Scheme even though they receive pay for service during that period from another employer;
 - (2) receiving statutory maternity pay;
 - (3) on paid ordinary maternity leave;
 - (4) on paid paternity leave;
 - (5) on adoption leave; or

⁵ Note that Career Intermissions (formerly Career Breaks) are neither qualifying nor reckonable service for pension purposes.

- (6) on unpaid leave for a period which the Defence Council has agreed can count as reckonable service.
- b. Any period during which the member was on loan to an organisation and was required to be an active member of a pension scheme open to members of that organisation (if the loan ends and they re-join the armed forces, they resume membership of AFPS 75 the day after the loan ends)⁶.
- c. All reckonable service given by the member in a previous period of active membership, so long as they choose to aggregate it with qualifying service they give during a period of re-employment as a member of the AFPS 75.
- d. If a member transferred out their pension rights in respect of a previous period of service and subsequently transferred them back to AFPS 75 on their re-employment, all the qualifying service in respect of that previous service period is to be reinstated as if the transfer had not been implemented. However, the member will only receive a credit of reckonable service appropriate to the funds transferred after their re-employment under the normal terms shown in Chapter 5 for transfers-in from another pension arrangement.
- e. Where the member transfers service that is linked to their previous employment whilst they were a member of another pension arrangement such service, whilst reckonable, does not count as qualifying service towards the award of an immediate pension. However, it will count towards the minimum of two years' service required for the award of a deferred pension.
- 2.2.2. If the member takes unpaid leave or has other unpaid breaks between periods of pensionable service, these periods will not count as qualifying service. During unpaid leave, if pay is not received but tax is received in the pay statement, the tax refunds do not count as qualifying service as the tax relates to the period in which pay was paid. Additional Maternity Leave (AML) counts as qualifying but not reckonable service.
- 2.2.3. **Reckonable Service**. Reckonable service is every period of service where a scheme member received pensionable earnings (defined as basic and assumed pay), (other than a period during which the member was absent without leave) or is treated as having received assumed pay. It is the service that counts for the calculation of the value of a member's pension. It is measured in complete years and whole days. This differs between officers and other ranks:
 - a. where the member is an officer, all qualifying service over age 21 up to a maximum of 34 years.

⁶ Time spent on loan to a different organisation can be 'bought back'. An active member may opt to pay a lump sum to secure that the period counts as reckonable service.

- b. where the member is another rank, all qualifying service over age 18 up to a maximum of 37 years.
- c. where the member transferred pension rights from another pension arrangement, the amount of service they are entitled to count under the terms of the transfer.
- d. where the member purchased added years, the number of years and days that they are entitled to count.
- 2.2.4. To increase the amount of reckonable service, a scheme member may:
 - a. purchase additional reckonable service;
 - b. opt to pay a lump sum to ensure a period on loan counts as reckonable service (Section 4.2 Added Years); or
 - c. apply to transfer in pension (Section 5.2 Application for transfers in).
- 2.2.5. Reckonable service may also include any period which was before 3 January 2011, and that the member was entitled to count as reckonable service under any former provision of the Scheme. For example, before 3 January 2011 if a member was AWOL or in detention, the first 5 days AWOL and first 7 days detention will be disregarded and will count as reckonable service, this rule only applies to Army personnel.
- 2.2.6. Reckonable service is calculated differently where a member is recalled under sections 30 and 31 of the Reserves Forces Act 1980 or recalled for permanent service under section 70 of the Reserve Forces Act 1996. If the recalled period is for 6 months or longer, and the member is a pensioner member, the pension may be increased by half the difference between the actual pension amount and the increased pension amount if the recalled service was allowed to be treated as reckonable.
- 2.2.7 **Pension Code**. Pension rates for whole years of reckonable service are specified in the pension code that is published by the Scheme Administrator (normally annually) following changes in rates of Service pay⁷. The pension code is named after the year it is effective from all codes are normally created in April, so the period of 1 April 2019 to 31 March 2020 the pension code will be the 2019 code. The period is April to March in line with Armed Forces pay. When Armed Forces pay is increased (from the 1 April every year) the code is updated again⁸. The rates to be used are those in force on the day following the member's last day of reckonable service, e.g. rates in force on 1 April are payable to members whose last day was on or after 31 March.

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⁷ The pension codes are published on the government website under Tri-Service pension codes.

⁸ Due to delay in pay awards any backdated pay awards also apply to pension codes.

Section 2.3 - Immediate Pensions

- 2.3.1. A scheme member is entitled to a taxable pension for life and a tax-free lump sum of three times the gross annual amount of pension, payable immediately when they reach the *immediate pension point* or if they meet the *ill health condition*.
- 2.3.2. A **fixed protection member** is entitled to an immediate pension and lump sum when they leave Service, providing they have reached the immediate pension point before becoming a fixed protection member.

Section 2.4 - Immediate Pension Point: Officers

- 2.4.1. For officers, a member is entitled to an immediate pension payable from the day following their last day of paid service if one of the following conditions are met:
 - a. they have at least 16 years' qualifying service, which was served after they reached age 21, 5 of which must be served as an officer.
 - b. they have at least 22 years' qualifying service, which was served after the member reached the age of 18.
 - c. If they are notified by the Defence Council that the member is to be treated for the purposes of AFRS⁹ as having become redundant and the member has:
 - (1) 16 years' qualifying service that were served after the member reached the age of 21.
 - (2) 18 years' qualifying service that were served after the member reached the age of 18.

Section 2.5 - Rates of Pension for Officers

- 2.5.1. The rate of pension payable will depend on the type and timing of the member's discharge. There are compulsory retirement rates and premature voluntary retirement rates.
- 2.5.2. **Compulsory Retirement**. A member, whose pension rank is that of an officer, is entitled to receive pension specified for 'compulsory retirement' if their service ends after reaching the immediate pension point for any of the following reasons:
 - a. they are at the end of their commitment period;
 - b. because of ill health, if this is more advantageous than the ill health rate of pension; or

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⁹ Armed Forces Redundancy Scheme 2010 applies only for personnel who remain solely in AFPS 75. If members have transferred to the AFPS 15 then AFRS 2020 applies and provides a proportionate level of compensation depending on the time they have spent in each scheme up to the point of redundancy.

- c. where the member is notified by the appropriate single Service Secretary of their Senior Officers' Compulsory Retirement SOCR(C) or redundancy.
- 2.5.3. **Premature Voluntary Retirement**. A member, whose pension rank is that of an officer is entitled to receive pension specified for 'premature voluntary retirement' if their service ends after reaching the *immediate pension point* for any of the following reasons:
 - a. they leave service at their own request before the end of their agreed commitment period;
 - b. they leave before reaching members normal retirement age;
 - c. they are not called upon to retire for reasons outside the members control; or
 - d. they are not notified by the Defence Council that the member is to be treated for the purposes of AFRS 2010 as having become redundant.
- 2.5.4. **Appropriate Fraction**. Where the member has additional reckonable days in excess of the number of whole years of reckonable service that the member has, they are entitled to a pro-rata addition to their pension. The addition is calculated at the 'appropriate fraction' of the difference in the amount for the whole years' that they have, and the amount for one more reckonable year. The appropriate fraction is found from the number of additional reckonable days they have, divided by 365 (366 if the last 12 months includes 29 February).

Addition for reckonable service in excess of whole years for officers - calculating the appropriate fraction (please note numbers are for illustrative purposes only and will not reflect the latest pension code).

$$(B-A) \times \frac{C}{365}$$

Where:

A is the amount of pension specified, for a person of the member's pension rank with the number of whole years' reckonable service that the member has.

B is what that amount would be if the member had one more year's reckonable service.

C is the number of days' reckonable service that the member has, in excess of the number of whole years.

Example

An officer leaves in the rank of OF3 with 17 years 60 days reckonable service.

- Pension for 18 whole years reckonable service at OF3 rates is £15,088.00 (B).
- Pension for 17 whole years reckonable service at OF3 rates is £14,434.00 (A).

The difference for one whole additional year is:

$$B - A = £654.00$$

The member has 60 days' reckonable service which are in excess of the number of whole years (C).

The appropriate fraction addition for an excess of 60 days is:

£654
$$\times$$
 60/365 = £107.51

The pension for 17 years 60 days is therefore the amount that the member receives for 17 whole years (£14,434) added to the amount they receive for the 60 excess days (£107.51):

2.5.5. **Rate of Pension**. if an officer of OF6 or below is discharged on grounds of misconduct after reaching immediate pension point, they will be treated as if premature voluntary retirement rates applied to them from the date of their discharge.

2.5.6. **Review at age 60/65**.

- a. If an officer received AFPS 75 pension after 1 April 1975 under previous Scheme rules¹⁰, and at a rate lower than they would have been entitled to receive had their pension been deferred, their pension is to be revised to the deferred pension rate when they reach age 60.
- b. If an officer received AFPS 75 pension after 1 April 1975 under previous Scheme rules¹¹, and at a rate lower than, the sum of the pension for life payable from age 60 and the further pension for life payable from age 65, that they would have been entitled to receive had their pension been deferred, then their pension is to be revised to the deferred pension rate when they reach age 65.
- 2.5.7. **Proportionate Awards**. Where an officer qualifies for an award of immediate pension at either the compulsory or *premature voluntary retirement* rates of pension but is not entitled to count at least 16 years reckonable service when they leave service, they are entitled to receive pension at the appropriate proportion of the 16-year rate. This may occur if the member has had a period of unpaid leave which counts as qualifying service but is not reckonable, e.g. a period on a secondment to another employer. In this context, the proportionate award is found by dividing length of reckonable service in whole years by 16. Additional reckonable days in excess of whole years are to be converted by dividing the number of days by 365 and correcting the answer to four decimal places.

Calculating a Proportionate Immediate Pension Award (please note numbers are for illustrative purposes only and will not reflect the latest pension code).

¹⁰ Changes being as a result of Finance Act 2004.

¹¹ Changes being as a result of Finance Act 2004.

$$A \times \frac{B}{N}$$

Where:

A is the amount of pension specified for an immediate pension.

B is the number of whole years reckonable service that the member has when they leave. Where they have additional days in excess of whole years these are to be converted to whole years by dividing their number by 365 and expressing the answer to four decimals.

N is the number of whole years required for an immediate pension.

Example

An officer leaves service in the rank of OF2 with 16 qualifying years from age 21, but they can only count reckonable service of 14 years 60 days (60/365 = 0.1644 so 14.1644 years to four decimals).

- Pension for 16 years' reckonable service at OF2 rates is £11,569.00 (A)
- Pension for 14.1644 years' reckonable service is therefore:

2.5.8. **Professional Supplements**. If the member holds a relevant professional qualification, an appropriate rate of pension supplement is to be added to the basic rate of pension, prior to calculation of pension lump sum. Professional supplements are not added to invaliding pension rates (see Section 2.18).

Section 2.6 - Amount of Immediate Pension: Officers of at least OF7 (2-Star) Rank, except Medical and Dental Officers

- 2.6.1. **General**. A senior officer, who has reached the *immediate pension point* and has held the substantive rank of OF7 (2-Star) or higher for more than one year when their service ends, is entitled to receive a pension for life and a tax-free pension lump sum. The amount of their pension is calculated as a percentage of their final pensionable pay. Both pension and pension lump sum are payable from the day following their last day of paid service. The percentage rates for each rank and length of service are published in the pension code.
- 2.6.2. The amount of pension lump sum is three times the annual rate of pension that is due when it is first payable.
- 2.6.3. **Calculation**. The amount of pension payable to them is the sum of:
 - a. the percentage of the officer's final pensionable pay determined for their pension rank and the number of whole years of reckonable service they have completed; and
 - b. the 'appropriate fraction' applicable in respect of any reckonable service in excess of whole years (see 2.5.4)

2.6.4. Where a member has served for any period on flexible terms, the member's annual pension is calculated in accordance with the formula below:

Calculating a member's pension when factoring in flexible service.

$$P = \frac{(A \times B)}{C}$$

Where:

P is the annual pension.

A is the annual amount of the pension calculated as if the member had not served on flexible terms.

B is the sum of the member's total flexible reckonable service and total non-flexible reckonable service

C is the member's reckonable service.

Section 2.7 - Amount of Immediate Pension: Officers below OF7 and all Medical and Dental Officers (MODOs)

- 2.7.1. A MODO is entitled to receive pension as an officer plus the appropriate level of professional supplement. The rates for professional supplements are published in the pension code.
- 2.7.2. A member who is an officer holding the pension rank of OF6 or lower or is a medical or dental officer of any pension rank when their service ends after reaching the *immediate pension point*, is entitled to a pension for life and a tax-free pension lump sum, which are payable from the day following their last day of paid service.
- 2.7.3. **Calculation**. The amount of the pension depends on:
 - a. the member's pension rank and whether they have held a higher substantive or *paid acting rank* (acting rank means a rank held by virtue of temporary or conditional promotion while paid acting rank means: a rate of pay in excess of that applicable to the holder's substantive rank);
 - b. whether they are entitled to a professional supplement;
 - c. the number of years' reckonable service that they have completed; and
 - d. the circumstances in which they cease to be in service.
- 2.7.4. The amount of pension lump sum is three times the annual rate of pension that is due when it is first payable.
- 2.7.5. Where a member has served for any period on flexible terms, the member's annual pension is calculated in accordance with the formula below:

Calculating a member's pension when factoring in flexible service.

$$P = \frac{(A \times B) + D}{C}$$

Where:

P is the annual pension.

A is the annual amount of the pension calculated as if the member had not served on flexible terms.

B is the sum of the member's total flexible reckonable service and total non-flexible reckonable service.

C is the member's reckonable service.

D is the aggregate of any additional amounts if they apply (rank addition or a professional supplement).

Section 2.8 - Pension Rank and Rank Addition for Officers

- 2.8.1. The pension rank for an officer of OF6 or below is the highest substantive rank that they held for at least two years or, if a higher paid acting rank was held, an aggregate of three years in the higher rank at any time during their qualifying service. The three-year period may include a mix of substantive and paid acting rank but must total three years when aggregated.
- 2.8.2. The pension rank for an officer of OF7 and above is the highest substantive rank that they held for at least one year or, if a paid acting rank was held, an aggregate of three years at any time during their qualifying service. The three-year period may include a mix of substantive and paid acting rank but must total three years when aggregated.
- 2.8.3. **Rank Addition**. If at any time during their reckonable service an officer member held a higher substantive or paid acting rank, they may be awarded an addition to the pension, but only if the higher rank was held for at least one whole year

2.8.4. **Substantive Rank**. If the member whilst in pensionable service has held a substantive rank, higher than the member's pension rank, for a period of at least one year (but less than two years). The following formula should be used to calculate the pension factoring in the rank addition:

Calculating Rank Addition for Officers - Substantive Rank (please note numbers are for illustrative purposes only and will not reflect the latest pension code).

Addition to Pension =
$$(Y - X) \times \frac{Z}{730}$$

Where:

Y is what that pension would be if the member's pension rank were the higher rank.

X is the pension for the member's pension rank.

Z is the number of days the member was paid at the higher rank.

Note: the value of 'Z' cannot be less than 365 days or more than 730 days when used in the formula for Substantive Rank (or 1095 days when used in the formula for Paid Acting Rank).

Example

A member leaves service after 16 years' reckonable service. Their pension rank is OF2 but they held the substantive rank of OF3 for a single period of 400 days (Z) before their reckonable service ended.

- Pension for 16 years. reckonable service at OF3 rates is £13,779.00 (Y)
- Pension for 16 years' reckonable service at OF2 rates is £11,569.00 (X)

Rank Addition is: $(£13,779 - £11,569) \times 400/730 = £1,210.96$

Pension at OF2 plus the rank addition in this case is:

Note: pension lump sum is three times the annual rate of pension:

£12,779.96
$$\times$$
 3 = £38,339.88

2.8.5. **Paid Acting Rank**. If the member has at any time held a paid acting rank, higher than the member's pension rank, for one or more periods amounting in aggregate to at least one year (but less than three years), the following formula should be used (the addition is limited to a credit appropriate to a maximum of 3 years):

Calculating Rank Addition for Officers- Acting Rank (please note numbers are for illustrative purposes only and will not reflect the latest pension code).

Addition to Pension =
$$(Y - X) \times \frac{Z}{1095}$$

Where:

Y is what that pension would be if the member's pension rank were the paid acting rank.

X is the pension for the member's pension rank.

Z is the number of days the member was paid at the higher rank.

Note: the value of 'Z' cannot be less than 365 days or more than 730 days when used in the formula for Substantive Rank (or 1095 days when used in the formula for Paid Acting Rank).

Example

A member leaves service after 16 years' reckonable service. Their pension rank is OF2 but they held the substantive rank of OF3 for a single period of 400 days (Z) before their reckonable service ended.

- Pension for 16 years' reckonable service at OF3 rates is £13,779.00 (Y)
- Pension for 16 years' reckonable service at OF2 rates is £11,569.00 (X)

Rank Addition is: $(£13,779 - £11,569) \times 400/1095 = £807.31$

Pension at OF2 plus the rank addition in this case is:

Note: pension lump sum is three times the annual rate of pension:

£12,376.31
$$\times$$
 3= £**37,128.93**

- 2.8.6. **Rank Additions Conditions**. Where the member has held the same substantive and paid acting rank that is higher than their pension rank, for over 1 year, then the calculations from 2.8.4 and 2.8.5 may be aggregated:
 - a. years referred to in this section need not be continuous in time but may be made up of separate periods, during which the higher rank was held; parts of a whole year are to be calculated proportionately.
 - b. service in an acting rank will not earn a rate of pension higher than would have been earned if the acting rank had been made substantive.

2.8.7. **Rank Additions - Conditions**. If the member held both substantive and acting ranks higher than their pension rank, and the higher of these ranks was the paid acting rank, which was held for at least one year, the rank addition will be treated as if they had held the substantive rank, even if they had held the substantive rank for less than a year. Any period for which the acting rank was held will not be used when calculating the rank addition. If the member held the substantive rank for less than one year the member is entitled to receive the rank addition for the substantive rank for 1 year.

Example

Rank addition for Officers who held both substantive and acting rank higher than their pension rank.

- The member held the pension rank OF3 (Substantive) for 4 years.
- The member was promoted to OF4 (Substantive) for 5 months.
- The member was promoted to OF5 (Acting) for 1 year and 3 months.

In this example, because the member held the higher acting rank for over 1 year the member would receive the rank addition for 1 year in the OF4 rank and no rank addition for the acting OF5 period.

- 2.8.8. Officers commissioned from the ranks (OCFR) with 5 years' commissioned service. A member who started their regular service as an Other Rank and was subsequently appointed to a regular service commission shall be permitted to count their previous qualifying service over age 21 towards the minimum service needed for an immediate pension. However, if they are permitted to retire at their own request, they will not be eligible for immediate pension as an officer unless they have completed at least 5 years' commissioned service before leaving.
- 2.8.9. **OCFR with more than two but less than 5 years' commissioned service**. If they have served more than two but less than 5 years as an officer their pension rank will be OR9 and they will also receive the commissioned service addition set out in the pension codes. The ability to count prior qualifying service as an Other Rank towards qualifying service as an Officer can only be awarded to members who were commissioned before the transition date unless the member is transitionally protected to remain in AFPS 75.
- 2.8.10. **OCFR with less than two year's commissioned service**. A member who spent less than two years as an officer will be pensioned at their substantive Other Rank (the rate of pension is based on the rank held before they were commissioned). This rule will not affect the member's right to receive pension benefits appropriate to their pension rank as an Officer if their retirement is on compulsory discharge terms at the end of their current commitment period, on ill health grounds or on redundancy terms. A member may receive a commissioned service addition if they have served more than one year as an OCFR.
- 2.8.11. Officers commissioned from the ranks (OCFR) who ceased service at their own request or on compulsory terms. Officers commissioned after starting

their service as an Other Rank are entitled to pension at OR-9 rates so long as they have at least 22 years qualifying service from age 18 and have at least two but less than five, years commissioned service.

- 2.8.12. OCFR re-assessment at age 60/65 who ceased service at their own request or on compulsory terms. If a member, who has at least two years of commissioned service, receives pension at OR-9 rates then (if it is to their advantage) their pension rate is to be revised to the deferred pension rate for their commissioned pension rank when they reach pension benefit age.
- 2.8.13. **Redundancy**. If the member has been notified that they have been selected for redundancy before the end of their normal commitment period, their pension may be paid immediately from the day following their last day of paid service provided:
 - a. they are an OF-1 or above and reached the *immediate pension point*, or
 - b. they have 18 years or more qualifying service from age 18 as an Other Rank.

Section 2.9 - Early Pension Payment Points

- 2.9.1. **Early Payment of III Health Pensions**. So long as the member has at least two years qualifying service, a member of any rank and age who is discharged on medical grounds that meet the *ill health condition* is entitled to receive a pension and pension lump sum payable from the day following their last day of paid service.
- 2.9.2. Information on Early Payment on Redundancy can be found in the AFRS JSP due to be published shortly on the <u>Armed Forces Pensions page on GOV.UK</u>.

Section 2.10 - Immediate Pension Point: Other Ranks

- 2.10.1. For, other ranks, a member is entitled to an immediate pension payable from the day following their last day of paid service if any of the following conditions are met:
 - a. They have served 22 years' qualifying service, which was served after the member reached the age of 18.
 - b. A member can also reach the immediate pension point if they are notified by the Defence Council that the member is to be treated for the purposes of AFRS¹² as having become redundant and the member has a minimum of 18 years' qualifying service that were served after the member reached the age of 18

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¹² Armed Forces Redundancy Scheme.

- 2.10.2. **Offer of Civilian Employment**. If a member whose pension rank is that of OR-9 or below leaves service before completing 22 years qualifying service from age 18, they are entitled to the payment of immediate pension and lump sum if:
 - a. they completed no less than 21 years 274 days qualifying service; and
 - b. the Scheme Administrator (Veterans UK) is satisfied that the member intends to accept a written offer to either:
 - (1) enter civilian employment which would not be available if the member continued in service until reaching 22 years' qualifying service, served after the member reached the age of 18; or
 - (2) begin a course of full-time education or training at university, college, school or other recognised training establishment before they would otherwise have completed 22 years' qualifying service.

Section 2.11 - Amount of Immediate Pension: Other Ranks

- 2.11.1. **General.** A member, who is an Other Rank when their service ends after reaching the *immediate pension point*, is entitled to a pension for life and a pension lump sum, which are payable from the day following their last day of paid service.
- 2.11.2. **Calculation**. The amount of the pension depends on:
 - a. the member's pension rank and whether they have held a higher substantive or paid acting rank;
 - b. whether they are entitled to a professional supplement;
 - c. the number of years' reckonable service that they have completed; and
 - d. the circumstances in which they cease to be in service.
- 2.11.3. The amount of pension lump sum is three times the annual rate of pension that is due when it is first payable.
- 2.11.4. Where a member has served for any period on flexible terms, the member's annual pension is calculated in accordance with the formula below:

Calculating a member's pension when factoring in flexible service.

$$P = \frac{(A \times B) + D}{C}$$

Where:

P is the annual pension.

A is the annual amount of the pension calculated as if the member had not served on flexible terms.

B is the sum of the member's total flexible reckonable service and total non-flexible reckonable service.

C is the member's reckonable service.

D is the aggregate of any additional amounts if they apply (rank addition or a professional supplement).

Section 2.12 - Pension Rank and Rank Addition for Other Ranks

2.12.1. **Pension Rank**. The pension rank for an Other Rank member is the highest paid rank that they held for at least two years or an aggregate of two years during their last five years of reckonable service. If in their last five years of reckonable service they held two or more paid ranks but each for less than two years, the aggregate period of those ranks amount to no less than two years, then the pension rank will be the lower of the ranks.

Example - Establishing Pension Rank				
Rank history of a service person's last five years' reckonable service:		Months Held		
At five years before exit they were OR6.				
 They held this rank for three years before they were promoted. 	OR6	36		
They held the acting rank of OR7 for 6 months.	OR7	6		
 They were promoted to an OR8 acting rank on ops for 6 months. 	OR8	6		
 On return to UK they resumed their substantive rank for 12 months. 	OR7	6		
They were promoted to the substantive rank of OR8 for 6 months.	OR8	6		

In the 5 years before leaving service, they have held the ranks of OR6 for 36 months, OR7 for 12 months and the OR8 for 12 months. The member's pension rank would be OR7 as the aggregate of the OR8 and OR7 period is equal to 2 years.

Note: this is not a real example and is being used for illustrative purposes only

2.12.2. **Reduction in Rank**. If a member's rank is reduced by way of punishment for an offence, the member's pension rank is the highest rank they have held for a period of two years (or periods amounting in total to two years) within the member's last five years of pensionable service. If the member continues service in the Armed Forces for more than 5 years after reduction in rank no account of the higher rank will be taken into consideration, the higher of the 2 ranks only applies if they are held within the last 5 years of pensionable service.

2.12.3. Rank Addition for members who held a higher rank in their last 5 years of service. If at any time during the last five years reckonable service an Other Rank

member held a higher substantive or paid acting rank for a period of at least one, but less than two years, they may be awarded an addition to the pension for their pension rank. Members commissioned from the ranks are not entitled to any rank addition, under this rule, if they leave service within two years of being commissioned.

2.12.4. Rank Addition for members who held both substantive and acting rank higher than their pension rank. If the member held both substantive and acting ranks higher than their pension rank, and the higher of these ranks was a paid acting rank held for at least one year, the rank addition will be treated as if they had just held the lower of these ranks, even if they had held the lower rank for less than a year. Any period for which the acting rank was held will not be used when calculating the rank addition of the lower.

Example

Rank addition for other ranks who held both substantive and acting rank higher than their pension rank and their acting rank was higher than their substantive rank.

- The member held the pension rank OR2 (Substantive) for 4 years.
- The member was promoted to OR3 (Substantive) for 5 months.
- The member was promoted to OR4 (Acting) for 1 year and 3 months.

In this example, the member would receive the rank addition for OR3 for 5 months and no rank addition for the year and 3 months the member spent as a OR4.

2.12.5. If at a time when the member has at least 22 years' qualifying service and the member then reverts to a lower rank past this point, and the alternative amount given by the formula below is greater than that given if the member had ceased pensionable service instead of beginning to serve in the lower rank, the annual amount of the pension is that alternative amount. The formula below only relates to those whose reversion in rank occurs before transition into AFPS 15 and is only an accrued right whilst still an AFPS 75 member¹³.

Calculating alternative pension amount for Other Rank active members who have reverted to a lower rank after the 22-year point.

$$A + \frac{(B-C)}{15} \times y$$

Where:

A is the amount that would be given if the member had ceased pensionable service at the 22-year point instead of beginning to serve in the lower rank.

B is the amount specified, for a person whose pension rank is the lower rank and who has 37 years' reckonable service.

¹³ From the transition date, no member will be entitled to this alternative amount of immediate pension following the introduction of the McCloud remedy.

C is the amount specified, for a person whose pension rank is the lower rank and who has 22 years' reckonable service.

y is the number of years for which the member serves in the lower rank.

2.12.6 **Calculation**. If the member whilst in pensionable service has held a substantive rank, higher than the member's pension rank, for a period of at least one year (but less than two years), the following formula should be used to calculate the pension factoring in the rank addition.

Calculating Rank Addition for Other Ranks (Substantive Rank).

$$(Y-X) \times \frac{Z}{730}$$

Where:

Y is the pension for one rank higher than the member's pension rank.

X is the pension for the member's pension rank.

Z Is the number of days the member was paid at the higher rank.

Note: the value of 'Z' cannot be less than 365 days or more than 730 days when used in the formula.

Example

The member is discharged after 22 years' reckonable service. Their pension rank is OR8, but they held the substantive paid rank of OR9 for 12 months or 365 days (Z) before reckonable service ended.

- Pension for 22 years' reckonable service at OR9 rates is £12,521.00 (Y)
- Pension for 22 years' reckonable service at OR8 rates is £11,776.00 (X)

Rank Addition is: £12,521 - £11,776 \times 365/730 = £**372.50**

Pension at OR8 plus the rank addition in this case is: £11,776 + £372.50 = £12,148.50

Pension Lump Sum: £12,148.50 \times 3 = £36,445.50

Section 2.13 - Rates of Immediate Pension for Other Ranks

- 2.13.1. **General**. The rate of pension payable will depend on the type of discharge. There are standard rates and lower rates.
- 2.13.2. **Pension Code**. Pension rates for whole years of reckonable service are specified in the pension code that is published by the Scheme Administrator (normally annually) following changes in rates of Service pay¹⁴. The pension code is named after the year it is effective from (see <u>2.2.7</u>). The rates to be used are those in force on the day following the member's last day of reckonable service

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¹⁴ Pension codes can be found on GOV.UK.

- 2.13.3. **Standard Rates**. An Other Rank member who leaves service after reaching the immediate pension point is entitled to receive a pension at the Standard Rate, unless lower rates are appropriate.
- 2.13.4. **Lower Rates**. An Other Rank member, who is discharged with disgrace passed by a Court Martial, after reaching the immediate pension point, will be awarded a lower rate as set out in the relevant table. Lower rates are only awarded if the member is discharged with disgrace passed by the Court Martial. A member may be discharged by Court Martial for misconduct with no financial penalty of lower rates. It is only in very extreme cases that disgrace would be a determination in a court martial and this is where there is a financial penalty for the member.
- 2.13.5. **Appropriate Fraction**. Where the member has additional reckonable days in excess of whole years of reckonable service, they are entitled to a pro-rata addition to their pension. The addition is calculated at the 'appropriate fraction' of the difference in the amount for the whole years that they have and the amount for one more reckonable year. The appropriate fraction is found from the number of additional reckonable days they have, divided by 365 (366 if the last 12 months includes 29 February).

Calculating the Appropriate Fraction.

$$(B-A) \times \frac{C}{365}$$

Where:

A is the pension specified; for a person of the member's pension rank with the number of whole years' reckonable service that the member has.

B is what that amount would be if the member had one more year's reckonable service.

C is the number of days' reckonable service that the member has, in excess of the number of whole years.

Example

A member leaves holding the rank of OR7, with 22 years 60 days of reckonable service.

- Pension for 23 years' reckonable service at OR7 rates is: £11,415.00 (B)
- Pension for 22 years' reckonable service at OR7 rates is: £11,030.00 (A)

The difference (B - A) for one whole additional year is:

The member has 60 days' reckonable service which are in excess of the number of whole years (C).

The appropriate fraction addition for an excess of 60 days is:

$$385 \times 60/365 = £63.29$$

The pension for 22 years 60 days is therefore the amount that the member receives for 22 whole years (£11,030) added to the amount they receive for the 60 excess days (£63.29):

- 2.13.6. **Review at age 60/65**. If an Other Rank received AFPS 75 pension after 1 April 1975 under previous regulations and at a rate lower than they would have been entitled to receive had their pension been deferred, their pension is to be revised to the deferred pension rate when they reach age 60/65.
- 2.13.7. **Proportionate Awards**. Where an Other Rank qualifies for an award of immediate pension at either the standard or lower rate but is not entitled to count at least 22 years reckonable service when they leave, are entitled to receive pension at the appropriate proportion of the 22-year rate. This may occur if the member has had a period of unpaid leave which counts as qualifying service but is not reckonable, e.g. a period of unpaid maternity leave, or a member who is leaving service to take up an offer of civilian employment having served at least 21 years 274 days from age 18. In this context, the appropriate proportion is found by dividing length of reckonable service in whole years by 22. Additional reckonable days in excess of whole years are to be converted to whole years by dividing their number by 365 and correcting the answer to four decimal places.

Calculating a Proportionate Immediate Pension Award.

$$A \times \frac{B}{N}$$

Where:

A is the amount of pension specified for an immediate pension.

B is the number of whole years' reckonable service that the member has when they leave. Where they have additional days in excess of whole years these are to be converted to whole years by dividing their number by 365 and expressing the answer to four decimals.

N is the number of whole years required for an immediate pension.

Example

An other-rank member holding the pension rank OR6 is permitted to leave with immediate pension after completing 21 years 274 days of reckonable service from age 18 (or 21.7507 years correct to four decimal places since: 274/365 = 0.7507).

- Pension for 22 years' reckonable service at OR6 rates is: £9,683.00 (A)
- Pension for 21.7507 years reckonable service is therefore:

2.13.8. **Professional Supplements**. If the member holds a relevant professional qualification, an appropriate rate of pension supplement is to be added to the basic rate of pension, prior to calculation of pension lump sum. Professional supplements are not added to invaliding pension rates (see <u>Section 2.18</u>).

Section 2.14 - Deferred Pensions

- 2.14.1. **General**. A member who is not eligible to receive pension immediately when they leave service is entitled to an award of deferred pension for life and a deferred pension lump sum, provided they:
 - a. have at least two years qualifying service; or
 - b. are entitled to count at least two years reckonable service following acceptance by the Scheme Administrator of a transfer value payment.
- 2.14.2. **Deferred Pension Lump Sum**. A tax-free deferred pension lump sum is payable from the date when deferred pension becomes payable. The amount of lump sum is calculated at three times the annual rate of deferred pension on the date when it is first payable.
- 2.14.3. Claiming Pension at Pension Benefit Age. Members must claim their deferred entitlement at pension benefit age, which is:
 - a. age 60 in respect of reckonable service accrued up to and including 5 April 2006; and
 - b. age 65 in respect of reckonable service accrued on or after 6 April 2006.
- 2.14.4. **Deferred Pension Actuarial Reduction**. If the member is not entitled to an immediate pension but qualify for a deferred pension to be paid, the pension will be reduced using tables produced by the scheme actuary. This reduction is made to take account of circumstances where a pension will be in payment longer than would normally be expected.
- 2.14.5. **Early Payment and Late Claims**. Except in the case of ill health, payment cannot be made before the member reaches age 60 and no further financial advantage can be gained by deferring the payment beyond age 65 i.e. there are no actuarial adjustment factors that are applied if the member claims their pension after age 65.
- 2.14.6. **Early Payment of Deferred Pension on III Health**. So long as the deferred member meets the ill health condition and medical evidence is provided, they are entitled to receive a pension and pension lump sum payable from the date the claim was made. See section on III Health.
- 2.14.7. **Late Claims**. No inflation or compensation is payable where payment is delayed because of the member's late submission of a claim for deferred benefits. If a member claims their pension after the age it is payable from, they only qualify for

their actual arrears of pension from its due date, no interest or compensation for the missed pension payments is added.

- 2.14.8. **No Entitlement to a Deferred Pension**. If a member left service before completing two years qualifying service, either of the following apply (note: in either case the member ceases to be entitled to count any period of qualifying service under the AFPS.)
 - a. they had the option to contact the administrator and arrange a transfer value of their accrued pension rights to be paid to another employer's scheme or a private pension arrangement; or
 - b. contributions equivalent premium could be paid to reinstate the member in the State Earnings Related Pension Scheme / State 2nd Pension Scheme (S2P) in respect of the service they have completed during the period they were contracted-out of the State Scheme.

In either case the member ceases to be entitled to count any period of qualifying service under the AFPS.

- 2.14.9. **No Lump Sum**. Where the member leaves with less than two years reckonable service but more than 2 years' full paid service and is awarded pension at the *'requisite benefit rate'*¹⁵ as this is the higher of the alternative rates payable to them, the member is not entitled to receive a deferred pension lump sum.
- 2.14.10. **Professional Supplements**. If the member holds a relevant professional qualification, an appropriate rate of pension supplement is to be added to the basic rate of pension, prior to calculation of pension lump sum. Professional supplements are not added to invaliding pension rates (see <u>Section 2.18</u>).

Section 2.15 - Amount of Deferred Pension: Officers

- 2.15.1. **General**. Except where the officer is a Chaplain, the amount of deferred pension payable is calculated using the compulsory retirement pension rate published in the Pension Code.
- 2.15.2. **Pension Rank and Rank Addition**. The pension rank and rank addition for an officer member is determined in the same way as officer members who leave with immediate pension.
- 2.15.3. **Calculation: OF7 and above**. Except where the officer is a Chaplain, the deferred pension is calculated by taking the relevant percentage of the full career pension, multiplied by the decimalised number of years reckonable service the member has. In the case of an officer of OF-7 or above the relevant percentage is that

¹⁵ See supplementary information in the Chapter 11 Section 4 for more information regarding requisite benefit rates. If the member leaves with 2 years' full paid service, they will be eligible for benefits assessed under requisite benefit rates. This is only for those who left before the introduction of the AFPS 2005 on 1 April 2005. The requisite benefit rates closed in 2005; anyone after that date would not be eligible to receive requisite benefit rates.

specified by the members pension rank and the amount of reckonable service, in the pension code that is in force on the members final day of service. The maximum amount of reckonable service is 34 years.

2.15.4. **Calculation: OF6 and below**. Except where the officer is a Chaplain, the deferred pension is calculated by multiplying the pension rate specified for an officer of the same rank with the maximum 34 years reckonable service by three percent (3%) for each whole year of reckonable service.

Calculating an Officer Member's Deferred Pension.

$$A \times B \times (X + \frac{Z}{365})$$

Example

A member holding the pension rank OF4 leaves service with 8 years and 160 days of reckonable service from age 22.

To turn the 200 days into a fraction they are divided by 365 (160/365 = 0.4384) and this is added to the whole years (8.4384 years of reckonable service).

The Retirement Pension for OF4 after the maximum 34 years' reckonable service is £35,901.00.

B for Officers below OF6 is 3%.

B for Officers at OF7 and above is that specified by the member's pension rank and the amount of reckonable service in the pension code that is in force on the member's final day of service. The maximum amount of reckonable service is 34 years.

Deferred Pension for 8.5479 years reckonable service is, in this example:

£35,901.00 \times 3% \times 8.4384 = £9,088.41 (the member is OF4 so B is 3%)

Note: Deferred Pension lump sum is three times the annual rate of pension:

£9,088.41
$$\times$$
 3 = £**27,265.23**

- 2.15.5. **Appropriate Fraction**. Where the member has additional reckonable days in excess of whole years of reckonable service, they are entitled to a pro-rata addition to their pension. The addition is calculated at the 'appropriate fraction' of the difference in the amount for the whole years that they have and the amount for one more reckonable year. The appropriate fraction is found from the number of additional reckonable days they have, divided by 365 (366 if the last 12 months includes 29 February).
- 2.15.6. **Chaplains**. A member of the chaplaincy services (including the Chaplain General or a Director General of Chaplaincy Services) is entitled to be treated as an officer for pension purposes. However, if they leave with deferred pension the amount of pension payable to them is to be calculated as follows except:
 - a. if the member has less than 10 years' reckonable service, using the pension rates that apply to a person with the pension rank of OF2: or

b. if the member has at least 10 years' reckonable service, using pension rates that apply to a person with the pension rank of OF3.

Section 2.16 - Amount of Deferred Pension: Other Ranks

- 2.16.1. **General**. For other ranks the amount of deferred pension payable is calculated using the standard rates of pension published in the Pension Code.
- 2.16.2. **Pension Rank and Rank Addition**. The pension rank and rank addition for an Other Rank member is determined in the same way as Other Rank members who leave with immediate pension.
- 2.16.3. **Calculation**. The deferred pension is calculated by multiplying the pension rate specified for an Other Rank of the same rank with the maximum 37 years reckonable service by two-point seven five percent (2.75%) for each whole year of reckonable service.

Calculating an Other Rank Member's Deferred Pension.

$$A \times 2.75\% \times (X + \frac{Z}{365})$$

Example

A member holding the pension rank OR4 leaves service with 8 years and 1650 days of reckonable service from age 18.

To turn the 200 days into a fraction they are divided by 365 (160/365= 0.4384) and this is added to the whole years (8.4384 years of reckonable service).

The Retirement Pension for OR4 after the maximum 37 years' reckonable service is £13,457.00.

Deferred Pension for 8.5479 years reckonable service is:

Note: Deferred Pension lump sum is three time the annual rate of pension:

£3,122.78
$$\times$$
 3 = £**9,489.90**

2.16.4. **Appropriate Fraction**. Where the member has additional reckonable days in excess of whole years of reckonable service, they are entitled to a pro-rata addition to their pension. The addition is calculated at the 'appropriate fraction' of the difference in the amount for the whole years that they have and the amount for one more reckonable year. The appropriate fraction is found from the number of additional reckonable days they have, divided by 365 (366 if the last 12 months includes 29 February).

Section 2.17 - Specialist Rates of Pension

- 2.17.1. **Special Forces Pension Rates**. Special Forces means the Special Air Service (SAS), the Special Boat Service (SBS) and the Special Reconnaissance Service (SRS). A member of AFPS 75 who is also a member of the permanent cadre of Special Forces may be entitled to a higher rate of pension than that appropriate to a person of the same rank and service in the main career stream. Members are entitled to a higher rate of pension that is linked to the higher rate of pay they received if:
 - a. they are a member who transferred to the permanent cadre of one of the Special Forces and thereby became entitled to pension when their reckonable service in the Special Forces and Armed Forces ends on the same day; or
 - b. they are a member who completed a period of at least two years, or two or more periods amounting in total to at least 2 years, in their last five years' reckonable service in the Armed Forces as a member of the permanent cadre of the Special Forces, although they subsequently returned to the main career stream before their reckonable service in the Armed Forces ended; or
 - c. if a member is selected for the Special Forces the member's pension rank will be their shadow rank until:
 - (1) the member transfers to the permanent cadre of the Special Forces; or
 - (2) the Special Forces substantive rank exceeds the shadow rank.
- 2.17.2. The pension rates for Special Forces are specified in the pension code that is published by the Scheme Administrator (normally annually) following changes in rates of Service pay. The rates to be used are those in force on the day following the member's last day of reckonable service, e.g. rates in force on 1 April are payable to members whose last day was on or after 31 March.
- 2.17.3 'Shadow rank' is the rank a member would likely have achieved had they remained in ordinary service, the single Service Secretary¹⁶ keep a shadow rank record as a member cannot be rank disadvantaged on return to ordinary service.

Section 2.18 - Professional Supplements

- 2.18.1. **General**. A member who has one of the professional qualifications listed in 2.18.3 is entitled to a supplement to add to the basic pension that they are entitled to receive.
- 2.18.2. **III Health Rates of Pension**. Professional supplements cannot be added to any pension that is calculated at the enhanced rates that apply for a member who is discharged from service on medical grounds. If the member has reached the **immediate pension point** before being discharged from the service on ill health, and

JSP 854 Pt 1 (V1.0 Apr 22)

¹⁶ The Navy Secretary is Dir P&T/NAVSEC, the RAF Secretary is COS PERS, the Army Secretary is D Pers.

they have also qualified to receive immediate pension with professional supplements added, they are to receive a pension at the higher rate of either:

- a. the ill health pension rate; or
- b. the immediate pension rate for compulsory discharge plus the professional supplements that are due.
- 2.18.3 **Professional Qualifications**. The entitlement to professional supplement applies to any member who is:
 - a. a person who served as a medical or dental officer (MODO) on or after 1 April 1997 and any day the member was fully qualified. The supplements are a daily addition for each day of reckonable service on or after this date served in a MODO role. Reckonable service for these purposes does not include any rights accrued to or in respect of the member under any other scheme or arrangement. If the member was in service on or after the 31 of March 2008 and they have reckonable service before the 1 of April 1997 they will receive supplements on their reckonable service from the 1 of April 1992.
 - b. a person who served as a nurse on or after 1 August 2009 and any day the member was fully qualified.
 - c. a person who is or was employed on or after 1 April 2003 and for a continuous period of at least five years before their reckonable service ends, in a post or posts reserved for those appointed as 'professional aviators' (PA).
 - d. a person who is or was employed on or after 1 April 2004 and for a continuous period of at least five years before their reckonable service ends, in a post reserved for those appointed as 'non-commission aircrew' (NCA).
 - e. a person who is or was employed on or after 1 April 2009 and for a continuous period of at least five years, in a post or posts reserved for those appointed as 'clearance divers'.
- 2.18.4. **Calculation**. The rates for professional supplements are specified in the pension code that is published by the Scheme Administrator (normally annually) following changes in rates of Service pay. The rates to be used are those in force on the day following the member's last day of reckonable service, e.g. rates in force on 1 April are payable to members whose last day was on or after 31 March.
- 2.18.5. The amount to be added to a member's pension is calculated by multiplying the daily rate appropriate to their professional qualification and pension rank by the number of days that the member is entitled to count for the supplement.
- 2.18.6. **Periods Reckonable for Supplement**. The member is entitled to a supplement for some of their reckonable service, depending on the dates of the days served:

- a. the member is a qualified MODO, for reckonable service after 1 April 2008 the member would accrue supplements from 1 April 1992. If the member left service before 1 April 2008they would accrue supplements from the 1 April 1997.
- b. the member is a qualified nurse, for reckonable service after 1 August 2009.
- c. the member is a PA or a member of the NCA cadre and has received pay at the special rates for the professional aviator pay spine (PAS) for a continuous period of 5 years.
- d. the member is a clearance diver and has received pay at the special rates for the clearance diver pay spine for a continuous period of 5 years.
- 2.18.7. **Transferred-in service**. From the transition date no member is entitled to receive a supplement for any period of service which they have accrued in any other pension scheme or arrangement and then transferred into AFPS 75 after that date. Periods of service transferred in before that date will still attract supplements. Members who were transitionally protected in the AFPS 75, and as a result were not moved to the AFPS 15 on the 1 of April 2015, can transfer in service from another pension scheme up to the age of 54.
- 2.18.8. Reverting to Main Career Stream. This paragraph applies where a PA or a member of the NCA cadre relinquishes that appointment during their continuous qualifying service and returns to being paid rates of pay appropriate to a person in the main career stream (CS). In such a case, where it is to their advantage, the member is still entitled to professional supplement when their service ends, subject to the following conditions:
 - a. they received pay at PAS rates for a continuous period of not less than five years before their reckonable service ended.
 - b. their pension to which the supplement is added, is calculated at a pension rank no higher than the rank they held on the last day they received pay at PAS rates.
 - c. the daily rate used to calculate the pension supplement is to be that appropriate to the qualification and rank that they held on the last day they received pay at PAS rates.
- 2.18.9. If the exception in this paragraph is not to the member's advantage, they are to receive pension for their pension rank in the normal way, without the addition of supplement.

Section 2.19 - Pension Credit and Debit Members

- 2.19.1. **General**. A pension credit member is entitled to a pension for life derived from their pension credit rights that were awarded by the divorce court with effect from the Transfer Day.
 - a. the former spouse of the member becomes a 'pension credit member' of the Scheme in their own right; and
 - b. the member, whose pension rights were shared on divorce, becomes the pension 'debit member', whose pension rights are thereafter permanently reduced proportionately in accordance with <u>Section 31 of the Welfare Reform</u> and Pensions Act 1999.

2.19.2. If, at the transfer day:

- a. the pension debit member has not yet received a pension lump sum, the pension credit member is entitled to both a pension and a lump sum. The pension lump sum is calculated at three times the annual value of the pension awarded to the pension credit member, reduced by such amounts as the Defence Council determines after consultation with the Scheme actuary.
- b. the pension debit member has already received a pension lump sum, the pension credit member's pension share is to be awarded to them in the form of a pension with no additional lump sum.
- 2.19.3. **Payment at Pension Benefit Age**. The pension credit member's pension and pension lump sum (if any) become payable:
 - a. when they reach pension benefit age; or
 - b. if it is later, from the day when the pension sharing order takes effect.
- 2.19.4. Pension benefit age for a pension credit member means:
 - a. age 60, in respect of a credit member, whose Pension Sharing Order was sealed by the court before 6 April 2006; or
 - b. age 65, in respect of a credit member, whose Pension Sharing Order was sealed by the court on or after 6 April 2006.
- 2.19.5. **Payment before Pension Benefit Age**. A credit member may opt to receive benefits before reaching pension benefit age (from 55), but the value will be actuarially reduced to reflect early payment over a longer period.
- 2.19.6. **Pension Increases**. A credit member's pension is subject to pension increases and these increases are to be calculated from the Transfer Day. A credit member's pension in respect of a specific Pension sharing Order cannot be aggregated with any other pension due to the same member under the terms of AFPS 75.

2.19.7. The rate of the pension and any lump sum (the lump sum, if payable, must be three times the annual amount of pension) which the pension credit member is awarded must be of such an amount that its cash equivalent value on the Transfer Day is equal to the proportion specified in the Court Order. This percentage is a proportion of the debit member's pension rights on the Transfer Day and before implementation of the regulations made under <u>paragraph 5(b)</u> of <u>Schedule 5 of the Welfare Reform and Pensions Act 1999</u>.

2.19.8. Please see Annex C for a diagram explaining the Pension Sharing Orders implementation process

Section 2.20 - III Health

- 2.20.1. **The Finance Act 2004**. A medical discharge is not the trigger for an ill health award the member must meet the ill-health condition set out in the Finance Act. The Finance Act 2004 act allows registered pension schemes to make authorised ill-health early retirement pensions to members at any age, if a registered medical practitioner can provide a report confirming that the member is medically incapable of continuing in their current occupation. However, the ill health condition must be met at service termination date and the member must have ceased to carry on their occupation¹⁷.
- 2.20.2. **Qualifying Service**. If a member with at least two years qualifying service is discharged from service on ill-health grounds, the Scheme's rules may provide for ill health pension and pension lump sum to be paid to them.
- 2.20.3. **Calculation**. The ill health rates are specified in the pension code that is published by the Scheme Administrator (normally annually) following changes in rates of Service pay. The rates to be used are those in force on the day following the member's last day of reckonable service, e.g. rates in force on 1 April are payable to members whose last day was on or after 31 March. The amount of pension will depend on the member's pension rank and the total length of reckonable service they have accrued up to their date of discharge.

Section 2.21 - Amount of III Health Pension

2.21.1. **Calculation of ill health pension**¹⁸. Enhanced invaliding rates are payable if the member has a minimum of 5 years reckonable service from age 21 as an officer, or age 18 as another rank. If a member has between 2 and 5 years' qualifying service – the rate for deferred pension for the rank applies, but is payable immediately following discharge. If the member has at least 2 years' full paid service but less than 2 years' reckonable service from the age of 21 in the case of an officer or less than 2 years' reckonable service from the age of 18 in the case of an Other Rank – the more advantageous of the following:

¹⁷ For more information on ill health in the Finance Act 2004, see Schedule 28, paragraph 1.

¹⁸ Army Pensions Warrant 1977 - revised 2009 edition, Naval and Marine Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) Order 2010 and Air Force (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) Order 2010.

- a. at the rate for deferred pension in respect of their reckonable service only; or
- b. all their qualifying service (i.e. counted from their first day of paid service) at the alternative requisite benefit rate but payable immediately following their discharge¹⁹.
- 2.21.2. **Lower Rates**. Where the circumstances of the case justify a lower award being made, the award and amount of any pension is to be at the discretion of the Defence Council, e.g. where the member's actions have resulted in the injury or illness.
- 2.21.3. **Opting Out**. A member who at any time during their service opted out of the Scheme may still be entitled to an award but based only on their qualifying service up to the day when their reckonable service as a member of the Scheme ended.
- 2.21.4. **Pension Rank**. If a member is invalided, their pension rank is their higher substantive rank held for at least 1 day.
- 2.21.5. **Appropriate Fraction**. Where the member has additional reckonable days in excess of whole years of reckonable service, they are entitled to a pro-rata addition to their pension. The addition is calculated at the 'appropriate fraction' of the difference in the amount for the whole years that they have and the amount for one more reckonable year. The appropriate fraction is found from the number of additional reckonable days they have, divided by 365 (366 if the last 12 months includes 29 February). The calculation below is only relevant for AFPS 75 benefits, for those with accrued rights in other schemes this calculation is not applicable.

Calculating the appropriate fraction.

An officer is invalided after 8 years 122 days of reckonable service from age 21.

The ill health rate for 9 years at their pension rank (OF2) is £8630 (A).

The ill health rate for 8 years at their pension rank (OF2) is £8060 (B).

The number of reckonable days they have in excess of 8 years is 122 (C).

Calculation of Addition: $(£8630 - £8060) \times 122/365 = £190.52$

Value of III Health Pension - the basic rate for 8 years 122 days at OF2 rates is: £8060 + £190.52 = £8250.52

- 2.21.6. **Amount of III Health Pension Lump Sum**. A member who is discharged on ill health grounds is entitled to receive a tax-free pension lump sum at the rate of three times the annual rate of pension. Where the amount of a member's ill health pension is determined under the alternative calculation (i.e. the requisite benefit rate), no pension lump sum is payable.
- 2.21.7 Compensation for Attributable Conditions or Death Attributable to Service. Under the Scheme, attributable benefits are available, via the Armed Forces

¹⁹ Information regarding requisite benefit rates and eligibility can be found in Chapter 11 Section 4 to this JSP.

Attributable Benefit (AFAB) Scheme, for compensation for attributable conditions before 6 April 2005. Provisions for compensation under the following schemes is also available:

- a. if the member's death or injury occurred or the cause of an illness leading to the member's discharge or death was first diagnosed before 6 April 2005, the member or their eligible survivors may claim compensation under the terms of the War Pension Scheme; or
- b. if the death or injury occurred or the cause of an illness leading to the member's invaliding discharge or death was first diagnosed on or after 6 April 2005, the member or their eligible survivors may claim compensation under the terms of the Armed Forces Compensation Scheme (see <u>JSP 765</u> for more information on the Armed Forces Compensation Scheme).

Section 2.22 - Early Payment of Deferred Pension in Case of III Health

- 2.22.1. Early payment of deferred pension in case of ill health. A member (other than a pension credit member) who left service with a deferred pension may apply for early payment of their pension and pension lump sum if they are unable through physical or mental incapacity to undertake any form of full-time employment and that they have ceased to carry on the member's occupation.
- 2.22.2. **Approval of early payment of deferred pension**. If the member does not qualify for the case of ill health pension and have ceased their employment they may be entitled to early payment of deferred pension. Approval of all such claims is at the discretion of the Defence Council, who requires that the member must satisfy the following conditions:
 - a. they must make their claim in writing and complete and return the forms that the Scheme Administrator shall supply to them for this purpose.
 - b. they must provide evidence from medical or other specialist that they have suffered a breakdown in their health leading to their incapacity to undertake full-time employment and that a medical or other specialist's prognosis is that this situation will not change before they reach pension benefit age.
 - c. they are not currently in full time service of another employer; this means that early payment of deferred pension or pension increases will not be approved whilst the claimant is still working full time or reduced rate sick pay from another employer.
- 2.22.3. **Deferred pension increases for pensioner members who have left with IP**. A person, who left service with immediate pension under age 55 and becomes unable to work full time due to ill health, may claim early payment of the pension increases that have accrued up to the point where early payment is approved. In these cases, members do not need to have ceased to carry on their occupation to qualify.

An application to receive pension increases for members who have reached immediate pension point before the age of 55 must be supported by evidence from a registered medical practitioner that the member is incapable and will continue to be incapable of any full-time employment.

- 2.22.4. If a member's claim is approved, no actuarial reduction shall be made in respect of the early payment. However, the Scheme Administrator may require the member to periodically produce further evidence to the Scheme Administrator that their situation and incapacity remains unchanged.
- 2.22.5. In the event that the member subsequently recovers from their previously notified disability to the point where they again become able to undertake full-time employment before reaching pension benefit age, further payment will be suspended until a subsequent claim for reinstatement is approved, at the earlier of either:
 - a. a recurrence of the member's permanent incapacity; or
 - b. on the member reaching pension benefit age.

No further lump sum is payable when pension payments are reinstated.

Section 2.23 - Guaranteed Minimum Pensions (GMP)

- 2.23.1. **General**. If a member has qualifying service of at least two years between 6 April 1978 and 5 April 1997 or if they transferred pension rights into the Scheme that were linked to contracted-out service they gave to a previous employer in that same period, they will have a GMP in accordance with Section 14 of the Pension Schemes Act 1993, and the following rights will apply to them:
 - a. From state pension age the member will be entitled to receive a pension payable for the remainder of their lifetime at the rate equivalent to a weekly rate of not less than the guaranteed minimum. If they continue serving beyond state pension age, payment may be postponed with their consent. If they do not consent, the GMP must be paid. If they continue serving for a further five years after reaching state pension age, and do not leave, they are entitled to receive the guaranteed minimum from that point unless they consent to a further postponement.
 - b. If the member dies leaving a spouse or civil partner, a pension shall be provided for the spouse or civil partner at a weekly rate of not less than half of the member's guaranteed minimum.
- 2.23.2. The GMP will be revalued approximately in line with average earnings each year. Increases in GMP will be dependent on when the GMP was accrued GMP accrued post 1988 will be increased each year but GMP accrued before 6 April 1988 does not increase in payment.

2.23.3. A member's entitlement to a GMP may be forfeited dependent on the scheme regulations – usually the rules in force at the time of an offence committed by the member. Legal advice will confirm which rules apply in each case.

Section 2.24 - Pension Modification at State Pension Age

- 2.24.1. **General**. There are three types of modification that take place at State Pension Age:
 - a. abatement on account of National Insurance benefits.
 - b. abatement in respect of the Graduated Pension Scheme.
 - c. abatement for Members Formerly Contracted-In to the State Earnings Related Pension Scheme (SERPS).
- 2.24.2. Abatement on account of National Insurance Acts 1946 and 1964. A member who joined or re-joined the Scheme after 30 June 1949 will, when they reach the State Pension Age, have their pension reduced by £0.8708 a year for each full year of reckonable service prior to 1 April 1980. For the purpose of this paragraph, a member whose regular service is broken only by service on the reserve portion of their engagement will not be regarded as having re-joined.
- 2.24.3. No abatement shall be made for any pension paid to a member permanently residing outside the United Kingdom unless that person is in receipt of a basic State Pension or a corresponding award payable under reciprocal arrangements.
- 2.24.4. Abatement in respect of the Graduated Pension Scheme (GPS). A member in receipt of a pension under the Scheme who during any period of their service has paid graduated contributions at the basic rate (or is treated as having paid them by virtue of section 58 of the National Insurance Act 1965) shall on reaching state pension age have their pension abated by the amount of graduated retirement benefit for which they are eligible under the National Insurance Act 1965 (or would be eligible if they had retired from regular employment). No abatement will be made where the amount of graduated retirement benefit is less than £5.20 a year.
- 2.24.5. There will be no reduction for graduated pension earned by contributions paid during service contracted out of the Graduated Pension Scheme, or in respect of graduated contributions which were in addition to those payable under the National Insurance Act 1965.
- 2.24.6. Abatement for Members Formerly Contracted-In to SERPS. This paragraph applies where a member who, on or after 6 April 1978 served on a gratuity-earning commission or engagement and subsequently transferred to a commission or engagement which is pensionable under AFPS 75. In such a case the member will have their pension abated on reaching state pension age. This abatement is required to take account of the fact that their service in that period was pensioned twice. This happened because, for that period:

- a. the guaranteed minimum pension is payable to them under the SERPS in respect of the period of service during which the 'contracted-in' rate of National Insurance Contributions were jointly paid by them and the Ministry of Defence; and
- b. at some later date they became retrospectively entitled to pension under AFPS 75 for that same period when they transferred to pensionable terms.
- 2.24.7. The reduction will be equivalent to the notional guaranteed minimum pension attributable to the period they spent on the gratuity-earning commission or engagement, during which the 'contracted-in' rate of contributions were paid.

Section 2.25 - Payment and Abatement of Pension Lump Sum

Except where specifically provided for, this section does not apply to pension credit members.

- 2.25.1. Payment at Normal Pension Payment Point. On becoming entitled to a pension under this Chapter a member also becomes entitled to the payment of a tax-free lump sum, except where otherwise stated. The amount of the lump sum payable under this general rule is three times the amount of the member's annual pension, calculated as at the time the payment is first due.
- 2.25.2. **Review at Pension Benefit Age**. Where an immediate pension is awarded, it may be increased to the level of the deferred pension when the member reaches pension benefit age (60 or 65). The member may in addition be awarded a further lump sum equal to three times the difference between the original award of pension and the original rate of deferred pension, increased by the appropriate pension increase measures in force before their pension benefit age. Note that this additional lump sum must be inversely commuted as no further lump sum can be paid from the scheme.

Example: An officer commissioned from the ranks (before the transition date) leaves after two years but less than five as an officer. They are awarded a pension at OR9 rates plus commissioned service addition. At pension benefit age, the award is reviewed by comparing the rate in payment against the rate of deferred pension for an officer.

- 2.25.3. Reduction in Lump Sum for Payments that Remain Outstanding to the **Scheme**. Where a member dies and a lump sum is payable to the surviving spouse, and the member had:
 - a. agreed to make payments to the Scheme to improve the benefits to which their surviving eligible spouse would become entitled in respect of the service they gave before 1 April 1973; and
 - b. had not made all of the repayments before their paid service ended, the amount of pension lump sum payable to them is to be reduced by an amount equal to the sum of all of the outstanding repayments.

Section 2.26 - Pension Increases

- 2.26.1. Under AFPS 75, pension increases accrue from the day following the last day of the member's reckonable service. The award of pension increases from April 2005 are authorised under the Pension (Increase) Act 1971. Prior to 2005 they were authorised under Armed Forces Pension Increase Measures, which since 1986 were identical to those under the Pensions Increase Act (although prior to 1986 they were not the same). Payment of the accrued increases starts when the member, or their eligible survivor, receives:
 - a. immediate retirement pension over age 55; or
 - b. ill health pension at any age; or
 - c. payment of deferred pension either when the member reaches pension benefit age or when their claim is paid at any earlier date on ill-health grounds; or
 - d. payment of eligible survivor pensions.
- 2.26.2. The same rates are also used when adjusting pay or pension abatements and in assessing the current value of pensionable pay.
- 2.26.3. **For pension credit members**. Pension increases accrue from the day following the Transfer Day and are payable either when the member reaches pension benefit age or from the Transfer Day if this is later. A pension credit member has the option to claim their pension earlier (from age 55) with an actuarial reduction applied for the early payment.

Section 2.27 - Rewards to Yeoman Warders

2.27.1. **General**. A yeoman warder of the Tower of London who is transferred to the supernumerary list shall receive pay at the rate of £0.06 per day under terms set out in the Army Pay Warrant. This will be paid for life with their service pension and may be increased (once they have ceased to become Yeoman Warders) in accordance with the Pension Increase. The pension increases only become payable once the person has left the Tower.

Section 2.28 - Pension Earnings Cap

- 2.28.1. **General**. For pensions of those ranked 2* and above (OF7 and above), an earnings cap can apply. A member's final pensionable earnings is the greatest amount that the member earned in 365 consecutive days within their last three years of service (ending with the last day of the member's pensionable service). There is however a permitted maximum of pensionable earnings which may be used for pension purposes within a given tax year.
- 2.28.2. **Calculation of the permitted maximum**. The permitted maximum prior to 2012 is given by a specific figure, any later tax year the permitted maximum figure is found using the consumer prices index. If the CPI for the month of September is higher

than it was in September for the previous tax year, then the permitted maximum figure is an amount arrived at by increasing the permitted maximum figure for the previous tax year by the same percentage as the percentage increase in the consumer prices index. The given amount is then rounded up to the nearest multiple of £600. If the CPI for any year is not higher than it was in the previous September, then the increase for that tax year is the same as for the previous one. Visit the Office for National Statistics page where the CPI is published. If an index is not published for a given month, any substituted index or set of figures published by the Office should be used instead.

Example: The 2019 rate (the maximum for the current financial year) was £154,200, the CPI rate for the preceding year was 1.7% and increasing the 2019 rate by this much = £156,821.40. This is then rounded up to £157,200 which is then the new permitted maximum, as this is the nearest multiple of £600.

- 2.28.3. If the member's last ante consecutive period of 365 days was more than 365 days before their last day of service, the pensionable earnings for that period are increased by the rate of CPI to produce a current value.
- 2.28.4. If the member was not in pensionable service for 365 consecutive days within their last three years of service, their final pensionable earnings are calculated using the following formula:

$$\frac{PE \times 365}{N}$$

Where:

PE is the member's pensionable earnings for the period of service ending with the last day pensionable service; and

N is the number of days in that period for which pensionable earnings were received.

Example

A member earns £25,000 for ten months (274 days):

 $(25,000 \times 365)/274 = £33,302.92$

3 Death Benefits

Section 3.1 - Death Benefits Overview

- 3.1.1. In the event of a member's death, the surviving Spouse or Civil Partner may receive up to 50% of the member's pension. Pensions for eligible children may also be payable. Pensions for eligible partners may be payable if death is attributable to service. The death in Service lump sum is normally three times the member's pay. The paragraphs below set out the rules for death benefits.
- 3.1.2. **Death in Service**. If a member dies in service, their eligible survivors will receive an immediate pension based on the rate of ill health pension that the member would have received had they been invalided from the service on the day that they died.

- 3.1.3. **Death in Service while on loan**. If a member is on loan to an organisation, and is required to be an active member of that organisation's pension scheme resumes membership as an active member of AFPS 75 and dies during the loan, the date of resumption of membership as an active member of the Scheme is the date of the member's death.
- 3.1.4. **Pension Rank**. If the member dies in service holding a higher rank for at least one day, that higher rank becomes the pension rank, for example:
 - a. in the case of an officer, the substantive rank that they hold on the day they died.
 - b. in the case of an Other Rank, the paid rank they hold on the day they died, or the highest paid rank that they held for at least two years in the period of five years ending on the day they died.

Section 3.2 - Lump Sum Death Benefit

- 3.2.1. **General**. Depending on the status of the member, the following lump sum death benefits are payable:
 - a. **Active members**. A death benefit of three times the member's rate of representative pay.
 - (1) If the active member is a Medical or Dental Officer, the lump sum is calculated on the basis of the member's representative rate of pay (the representative rate of pay set out in the pension code in force on the last day of the member's pensionable service) excluding any professional supplements.
 - (2) For fixed protection members, the lump sum is calculated on the basis of the member's representative rate of pay.
 - b. **Deferred member**. A death benefit equal to the lump sum that would have been paid to the member if the deferred pension had come into payment on the date of death.
 - c. **Pensioner member**. The amount of the lump sum paid in respect of a pensioner member is the same amount that would have been payable had they been in pensionable service on the date of their death, this is only applicable to members whose death occurs within 12 months of leaving service with an immediate pension, minus any of the following which have been paid to the member:
 - (1) A lump sum paid to a member at the time an immediate pension came into payment.
 - (2) A lump sum commuted in respect of service prior to 6 April 1980.

- (3) A lump sum commuted which was considered to represent the capital value of the pension, at the time it was commuted.
- (4) A lump sum paid as resettlement commutation under SI 832/2010 Article 29 (resettlement commutation) of the <u>Armed Forces (Redundancy, Resettlement and Gratuity Earnings Schemes) (No. 2) Order 2010.</u>
- (5) A lump sum paid under the Armed Forces Attributable Benefits Scheme covered under Schedule 2.
- 3.2.2. **Order of Payment**. Members are not able to nominate a person to receive the lump sum death benefit. The payment is made to either the member's surviving spouse, civil partner, eligible partner or eligible child. If the member has no dependants, the lump sum death benefit is paid to the member's Estate.
- 3.2.3. **Reduction of Lump Sum**. A member may have agreed to repay the amount of any benefit that would have been paid to them from the Scheme on the cessation of their Service, in order to improve the benefits which their surviving spouse would be entitled to receive in respect of service before 1 April 1973. If the member had not made all the repayments that they had agreed to at the time of their death, the amount of lump sum paid will be reduced by the amount of the repayments which remain outstanding.
- 3.2.4. **Pension Credit Member**. If the pension credit member (PCM) on reaching pension benefit age would be entitled to a lump sum (under <u>Section 2.19</u>) dies before reaching pension benefit age or within a three-year period of benefits coming into payment:
 - a. where a PCM dies after their pension has become payable either on reaching pension benefit age, or after opting to receive it early on an actuarially reduced basis, there are no further payments due to the personal representative.
 - b. where a PCM dies before pension benefit age and the PCM was not awarded a lump sum at the time of their divorce, no further payments are due to the personal representative.
 - c. where a PCM dies before pension benefit age and the PCM was awarded a lump sum at the time of their divorce (payable at pension benefit age), a lump sum (including pension increases) should be paid to the personal representative under the preserved pension provisions.
 - d. where a PCM has reached pension benefit age or applied to have their benefits paid early on an actuarially reduced basis dies and a lump sum is due but has not yet been paid, a payment should be made to the personal representative.

- 3.2.5. **Members on loan**. The value of any death benefits payable by the host organisation may be offset against the benefits payable under this scheme.
- 3.2.6. **Payment of a second lump sum**. If the Defence Council pays a lump sum to an eligible child in respect of a member, it must also be paid to any other person who is or becomes so entitled, including a child born after the death the member. This is unless when the first lump sum is put into payment, the Defence Council is unaware that the other person was or was likely to become entitled to receive one. For example, if the partner was pregnant but was not aware at the time when the lump sum payment was due, the Defence Council may fail to make the payment.

Section 3.3 - Payment of Lump Sums

- 3.3.1. A lump sum may not be paid as a death benefit more than two years after the day on which the Scheme administrator first knew or could reasonably be expected to have known of the member's death.
- 3.3.2. The annual amount of a pension paid as a death benefit may be increased by an amount determined by Defence Council, in consultation with the Scheme actuary, where either:
 - a. the Defence Council has determined that a lump sum should be paid to a person under this part, but it is not paid within two years of the date of death;
 or
 - b. the Defence Council has determined that a lump sum would have been paid to the person, were it not for the restrictions on the period during which payment can be made.

Section 3.4 - Short-Term Pensions for Adult Dependants: Spouse, Civil Partner, Eligible Partner

- 3.4.1. **General**. The entitlement begins with a short-term pension paid during the immediate bereavement period. This is followed by the long-term pension. A short-term pension is not due if an active member dies and the AFPS 75 is an accrued right entitlement.
- 3.4.2. **Notional Pension**. For the purpose of this Section, the notional pension amount is the amount of the annual pension to which a member would have been entitled if the member had qualified for a pension on the date of their death.
- 3.4.3. **Short-Term Pension**. When an active, fixed protection or pensioner member dies a short-term pension is paid for the immediate bereavement period of 13 weeks. The immediate bereavement period is extended by a further 13 weeks if there is at least one eligible child in the care of the surviving spouse or civil partner to whom the pension will be paid. Dependant children of another relationship may also be eligible to a short-term pension in their own right.
- 3.4.4. **Amount of Short-Term Pension**. The following amounts are payable:

- a. **Active or Fixed Protection members**. The annual amount of the short-term pension paid equal to the annual amount of the member's basic pay immediately before their death.
- b. **Pensioner member**. The annual amount of the short-term pension paid is equal to the annual amount of the member's pension immediately before their death.
- c. **Deferred member**. No short-term pension is payable.
- 3.4.5. However, a short-term pension is not payable to a surviving spouse or civil partner if it would be more beneficial for them to receive a long-term pension during the immediate bereavement period. In this case, they will receive the long-term pension to which they are entitled from the day after the date of the member's death rather than from the end of the immediate bereavement period. This can occur when the spouse as children and the member died before aged 55 if the pension increases are not yet in payment.

3.4.6. Table 1: Entitlement – Short-Term Pension.

Member Status	Surviving spouse / civil partner or eligible child entitled to short-term pension?	Eligible partner, adult dependant or eligible child entitled to short-term pension?
Active member of AFPS 75	Yes	a. Attributable Death – Yesb. Non-Attributable Death – No
Active member of AFPS 15	No	a. Attributable Death – No b. Non-Attributable Death – No
Pensioner member	Yes	a. Attributable Death – Yes b. Non-Attributable Death – No
Deferred member	No	No

- 3.4.7. Short-term pension should be awarded to dependents of a deceased AFPS 15 member with accrued right under AFPS 75 who die in retirement, when a pension under AFPS 75 is in payment to the deceased at the time of their death.
- 3.4.8. A Short-term pension is payable to children if there is no spouse pension awarded. If there is more than one eligible child, the short-term pension is divided equally between the children
- 3.4.9. Eligible partners may qualify for a short-term pension if the member has service post 5 of December 2005. Consideration will be on an ex-gratia basis if the member has service from September 2003 for deaths deemed attributable to service

Section 3.5 - Long-Term Pensions for Adult Dependants: Spouse, Civil Partner, Eligible Partner

- 3.5.1. **General**. The entitlement to long term pension begins after the short-term pension expires. If there is no short-term pension entitlement, the long-term pension is paid from the day following the member's death.
- 3.5.2. **Amount of Long-Term Pension**. The amounts payable are calculated as follows:

a. Active or Fixed Protection members.

- (1) For service on or after 31 March 1973, the rate is one half of the member's notional pension amount.
- (2) For service before 31 March 1973, the annual amount of long-term pension is one third of the member's pre 1973 notional pension using actual time attributed before 31 March 1973, plus half of the member's full pension amount.

b. **Pensioner members**.

- (1) For service on or after 31 March 1973, the rate is one half of the member's notional pension amount.
- (2) For service before 31 March 1973, the annual amount of long-term pension is one third of the member's pre 1973 pension, plus half of the member's full pension amount at retirement.

c. Pensioner members.

- (1) For service that ended before 1 September 1950 who served as a OR9 or above, a pension is payable to the widow from the day after the date of the member's death, provided the widow has not been awarded a war widow's pension under the Naval, Military and Air Forces Etc. (Disablement and Death) Service Pensions Order 2006 and that the marriage took place prior to the member leaving service.
- (2) For pensionable service that ended before 31 March 1973 that either began on or after 1 September 1950, or if the members pension rank was that of OR-9 or above, the widow is entitled to a widow's pension subject to conditions payable from the day after the date of death.
- (3) From 12 of November 1979 special provisions were introduced to allow widows of members below rank OR 9, who served before 1 September 1950, to receive a special widow's pension, this is payable at a minimum rate which is not the same as a widow's pension. This is

payable to a widow who is ineligible for a family pension. Those in receipt of a war widow's pension were not entitled to the special widows pension.

d. **Deferred members**.

- (1) For service on or after 31 March 1973, the rate is one half of the member's deferred pension amount.
- (2) For service before 31 March 1973, the annual amount of long-term pension is one third of the member's pre 1973 deferred pension plus half of the member's full pension amount.
- 3.5.3. **Payment**. Where a short-term pension is payable to the surviving spouse or civil partner, the payment of a long-term pension starts on the day following the immediate bereavement period. Where a short-term pension is not payable, payment starts on the day after the member dies.
- 3.5.4. **Post Retirement Marriage or Partnership**. If the member married or formed a civil partnership after leaving Service, reckonable service prior to 6 April 1978 is not taken into account when calculating the amount of long-term pension. For a Widower to qualify for a long-term pension the member has to have service after 1 October 1987.

3.5.5. **Table 2: Entitlement – Long-Term Pension**.

Member Status	Member' s Date of Death	Surviving spouse / civil partner	Eligible Partner or adult dependant
Active member	On or after 31 March 1973	Pension for life, providing that the member completed at least 2 years reckonable service.	a. Attributable Death –Pension for life.b. Non-Attributable Death –no Pension.
Active member	Before 31 March 1973	Widow receives a pension for life providing that the member completed at least 5 years' reckonable service.	
Deferred or pensioner member (Same sex partnerships and widows)	Any	Pension for life. Attributable pensions awarded after 1 October 2003 are payable for life.	a. Attributable Death – Pension for life, if the member was in active service on or after 1 September 2003. b. Non Attributable Death – no Pension.

Deferred or pension member (widowers) Note: a widower is: (a) a male survivor in an opposite sex civil partnership; or, (b) a male survivor who was married to a member who was a woman	Service pre and post 1 October 1987	A widower receives a pension for life, providing that the member was in pensionable service on or after 1 October 1987. If service ended before that date there is no entitlement. Attributable pensions awarded after 1 October 2003 are payable for life.	a. Attributable Death – Pension for life, if the member was in active service on or after 1 October 2003. b. Non Attributable Death – no Pension.

Section 3.6 - Reduction or Withholding of Pension: Marriage or Forming a Partnership less than 6 Months before Death

- 3.6.1. **General**. The Defence Council may reduce or withhold a dependant's short-or long-term pension where either:
 - a. on or after the 6 of April 2005 the deceased member married the surviving spouse or civil partner less than 6 months before their death; or
 - b. on or before 5 April 2005 the deceased member married the surviving spouse less than a year before the members death.

Section 3.7 - Suspension and Restoration of Pensions

- 3.7.1. **Pre 1 April 2015**. Previously, pensions were suspended if the surviving spouse or civil partner remarried, entered a new civil partnership or lived with another person as though they were married / in a civil partnership. If the new relationship ended, the pension may have been restored, subject to means tests for hardship. If they were entitled to an attributable pension that had stopped before the 31 October 2000 the pension would be restored without a means test. The pension remained suspended for as long as the surviving spouse remained married, in a civil partnership, or cohabited.
- 3.7.2. **Post 1 April 2015 Pensions For Life**. Pensions are paid for life in respect of new and subsequent marriages, civil partnerships, and cohabitation. A pension will

not be suspended if the member's death was after 31 October 2000 and attributable to service.

3.7.3. **Previous Rules**. Where a survivor's pension has been awarded under provisions of the AFPS75 in force prior to 2 January 2011, the current scheme rules regarding the suspension of pension on remarriage apply. For a pension that was suspended prior to 2 January 2011, under a former provision of AFPS75, the pension will remain suspended unless the new marriage or period of cohabitation comes to an end.

Section 3.8 - Effect of Temporary Allowance

3.8.1. **General**. A surviving spouse or civil partner may receive a temporary allowance under article 27 of the Service Pension Order²⁰. An AFPS 75 pension is only paid concurrently if the rate of the temporary allowance is less than the combined value of the pension or short-term pension and any allowance, they would be receiving under the Service Pension Order if a temporary allowance was not being paid. In this case, the pension paid is equal to the difference between the value of the temporary allowance and the amount they would be receiving were it not for the payment of the temporary allowance.

Section 3.9 - Children's Pensions

3.9.1. **General - Service on or after 31 March 1973**. When an active, deferred or pensioner member dies, having completed two or more years reckonable service, an eligible child is entitled to a child's pension. If the member died on or before 5 April 1988, they must have completed five or more years reckonable service for an eligible child to be entitled to a child's pension.

3.9.2. Table 3: The annual amount of pension paid to an eligible child.

Member Status	Does the member have a dependant adult?	Number of eligible children	Amount received by each eligible child
Active member or deferred member	Yes	Two or fewer	1/4 of the member's pension amount.
		More than two	½ of the member's pension amount divided by the number of eligible children.
	No	Two or fewer	$^{1}\!/_{3}$ of the member's pension amount.
		More than two	$^{2}/_{3}$ of the member'spension amount divided by the

²⁰ The Service Pensions Order refers to the Naval, Military and Air Forces Etc. (Disablement and Death) Service Pensions Order 2006, S.I. 2006/606, as amended by S.I. 2006/1455, 2007/909, 2008/679, 2008/2683 and 2009/706.

			number of eligible children.
Pensioner member	Yes	Two or fewer	1/4 of the member's pension.
		More than two	½ of the member's pension divided by the number of eligible children.
	No	2 or fewer	$^{1}/_{3}$ of the member's pension.
		More than two	$^{2}/_{3}$ of the member's pension divided by the number of eligible children.

- 3.9.3. **Parentless Children**. A different amount of longer-term pension is payable to an eligible child where there is no pension in payment to a surviving spouse or civil partner in respect of the member; and the child has no living parent, or the Defence Council considers that there is no living parent capable or willing to look after the child. In this case, the amount payable to the child will be the lesser of:
 - a. one third of the member's notional pension amount; or
 - b. the member's notional pension amount divided by the number of child's longer-term pensions payable in respect of the member.
- 3.9.4. When calculating the pension amount for an active, fixed protection or deferred member for a member with less than five years' reckonable service, the annual amount of the pension is that which would have been payable to them had they completed five years reckonable service.
- 3.9.5. **Payment**. The payment of a child's pension starts the day after the payment of a short-term pension to a surviving adult dependant ceases. Where no such pension is payable, the child's pension is payable from the day after the member's death. Even if a short-term pension is payable to a surviving adult dependant, the Defence Council may direct that the child's pension is payable from the day after the member's death where they feel there are special circumstances justifying this.
- 3.9.6. **Unborn children**. No pension is payable in respect of any period before the eligible child is born.

Section 3.10 - Earnings Limit for Eligible Children

3.10.1. **General**. When notified that a child is in full-time vocational training and receiving a wage, the monthly equivalent of which is greater than the upper earnings limit, the child's monthly pension payment should be reduced by the amount the wage exceeds the upper earnings limit. Originally, the Department of Employment set weekly earnings limits, but in 1999 the Principal Civil Service Pension Scheme annual rate, which is set by the Cabinet Office, was adopted. The 1 June 1972 is used as the start date, originally uprated by the RPI and since 2011 by the CPI (rounded to up to the nearest £1 each year).

Example: calculating the revised annual pension:

$$A - (B - C) = Revised Annual Pension$$

Where:

A = Annual child's pension.

B = Apprentice wage.

C = Annual Upper Earnings.

Example: £6,000 - (£8,754.20 - £3,288) = £533.80

Note: the annual upper earnings limit for 2021 is £3,288.

3.10.2. If the wage subsequently changes, the calculation should be repeated. If the monthly wage falls below the upper earnings limit, the pension should be restored in full.

Section 3.11 - Payment of Children's Benefits

- 3.11.1. **General**. Depending on the age of the child and who has parental responsibility, the pension benefit may be paid at the direction of the defence council as follows:
 - a. If an eligible child is under age 18, and lives in the same household as their parent who is also in receipt of a pension in respect of the member, the pension is to be paid to the child's parent.
 - b. If not paid to the child's parent, the pension can be paid to a person who has parental responsibility for the child. within the meaning of the Children Act²¹.
 - c. Such appointments may be revoked at any time. A further person may then be appointed to receive the payments.at the direction of the defence council.
 - d. If an eligible child is age 18 or over, the pension may be paid direct to the child, to the child's parent or to another person appointed by the court.
- 3.11.2. **Child Pensions before 'A-day'**. If the member died before 6 April 2006 (simply known as 'A-day') the scheme may continue to pay a pension after the child has reached age 23, provided they continue in full time education or vocational training. The following conditions apply:
 - a. the child's pension came into payment before 6 April 2006; or

²¹ The Children Act 1989, the Children (Northern Ireland) Order 1995 or the Children (Scotland) Act 1995.

- b. the member's pension was in payment on 6 April 2006; and
- c. the child was born on or before 5 April 2007²².
- 3.11.3. The child need not be in full time education at the time the pension was awarded. However, the pension must have either:
 - a. been in payment to a child of the member on 5 April 2006; or
 - b. the member had died on or before that date and a pension was due to come into payment to the child; or
 - c. the pension was in payment to the member on 5 April 2006 and the child was born on or before 5 April 2007.
- 3.11.4. **Child pensions in respect of three or more deceased**. If a child was entitled to receive a pension in respect of three or more members of the scheme, they will only receive the two pensions of the highest value.

Section 3.12 - Qualifying Relationships with Children & Grandchildren: Active Members

- 3.12.1. **General**. A person is considered to have a qualifying relationship to an active or fixed protection member, if they fulfil one of the following conditions:
 - a. they are the child of the member.
 - b. they are the child of a person who was at any time married to or in a civil partnership with the member and they were financially dependent on the member at the time of their death.
 - c. they are the grandchild of the member or of a person who was at any time married or in a civil partnership with the member and they were financially dependent on the member at the time of their death. If the grandchild has living parent/s they are only considered to have a qualifying relationship to the member if the Defence Counsel considers that there is no such parent able or willing to take responsibility for them.

Section 3.13 - Qualifying Relationships with Children & Grandchildren: Deferred and Pensioner Members

3.13.1. **General**. A person is considered to have a qualifying relationship to a deferred or pensioner member, if they fulfil one of the following conditions:

²² The Taxation of Pension Schemes (Transitional Provisions) (Amendment No. 2) Order 2009 - Article 2.

- a. they are the child of the member and the member's spouse, or civil partner **and** the marriage or civil partnership took place before the member left pensionable service.
- b. they are the natural child of the member, **and** they were born within nine months of the member leaving pensionable service.
- c. they were adopted by the member before the member ceased pensionable service **or** they were financially dependent on the member and the scheme administrator is of the opinion, the member intended to adopt them before they left service.
- d. they are the child of someone who was the member's spouse or civil partner, during their pensionable service **and** they were born before, or within nine months of, the member leaving pensionable service **and** they were financially dependent on the member at the time of their death.
- e. they are the adopted child of someone who was the member's spouse or civil partner, during their pensionable service **and** the member's spouse or civil partner adopted them during their pensionable service, **and** they were financially dependent on the member at the time of their death.
- f. they are the child of a person who has a qualifying relationship to the member **and** the child was financially dependent on the member at the time of their death. However, if they have a living parent/s, they are only considered to have a qualifying relationship to the member if the Defence Council considers that they are unable or unwilling to take responsibility for the child.

Section 3.14 - Meaning of 'Eligible Child'

3.14.1. **General**. An eligible child is a person with a qualifying relationship to the member who also fulfils one of the following conditions:

a. Condition A.

- (1) they are aged under 17; or
- (2) if the member's last day of pensionable service was before 31 March 1973 and their pension rank was that of OR9 or above, the person is aged under 18.
- b. **Condition B**. The person is in full-time secondary education. Where they finish full-time secondary education before the age of 19, they are eligible until, whichever of the following dates falls first:
 - (1) the second Monday in January.
 - (2) the second Monday after Easter Monday.
 - (3) the second Monday in September.

- (4) the person's 19th birthday.
- (5) the day they become engaged in full-time gainful employment.
- c. **Condition C**. The person is aged under 23, in full-time further or higher education or unpaid full-time vocational training. The period between the last day in which the person was in full-time secondary education and this further education or training was not more than 15 months. To be eligible the person must also have given the scheme administrators notice of their intention to undertake further education or training, on or before the last day that Condition B was met. This is unless the member's death occurred after the last day which the person is in full-time further or higher education or unpaid full-time vocational training.
- d. **Condition D**. The scheme administrator believes that the because of physical or mental impairment the person is unable to engage in full-time gainful employment and the person was dependent on the member at the date of their death.
- 3.14.2. **Eligibility outside of Conditions A to D**. There are several circumstances when the scheme administrator may opt to consider (or continue to consider) a person as eligible even where they do not meet the Conditions. These include:
 - a. where a person is in full-time vocational training, but this is paid rather than unpaid. Any pension that is payable to the person will be abated to the extent of the person's earnings, after deduction of any amount which the Scheme administrator considers appropriate to offset any costs incurred by the person for the purposes of their training.
 - b. the scheme administrator considers that it would not have been reasonably practical for the person to have started their further or higher education or vocational training within 15 months of finishing full-time secondary education.
 - c. the person informed the scheme administrator <u>after</u> their last day of full-time secondary education that they intended to continue in full-time further / higher education or vocational training, but the scheme administrator believes that there was a good reason for this.
- 3.14.3. **Gap Years**. Where Condition C refers to secondary education it means either at school or at college so full-time education up to age 19. It only becomes further/higher education when entering the next level, e.g. university.
- 3.14.4. The rules equate further education with higher education. If the gap year was taken after secondary but before further or higher education, then the pension can be paid provided the gap is no more than 15 months. In the case of a child who goes to college straight after school to do A level equivalent study, it would be viewed as secondary rather than further education and the pension can be paid as the gap year follows secondary education before starting university.

3.14.5. The rules do not allow a situation where a student decides to take a gap year after they have started a period of further/higher education.

Section 3.15 - Change of Gender

- 3.15.1. **General**. Where the member changes their legal gender, their surviving spouse/partner retains their expectation to receive pension benefits.
- 3.15.2. **If a spouse/partner legally changes gender**. Once a full gender recognition certificate has been issued under the Gender Recognition Act 2004, any question of entitlement to a pension is to be decided as if the person's gender has always been their acquired gender.

Section 3.16 - Guaranteed Minimum Pensions for Surviving Spouses and Civil Partners

- 3.16.1. **General**. A surviving spouse or civil partner may be entitled to a guaranteed minimum pension under <u>Section 17 of the Pension Schemes Act 1993</u> (minimum pensions for surviving spouses and civil partners). Where this is the case and their weekly rate of pension would be less than the guaranteed minimum, they will receive a guaranteed minimum pension instead.
- 3.16.2. If a surviving spouse or civil partner is eligible to receive two or more pensions in respect of the same individual, the combined value may still be less than the guaranteed minimum. Where this is the case, the weekly rate of pension in respect of the member's earliest period of service is the difference between the guaranteed minimum pension and the aggregate of the weekly rates of the other pensions.
- 3.16.3. Even where a survivor is not eligible to receive a pension under this scheme, or the pension has been suspended on remarriage or for other reasons, a pension may still be payable to them at the weekly rate of the guaranteed minimum.
- 3.16.4. To determine if someone is receiving a pension which is at least equivalent to the guaranteed minimum the weekly rate of the pension is required. Where a pension is paid but not at weekly intervals, its weekly rate is calculated as its annual amount divided by 52.143.

Section 3.17 - Membership in Two or More Capacities

- 3.17.1. **General**. A deceased member of AFPS 75 may have been a member of AFPS 75 in two or more capacities, prior to their death. They could have been two or more of the following:
 - a. an active or fixed protection member.
 - b. a deferred member.
 - c. a pensioner member.
 - d. a pension credit member.

- 3.17.2. Where a deceased member was a member in two or more capacities, benefits are paid in respect of the deceased member, in the way they would be if two or more members had died. Two or more pensions or lump sums are therefore payable in respect of the one deceased member. The amounts paid are determined by the capacities in which the deceased member belonged to the scheme, prior to their death.
- 3.17.3. Where a deceased member was a member of the scheme in more than one capacity, they are treated as one member for the purposes of determining whether a child is eligible to receive a pension in relation to three or more members.
- 3.17.4. **Lump sums**. The exception is if a lump sum is paid to an eligible survivor of an active or fixed protection member, the amount of that lump sum is reduced by the amount of any lump sum which has been paid to the eligible survivor, due to the deceased member also being a deferred or pensioner member.

Section 3.18 - Membership of AFPS 75 and Another Scheme

3.18.1. **General**. An eligible survivor may also be receiving pension benefits from another pension scheme in respect of a member. Benefits paid to the survivor under AFPS 75 are not affected by this.

Section 3.19 - General Disregard of Abatement, Commutation, Forfeiture, and Pension Increases

- 3.19.1. A deceased member may have had part of their pension abated or commuted. Where this is the case, all references in this chapter to the annual amount of their pension, is to the amount which would have been paid had it not been abated or commuted.
- 3.19.2. This does not however apply where a short-term pension is paid to an eligible surviving spouse or civil partner of a deceased member who was formerly a pensioner member. Nor does this apply when a short-term pension is to be paid to an eligible child in respect of a pensioner member.
- 3.19.3. Referenced in this Chapter to the amount of pension payable in respect of a deceased member are to the amount which would be payable if pension increases are ignored.

Section 3.20 - Death Attributable to Service

- 3.20.1. Paragraphs 3.20.2 3.20.5 apply where:
 - a. a pension is payable as described in this chapter in respect of a member who was not a fixed protection member;
 - b. whose last rank was a paid acting rank, which they had not held for the qualifying period specified in <u>Section 2.12</u> for other ranks and <u>Section 2.8</u> for officers; any attributable benefit is lifted to reflect the period of acting rank;

- whose last rank was a paid substantive rank their death attributable to C. service pension will be based on their substantive rank; and
- compensation is payable in respect of the death under AFAB²³ or AFCS d. 2005^{24} .
- 3.20.2. The annual amount of any pension paid as described in this chapter in respect of the member, is the amount which would be paid had their acting rank been their pension rank. This does not apply where a short-term pension is payable to a surviving spouse, civil partner or eligible child.
- 3.20.3. The annual amount of any pension which is to be paid in respect of the member in a specified set of circumstances is the amount which would have been paid in those circumstances had the member's acting rank been their pension rank.
- 3.20.4. The member's acting rank will also be treated as their pension rank, for determining the minimum rate of surviving spouse's or civil partner's pension payable, where it is referred to in this Chapter.
- 3.20.5. References in this Chapter to the amount of lump sum which in any specified circumstances would be payable to a member, are to the amount which would have been payable if the member's acting rank had been their pension rank.

Section 3.21 - Pension Increases

- 3.21.1. The terms 'official pension', 'qualifying condition' and phrase 'day on which the pension begins' are used in this Section and their definitions are given in the Pensions (Increase) Act 1971.
- 3.21.2. In respect of any period on or after 3 January 2011, the amount of pension shall be or continue to be increased as if the former provisions of the scheme corresponding to this rule were still in force.
- 3.21.3. In respect of any period on or after 11 April 2011, the pension shall be increased, or further increased by any amount by which an official pension would due to an order made under Section 59 of the Social Security Pensions Act 1975. This is providing that the order comes into force on or after 11 April 2011. However, the pension will only be increased in respect of that period if:
 - it began on the day on which the pension begins and were payable at an annual rate equal to the annual amount of the pension; and
 - b. a qualifying condition were satisfied.

Reserve Forces (Compensation Scheme) Order 2005.

²⁴ Armed Forces and Reserve Forces Compensation Scheme 2005, set out in the Armed Forces and

²³ Army Attributable Benefits Scheme.

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- 3.21.4. Pension increases are not normally payable to pensioner members aged under 55. However, in some instances this rule does not apply and pension increases can be made payable if:
 - a. the member meets requirements for an ill-health pension; or
 - b. on an application in writing by the member to the scheme administrator, the defence council directs that the pension increase shall apply in relation to amounts of pension payable in respect of the period beginning with the day which the application was first received.
- 3.21.5. Pension increases, applied to those under 55, will also be applied to the payment of a short-term pension to a surviving spouse / civil partner or eligible child, after the member's death.

Section 3.22 - Suspension and Recovery of Pensions

3.22.1. The Defence Council may cease paying a pension and recover any payment made. This is if it appears to them that a person has made a false declaration or deliberately suppressed factual information in connection with the award of a pension or a lump sum, awarded as described in this chapter. This does not affect any other right of the Council to recover a payment.

Section 3.23 - Payment of Children's Benefits

- 3.23.1. This section applies wherever a pension or lump sum is to be paid to an eligible child under the Scheme.
- 3.23.2. If a child aged under 18 is eligible to receive a pension in respect of a member's service (see Sections 3.11 3.14), the pension and any lump sum must be paid to such person as the Defence Council may direct.
- 3.23.3. Where the child is aged under 18 and no such direction is given, the pension and any lump sum are paid to a person who is also receiving a pension in respect of the member. This is providing that they live in the same household as the child. Otherwise, the pension is paid to the person with parental responsibility for the child, as defined in:
 - a. the Children Act 1989.
 - b. The Children (Northern Ireland) Order 1995.
 - c. Section 3(1) of the Children (Scotland) Act 1995.
- 3.23.4. If the child is 18 or over the pension and any lump sum must be paid to the child if the child or relevant person requests. Otherwise, payment is made to the relevant person.

- 3.23.5. The relevant person is the person or persons to whom the pension or lump sum would have been payable, if it had been payable prior to the child reaching age 18.
- 3.23.6. Any payment made in accordance with the rules which are explained in this section discharges the Defence Council's obligation to the child in respect of any amount paid.

4 Increasing Benefits

Section 4.1 - Additional Voluntary Contributions (AVCs)

- 4.1.1. Opportunities exist for active members to make AVCs to the Scheme from their pensionable earnings to increase their benefits under the Scheme, subject to the conditions which are set out in this Chapter.
- 4.1.2. All agreements to make AVCs are at the discretion of the Department and are subject to limits on contributions and benefits imposed by HM Revenue and Customs.
- 4.1.3. Contributions for AVCs are to be paid at rates calculated by the Scheme Actuary. The Department reserves the right to revise the rates payable in consultation with the Scheme Actuary.
- 4.1.4. To purchase Additional Voluntary Contributions, members need to apply to DBS Veterans UK. Once a members application has been processed, the decision is final and cannot be reversed. An application form (Form 5) can be found on the Veterans UK Armed Forces pension and insurance declaration forms page on GOV.UK. If the member moved from AFPS 75 to AFPS 15 on the transition date the option to make Additional Voluntary Contributions in AFPS 75 is no longer available. AVC contracts that were applied for or commenced prior to the transition date will continue unchanged until the end of the option period (the option period commences from the members next birthday after the application and finishing the day before the members 55th Birthday).

Section 4.2 - Added Years

- 4.2.1. An active member may purchase added years to increase reckonable service for pension purposes.
- 4.2.2. The member may opt to make contributions to the Scheme to increase their reckonable service provided that:
 - a. the member enters service later than 21 for officers or later than 18 for other ranks.
 - b. those whose reckonable service is restricted or reduced during the course of their service.
 - c. their service is interrupted by unpaid leave or civilian non-pensionable employment.
 - d. on reaching age 55 or their normal retirement date if that is later, they will not otherwise have the scope to reach the point where they will have given the maximum reckonable service that may be counted under the rules.

- e. their current pensionable service, or an earlier period of service so long as it has been added to the current service, commenced before they reached age 46.
- f. they have not been given notice of the termination of their pensionable service
- g. there is no reason to believe that their health may prevent the member from continuing in service until the completion of the commitment period agreed under the terms of their current commission or engagement.
- h. they have signed a declaration that they believe the condition in paragraph g above has been met.
- 4.2.3. A member may exercise an option under this Section more than once. However, they cannot purchase in total more reckonable service than the maximum which is allowed to count for pension under the scheme rules (that they could give up to age 55).
- 4.2.4. A transition member with continuity of service who has exercised the option to purchase additional reckonable service by periodic contributions under the AFPS 75 before the transition date can continue to make periodical payments and the contractual option period continues as if the member continued in pensionable service under the AFPS 75.
- 4.2.5. The option to purchase added years must be made to DBS Veterans UK in Glasgow in writing and may be made more than once. The Added Years application form (Form 5) can be found on the Veterans UK Armed Forces pension and insurance declaration forms page on GOV.UK. The application must be sent to DBS Veterans UK in Glasgow by post or a scanned copy as a signature is required.
- 4.2.6. The purchase will be by regular contributions to the scheme for the contractual period specified when the arrangement is made, except for those returning from secondment or periods of loan. Contributions will be made by deductions from basic pay from the member's birthday following their application. Buying added years by lump sum is only available within 12 months of joining the scheme.
- 4.2.7. The amount payable will be expressed as a percentage of pensionable earnings and calculated using tables issued by the Scheme Actuary. These tables use age next birthday and normal retirement age (the normal retirement age for a member's rank and type of commission or engagement) as reference points, and contributions must be paid for the whole of the contractual period to give the increase agreed.
- 4.2.8. Where a member who is serving flexible terms has exercised the option to purchase an additional period of reckonable service by making periodic contributions, the period of flexible service the member may:

- a. pay the same amount of contributions as would be payable if the member were not serving on flexible terms; or
- b. pay contributions based on the member's actual pensionable earnings during the period of flexible service.
- 4.2.9. The minimum regular contribution is 0.01% of pensionable earnings and the maximum imposed by the Scheme is 15% of pensionable earnings. Individuals will need to take care that their pension benefits do not exceed the pensions lifetime allowance (£1,073,100 for 2020-2021 onwards).
- 4.2.10. If the cost of buying the shortfall of reckonable service exceeds 15% the maximum years available will be scaled down and the amount of reckonable service available for purchase will not exceed the 15% salary maximum. If the member remains in service beyond the age of 55 the contribution will stop as the added years contract has been paid in full.
- 4.2.11. If a member who is contracted to purchase added years up to the age of 55 subsequently accepts an extension of service beyond 55, they will be committed to pay the contribution until age 55 when deductions will cease. Members may purchase added years after the age of 55. The Scheme Actuary will calculate the contributions required on an individual basis.
- 4.2.12. If someone who has exercised an option under this chapter has paid all of the contributions required under the option they chose, their reckonable service is to be increased by the whole of the additional period they undertook to purchase. The assumption here is that they intended to contribute continuously until they were age 55.
- 4.2.13. If a person who purchased added years by lump sum payment dies or is invalided before the age of 55, the reckonable service will be increased by the full amount of the added years they purchased.
- 4.2.14. If someone leaves service or dies in service after reaching the age of 55, any added years purchased are to count in full as reckonable service in the calculation of pension.
- 4.2.15. A member on ordinary maternity leave is only required to pay contributions on the contractual remuneration or statutory maternity pay actually paid to or for her during the period of her leave and accordingly a member on additional maternity leave is not required to pay contributions.

4.2.16. Where a Service person who was buying added years by regular deductions retires or is discharged before age 55 with an immediate pension, their reckonable service will be increased by the formula in the example below, and the added years will be reduced by the appropriate factor to take account of earlier payment of benefits before age 55. This reduction shall be calculated in accordance with reduction factors which are calculated by the Scheme Actuary.

A member joined at age 29 and at age 31 took out an added years contract to purchase extra reckonable service from age 21 until the date they joined (which worked out as 8 years and 86 days). The member left at age 46 with an immediate pension. The member had not served until the full career point of age 55 and so had also not paid in until age 55. The member therefore will only receive added years representative to the time they paid in, and an actuarial reduction is applied because the member is drawing the pension before age 55.

$$A \times \frac{B}{C} \times$$
 the 'appropriate factor'

Where:

A is the number of added years which the member opted to buy.

B is the period, to the nearest day, over which the member has paid contributions.

C is the total period over which the member would have paid contributions had they served to the age of 55.

Example

A = 8 years, 86 days (which works out as 8.2356 (86/365 = 0.2356)).

B = 14 years, 233 days (which works out as 14.6384 (233/365 = 0.6384)).

C = 24 years

Purchased added years formula: $8.2356 \times 14.6384/24 = 5.0232$ (5 years and 8 days).

'Appropriate Factor' for age according to table issued by GAD: 0.93 (based on the member being 46 before retirement and an Officer).

Reduction of added years by appropriate factor: $0.93 \times 5.0232 = 4.6716$

This means the member's purchased added years in this instance would be 4 years and 245 days.

- 4.2.17. If a member who is purchasing added years by deductions from salary and has qualified for immediate pension benefits dies or is invalided before the age of 55, their reckonable service shall be increased as follows:
 - a. if the option to purchase was received before 29 November 1985, by the formula described in paragraph 4.2.16.

- b. if the option to purchase was received on or after 29 November 1985, by the full amount of the added years for which they **are** paying regular contributions.
- 4.2.18. If a member who has purchased added years leaves service with a preserved pension, only the added years purchased up to the date of discharge will count in the calculation of the deferred pension or transfer value.

Section 4.3 - Purchase of Added Years in Respect of Period on Loan

- 4.3.1. **Secondment to Industry**. Where an active member of AFPS 75 is seconded to industry, providing that the employer is paying pension contributions to the AFPS scheme, their period on secondment will count as both qualifying service and reckonable service. Individuals are strongly advised to establish the position regarding project funding before agreeing to such a loan.
- 4.3.2. Following a loan to another organisation which counts as qualifying service (see 2.2.1), an active member may opt to pay a lump sum so as to secure that the period counts as reckonable service. The option may not be exercised more than 12 months after the end of the loan period unless Veterans UK, as the Scheme Administrator, allows it. The amount of the lump sum to be paid is the aggregate of:
 - a. any contributions paid by the member to, and returned by, the pension scheme to which the member was required to belong during the loan period; and
 - b. any lump sum paid by that scheme to the member after the end of the loan period.
- 4.3.3. If the member dies during the secondment loan period or dies no more than 12 months after the date on which the loan period ended, and had not exercised the option to pay a lump sum to secure a loan period as reckonable service, the lump sum referred to may be paid by:
 - a. the member's personal representative.
 - b. the member's surviving spouse or civil partner.
 - c. a person entitled to a pension by being a surviving eligible partner or adult dependant.
- 4.3.4. If the Scheme actuary determines that the amount required to increase the member's reckonable service by the loan period is greater than that given by 4.3.2, the scheme administrator requires the branch sponsor to pay the amount needed to top up the pension.
- 4.3.5. The option exists for a member to opt to purchase added years by lump sum to ensure that the period of a loan counts as reckonable service if:

- a. they have been serving on secondment terms with the UN or under other similar collaborative arrangements, during which period;
- b. they have been required to be a member of, and paid contributions to, the host organisation's pension arrangements; and
- c. they opt to buy added years on their return up to the limit of service for the years and days of their absence.
- 4.3.6. The options in this section are conditional upon the member repaying all of the severance payment, if one is paid, that they receive from the sponsor. In return their pension entitlements (reckonable service or pension pot) will be adjusted as if they had not been on secondment or loan. Where this is insufficient to purchase the required period of service, a top-up payment may be made from the funds of the project under which the member was sponsored.
- 4.3.7. **Death on Secondment**. On the death of a seconded member, the member resumes active membership. The member's dependant or estate is eligible to receive active member death benefits.
- 4.3.8. **Death in service lump sum reduction**. The scheme administrator can proportionately reduce the death in service lump sum if dual benefits are paid by a host scheme. This ensures the member, or their dependant does not receive dual benefits from the MOD and a host scheme. The reduction must not cause financial disadvantage.
- 4.3.9 **Survivor's Pension**. A surviving dependant's pension benefits will be based on the member's reckonable service earned up to the day before the start of the secondment. This is unless the deceased member's personal representative (a person with legal authority to manage the deceased's estate) takes a refund from the host scheme to purchase added years. The member's personal representative must pay MOD the full amount refunded by the host scheme. If this condition is fulfilled, MOD will top up any shortfall. In return, the dependant(s) will receive a pension subject to normal rules, based on the member's reckonable service.
- 4.3.10. **Survivor pension abatement**. If added years are purchased and the host scheme pays a pension, the amount of the AFPS 75 pension is to be abated proportionately to the benefits paid by the host scheme.

Section 4.4 - Purchase of Benefits Calculated on Enhanced Basis

- 4.4.1. An active member of the scheme can opt to make regular contributions to secure benefits on an enhanced basis, that are calculated by reference to the member's pensionable earnings.
- 4.4.2. The member can only exercise this offer once and only if:
 - a. their current pensionable earnings exceed the representative rate of pay for a person of the individual's rank.

- b. they have not been given notice that their pensionable service is to be terminated.
- c. there is no reason to believe that the member's health may prevent them from continuing in service until the end of their current commission or engagement.
- d. the member must sign a declaration that they believe that the condition in paragraph c has been met.
- 4.4.3. If the member chooses this option, contributions are payable by the deduction of the appropriate percentage of pensionable earnings. The appropriate percentage is calculated using tables issued by the Scheme Actuary for the persons age and rank for the option period, which begins on the day the option is exercised and ends on the member's last day of pensionable service.
- 4.4.4. A member with this type of AVC will purchase an enhancement to their basic pension providing their pensionable earnings on the last day of pensionable service exceed the representative rate of pay. The enhancement is calculated using one of the appropriate formula shown below, depending upon whether the immediate pension point, i.e. 16 years (officers) or 22 years (other ranks) has been reached at the point of retirement.

Calculation of benefits on enhanced basis.

Where:

PE is the member's pensionable earnings on the member's last day of pensionable service.

RP is the member's representative rate of pay.

k is the number of days in respect of which contributions are made.

- **n** is the number of days in the period beginning with the day on which the option is exercised and ending with the day before the member's 55th birthday; and it is the number of days' reckonable service that the member would have if:
- a) the member's last day of pensionable service were the day before the member's 55th birthday.
- b) any increase in the member's reckonable service were ignored.

AR is the 'Reduction Factor' from the added years table for age at leaving.

(A) If the member's pension rank is that of **OF1 or above**, and the member has **reached the immediate pension point**, the appropriate proportion is that given by the formula:

$$\frac{PE-RP}{RP}\times\frac{k}{n}\times\frac{1}{\frac{1-(n-k)}{(3652.5+t)}}$$

(B) If the member's pension rank is that of **OF1 or above**, but they have **not reached the immediate pension point**, the appropriate proportion is that given by the formula:

$$\frac{PE - RP}{RP} \times \frac{k}{n} \times \frac{3,652.5 + t}{t + k - n}$$

(C) If the member's pension rank is that of **OR9 or below**, and they have **reached the immediate pension point**, the appropriate proportion is that given by the formula:

$$\frac{PE - RP}{RP} \times \frac{k}{n} \times \frac{1}{1 - \frac{(n-k)}{(2435 + t)}} \times AR$$

Example:

PE: £40,915.68 RP: £36,578 k: 4,105 n: 6,022 t: 13,505 AR: 0.94

Basic annual pension: £11,510.57

$$\frac{40,915.68 - 36,578}{36,578} \times \frac{4,105}{6,022} \times \frac{1}{1 - \frac{(6,022 - 4,105)}{(2435 + 13,505)}} \times 0.94$$

which works out as: $0.118587 \times 0.681667 \times 1.1367 \times 0.94 = 0.086374$

Since the 'Basic annual pension' is £11,510.57 and we now know the 'appropriate proportion' in this instance is 0.086374, the 'pension enhancement' in this case is:

£11,510.57
$$\times$$
 0.0.086374 = £**994.21**

The revised pension entitlement is:

D) If the member's pension rank is that of **OR9 or below**, but they have **not reached the immediate pension point**, the appropriate proportion is that given by the formula:

$$\frac{PE-RP}{RP} \times \frac{k}{n} \times \frac{2435+t}{t+k-n}$$

Example:

PE: £40,915.68

RP: £36,578

k: 4105

n: 6026

t: 13505

$$\frac{40,915.68 - 36,578}{36,578} \times \frac{4,105}{6,026} \times \frac{2435 + 13505}{13505 + 4,105 - 6026}$$

which works out as: $0.118587 \times 0.68121 \times 1.37603 = 0.1112$

Since the Basic annual deferred pension is £9,952.20 and we now know the 'appropriate proportion' in this instance is 0.181017, the 'pension enhancement' in this case is:

£9,952.20
$$\times$$
 0.1112 = £1,106.68

The revised deferred pension entitlement is:

£9,952.20 + £1,106.68 = £11,058.88

- 4.4.5. Where the member is serving under flexible terms the members current pensionable earnings are calculated as though the member was not serving on flexible terms. On the members last day of pensionable service the pensionable earnings are calculated as though the member was not serving on flexible terms that day.
- 4.4.6. If the member ceases pensionable service (e If the member ceases pensionable service (excluding death and invaliding) before reaching the age of 55, and has reached the immediate pension point, the figure given by Formulae A and C will be reduced by a factor representing Actuarial Reduction (AR). The rates in respect of AR are shown in the table issued by the Scheme Actuary for that purpose²⁵, for a person of the member's age and ranks.
- 4.4.7. The enhanced part of the pay or pension which has been bought by the AVC cannot be commuted under Life or Resettlement Commutation.
- 4.4.8. If the member leaves the Armed Forces or dies in service and their military salary does not exceed the representative rate of pay for their rank, then no enhancement will be paid, and no refunds will be made. However, when the member retires the surplus contributions may be used to enhance a surviving spouse or civil partner's pension.

Section 4.5 - Enhancing Surviving Adults' Pensions

4.5.1. An active member may opt to make contributions to the Scheme to increase the pension due after their death to their eligible widow, widower or civil partner by an additional amount provided that:

²⁵ Armed forces pension schemes consolidated factors list.

- a. they have not been given notice that their pensionable service is to be terminated.
- b. there is no reason to believe that the member's health may prevent them from continuing in service until the end of their current commission or engagement.
- c. the member must sign a declaration that they believe that the condition in paragraph (b) has been met.

Contributions are subject to 4.9.1 (restrictions applying to pension debit members).

- 4.5.2. The option can be exercised only once and must be made in writing to the Scheme Administrator (Veterans UK) using the appropriate form that will be supplied on request.
- 4.5.3. Where a member exercises an option under this Section, the contributions are payable by deduction from salary, commencing from the date on which the application is received and continuing until the member's retirement or other termination of service.
- 4.5.4. Where a member is serving on flexible terms, the members pensionable earnings are calculated as though the member was not serving on flexible terms
- 4.5.5. Where an Other Rank member continues in service after completing 22 years' reckonable service, the rate of contribution shall be revised on completion of 22 years' reckonable service and contributions will thereafter be payable at the revised rate until retirement.

Where a member exercises an option under this section:

- a. the contributions payable are:
 - (1) expressed as a percentage of their gross basic military salary at the time the contributions are deducted, excluding additional pay and allowances; and
 - (2) the amount due for payment each month is to be deducted before tax is calculated on the remainder of their pay.
- b. the additional amount of pension that may be payable to the member's eligible adult survivor as a result of opting to pay contributions at that rate will be the difference between:
 - (1) the long-term adult survivor's pension payable (or any replacement attributable adult survivor's pension payable provided under separate regulation, where applicable); and

- (2) four-ninths of the representative rate of pay for the member's rank and length of reckonable service at the date of:
 - (a) their retirement or discharge if they die in retirement; or
 - (b) their date of death in service.

The increased pension is payable from the same date as the long-term pension would otherwise be payable.

- 4.5.6. Effect of Making Contributions to Enhance an Adult Survivor's Pension. If a member who has exercised an option under this Section dies, then the pension due to their eligible adult survivor is to be increased by the whole of the additional amount specified in paragraph 4.5.5, so long as one of the following conditions are met:
 - a. the member paid all of the contributions required under the terms of their option; or
 - b. if the member leaves service, or dies in service, after reaching age of 55; or
 - c. if the member dies in service or is invalided before reaching age 55.
- 4.5.7. If a member leaves service with an immediate pension before reaching age 55 for reasons other than invaliding, the additional amount will be reduced to take account of the shorter period of contribution, using the method and formula shown below:
- **Step 1** calculate the value of the enhancement as if all contributions had been paid.
- **Step 2** calculate the fraction by which the enhancement is to be reduced using the formula X divided by Y.

Where:

X is the number of whole days in the period when contributions were actually being deducted from the member's pay; and

Y is the number of days in the period that the member would have paid contributions had he/she continued in service to age 55.

- 4.5.8. If a member leaves service with a preserved pension, the additional amount will be reduced as shown at 4.5.7 to take account of the shorter period of contribution.
- 4.5.9. If a member dies and there is no eligible adult survivor, no refund of contributions will be made.

Section 4.6 - Enhancing Death in Service Lump Sum

4.6.1. **Member's Option to Pay Contributions to Enhance Death in Service Lump Sum**. An active member may opt to make contributions to the Scheme to

increase any death in service lump sum by an additional amount. The option can be exercised only once by notice and in writing to Veterans UK as the Scheme Administrator using Form 5 which can can be found on the Veterans UK Armed Forces pension and insurance declaration forms page on GOV.UK.

- 4.6.2. The member may exercise the option only if:
 - a. the member has not been given notice of termination of the member's pensionable service;
 - b. there is no reason to believe that the member's health may prevent the member from continuing in service until the end of the current commission or engagement; and
 - c. the member has signed a declaration that the member believes in the condition in (b) to be met.
- 4.6.3. Where a member exercises an option under this Section, the contributions are payable by deduction from salary, commencing from the date on which the application is received by the Scheme Administrator and continuing until retirement or discharge.
- 4.6.4. Where an Other Rank member continues in service after completing 22 years' reckonable service, the rate of contribution will be revised when they reach that point to a rate determined by the Scheme Actuary and contributions thereafter are payable at the revised rate until retirement.
- 4.6.5. Where a member is serving on flexible terms the member's pensionable earnings are calculated as though the member was not serving on flexible term.
- 4.6.6. Contributions are made on an insured basis and will not be refunded; neither will any transfer value reflect the payment of such contributions.
- 4.6.7. Effect of Making Contributions to Enhance Death in Service Lump Sum. Where a member makes an option under this section:
 - a. the contributions payable are expressed as a percentage of their gross basic military salary at the time the contributions are deducted, excluding additional pay and allowances; and
 - b. the additional amount of lump sum that may be payable as a result of opting to pay contributions at that rate will be the difference between:
 - (1) all normal Scheme lump sums payable under Chapter 3 (Death Benefits); and
 - (2) four times the representative rate of pay for the member's pension rank as at the date of their death; and at
 - (a) the 34-year point if the member is an officer; or

- (b) the 37-year point if the member is an Other Rank; or
- (c) where it is to the member's advantage, the difference between all normal Scheme lump sums and four times the member's actual earnings at the date of death.
- 4.6.8. Where a member makes an option under this section, they will be insured from the date on which the application form is received, and date stamped, by the Scheme Administrator.
- 4.6.9. Where a member is serving on flexible terms at the date of death, the members annual pensionable earnings are calculated as though the member was not serving on flexible terms.

Section 4.7 - Split Added Years

- 4.7.1. If a member has a purchase of added years contract, but they leave service before the immediate pension point and their pension is deferred, a further calculation is made in order to revalue the AVC to account for the fact that their deferred pension age is split between 60 and 65 (if this is applicable to the member; the pension benefit age is age 60 for Service up to and including 6 April 2006, and age 65 for Service after 6 April 2006). Whilst they will not benefit from the full amount they intended to buy because they have not paid in until they are 55, the member will receive the benefit of what they have purchased.
- 4.7.2. The calculation to decide how to account for this split between age 60 and 65 can be found below:

Example member (who had service before and after 6 April 2006).	
Date of birth	01/01/1978
55 reached at	01/01/2033
Enlisted	01/01/2002
Purchase of added years contract started	01/01/2003
Discharged on this date	01/09/2017
Number of years that member opted to purchase (A)	3 years (1095 days)
Period over which contributions were made, from 1/1/2003 to 31/8/2017 (B)	14 years 243 days (146,657 days)
Period over which contributions would have been made to age 55, had member served until that point, from 01/01/2003 to 31/12/2032 (C)	30 years (10,950 days)
Formula 1	

Using the same formula as in 4.2.16, we can calculate the number of purchased added years that a member has bought when the 'split years' issue is not taken into account.

D: **A** \times **B/C**, which works out as: $1095 \times 14.6657/10,950 = 1.4666$ (1 year and 170 days)

Since the pension benefit age is age 60 for service up to and including 6 April 2006, and age 65 for service after 6 April 2006, the length of service for each period needs to be considered.

Total service from 1/1/2002 to 1/9/2017 (E)	15 years 244 days 15.6685
Service post 6/4/2006 to discharge	11 years 149 days
06/4/2006 to 1/9/2017 (F)	11.4082
Service up to 6/4/2006	4 years 156 days
01/01/2002 to 5/6/2006 (G)	4.42739

To work out the number of years the member earnt **post 6 April 2006** the following formula is used:

 $D/E \times F \times 1.25 = 1.3348 \text{ years}$

To work out the number of years the member earnt **pre 6th April 2006** the following formula is used:

D/E \times **G** = 0.4144 years

This means the total purchase of added years after factoring in the 'split' added years is now: 1.3348 + 0.4144 = 1.7492 years, or **1 year and 273 days**, which is in this case slightly more generous than the **1 year and 170 days** the member was 'originally' due.

Section 4.8 - Treatment of Surplus AVCs at Service Termination

4.8.1. A member can end up with having surplus AVCs if they have served to the full career point of 34 years, but have been paying for AVC added year benefits. An example calculation for surplus AVCs can be found below:

Treatment of surplus AVCs at service termination.

Scenario: An AFPS 75 member had purchased an added years contract to buy extra reckonable service. The member ended up serving until the full career point and was therefore left with a surplus AVC at service termination. Surplus AVCs are automatically converted into widows' benefits (and if there is no widow at the time of death then it is lost money). The following calculation demonstrates how a member in this instance ends up with an enhanced widows' benefits AVC which secures an improved widows' pension upon the member's death, based on 4/9ths of the representative rate of pay at time of discharge.

The added years contract the member purchased was to buy 3 years 141 days reckonable service. The AVC deduction for this added years contract was 3.15%. The annual percentage deduction from pay for an enhanced widows' benefits AVC, had the member originally chosen this instead of the added years, would have been 4.39%.

The member had a representative rate of pay at discharge of £53,533.00 (this is based on the ranking OF2 at the 34-year point using 2020 rates).

Normally, a full career OF2 pension (34 years) is £25,963.00 and a normal spouse's pension in AFPS 75 is 50% of the member's pension, which in this case would be £12,981.50. A full enhanced widows' pension, based on 4/9th of representative pay, would be £23,792.44.

To calculate the full amount of enhancement purchased by the member you subtract the normal spouse's pension from the full enhanced widows' pension (£23,792.44 -£12,981.50 = £10,810.94). The £10,810.94 represents the extra annual benefits paid to the member's widow which would have been gained from contributions of 4.39% of salary up until retirement at age 55 years.

On the day before his 55th birthday, the member will have purchased 3 years 141 days.

Of this surplus, 141 days is needed to get the member to the 34-year full career point, which leaves a surplus of 3 years.

The percentage of pay to buy the 141 days firstly needs to be calculated. It costs 0.93% to buy 1 year of reckonable service, so to buy 141 days the cost would be $0.93/365 \times 141 = 0.36\%$, i.e. the annual percentage deduction from pay which is needed to buy 141 days only of reckonable service. Since the member paid 3.15% into his added years AVC (for 3 years and 141 days), to work out the new annual percentage deduction after using up the 141 days: 3.16% - 0.36% = 2.79%.

To calculate the adjusted level of widows' enhancement as a proportion of the full widows' enhancement, take the percentage of AVC used towards widows' benefits and divide it by the rate needed to buy the full enhancement: $2.79\% \div 4.39\% = 0.6355$.

Then, multiply the full widows' enhancement of £10,810.94 by 0.6355, and the result is the enhancement of widows' benefits calculated from the member's surplus AVC contributions: £6,870.35

This ultimately means the member's widow would receive an annual pension of £12,981.50 + £6,870.35 = £19,851.85 (instead of the full enhancement of £23,792.44).

Section 4.9 - Debit and Pension Credit Members

- 4.9.1. Restrictions on Pension Debit and Pension Credit Members Making Contributions:
 - a. **Debit Members**. The opportunity for a pension debit member to make AVCs under the terms shown in <u>Section 4.2</u> are limited to the scope that they would have had had it not been for the debt imposed by the Pension Sharing Order. This means that they may not use in-scheme defined benefit AVCs to fill any shortfall created by implementation of the Pension Sharing Order.
 - b. **Credit Members**. The options shown in the foregoing sections of this chapter are not open to pension credit members, whose pension is limited to the value transferred under the pension sharing arrangements shown in Section 2.19.

Section 4.10 - Finality of Options to Make Contributions

- 4.10.1. **Restriction on Cancellation of Options to Make Contributions**. Once an option to make contributions under <u>Section 4.2</u>, <u>Section 4.4</u>, <u>Section 4.5</u> and <u>Section 4.6</u> of this chapter has been signed and accepted. it is final. However, the Defence Council may allow a member's contributions to be terminated from a current date on grounds of exceptional circumstances outside the member's control.
- 4.10.2. **Period of unpaid employment**. If a member who has opted to pay AVCs by deductions from their Service pay has a period of absence from work during which they are not paid by the Department, they may:
 - a. cease to pay the contributions for the period of their absence.
 - b. pay the same amount of contributions as would have been payable if they were receiving basic military salary at the full rate for their rank and service.

The option to pay at 4.10.2 (b) is to be made under arrangements for monthly or one single lump sum payment as agreed with the JPA Pension Awarding Branch at Veterans UK Glasgow. *Note: enhanced life insurance cover under Section 4.4* will be lost if contributions are outstanding when they fall due for payment.

- 4.10.3. Paragraph 4.10.2 does not apply during any of the periods that are defined at Schedule 5 to the Social Security Act 1989 in respect of:
 - a. paid ordinary maternity leave.

- b. paid paternity leave.
- c. paid ordinary adoption leave.
- d. paid family leave.
- 4.10.4. During any of the above periods, contributions are to continue, but based only on the amount of pay the member receives during that period. However, contributions will not continue during any period of additional maternity leave, additional adoption leave, parental Leave or any unpaid leave taken by a pregnant member during her prenatal period, (i.e. if such a period was not authorised as paid sick leave).
- 4.10.5. If a member ceases to pay contributions during a break in service, other than shown at 4.10.3, and they fail to arrange to pay the missing sum, the consequences shall be:
 - a. If they had opted to pay AVCs under <u>Section 4.2</u> (Added Years) the enhancement of additional years and days that they had agreed to purchase is to be reduced in respect of the missing contributions using the formula shown at <u>4.2.15</u> and otherwise used for early retirement.
 - b. **Enhanced Adult Survivor Pension**. If they opted to pay AVCs under <u>Section 4.5</u>, the enhancement of additional years and days that they had agreed to purchase is to be reduced in respect of the missing contributions using the formula shown at <u>4.5.7</u> and otherwise used for early retirement.
 - c. **Enhanced Death in Service Lump Sum**. If they opted to pay AVCs under <u>Section 4.6</u>, the enhanced life insurance cover they were purchasing will be lost if contributions are outstanding when they fell due for payment to the Scheme Administrator.
- 4.10.6. **Repayment of Contributions**. Contributions that are paid by a member under the rules explained in this Chapter will not be refunded, except in very rare circumstances. These circumstances have occurred when the member's terms and condition of service are changed by the Department in such a way as to reduce the headroom available for the member to fill with AVCs to a point where their reckonable service with the enhancement would exceed the maximum allowable under AFPS 75 rules. In such cases the member may be offered additional survivor benefits, where appropriate, to the value of the over-funding or a refund of contributions after the deduction of underpaid income tax on those contributions.

Section 4.11 - HMRC Restrictions

4.11.1. **6 April 2005 tax changes**. The defined benefits AVCs described in this Chapter were introduced before 6 April 2005, the date when AFPS 75 was closed to new members. Consequently, the rules for purchasing these benefits were limited by the income tax regime that remained in force until the Government launched its tax simplification rules that apply to benefits accrued from 6 April 2006 (known as 'A-Day'). The post 'A-Day' tax rules allow more scope for individuals to purchase additional

benefits to supplement those normally provided by the Scheme. However, the Scheme Managers decided not to change the limits for the defined benefits products in the Scheme that was closed to new members before 'A-Day'.

- 4.11.2. The tax-free contributions made under the rules set out in this Chapter in respect of a member's pensionable earnings must not exceed 15 percent of their military salary in any tax year as stated in section 594 of the Income and Corporation Taxes Act 1988 (tax relief for contributions to exempt statutory schemes) or the members pensionable earnings for that tax year, whichever is lower.
- 4.11.3. **Added Years**. A member may only purchase added years under <u>Section 4.2</u> to the following limit:
 - a. total number of reckonable years and days that they would have if their service were to continue to age 55, and deduct that amount from
 - b. the maximum reckonable service that may count under the Scheme's rules. This is 34 years for officers and 37 years for other ranks.

The amount at (a) is to include all service transferred from other pension arrangements and reckonable service given during a previous employment period, whether or not this was, or will be, aggregated with the current employment period.

Section 4.12 - Commercial AVCs

- 4.12.1 Additional AVCs may be paid to a commercial AVC provider. These benefits are paid externally from the scheme, or alternatively to a Free Standing AVC, subject to any limits on pensions savings eligible for tax relief.
- 4.12.2 It is the responsibility of the individual to seek any necessary independent financial advice at their own cost and to ensure that their pension provisions remain within HMRC limits on pension's savings eligible for tax relief.
- 4.12.3 A list of independent financial advisors accredited by the Services Insurance and Investment Advisory Panel is published regularly in DINs, but members should not feel that they are limited to those listed. Additionally, the Financial Services Authority can advise on how to find a financial adviser. Their helpline number is 0300 500 5000 or visit their website at www.fsa.gov.uk/consumer.

Section 4.13 - AVCs and Armed Forces Pension Scheme 2015 (AFPS 15)

- 4.13.1. Members who remained in AFPS 75 will be unaffected in regard to Additional Voluntary Contributions (AVCs). For those scheme members who have transitioned to AFPS15, the following paragraphs explain how AVCs will be affected.
- 4.13.2. Added Years AVCs purchased before April 2015. These will continue unchanged in accordance with relevant AFPS 75 and 05 AVC rules (the legacy schemes' rules). SP will continue to pay their AVCs and the added years' service will be added to the member's old scheme benefits when they leave the Armed Forces.

- 4.13.3. 'Enhancing Death in Service Lump Sum' AVC. Payments in respect of this AVC, and the benefit cover, stopped in April 2015. This is because the new scheme will automatically provide comparable benefits to those being purchased. Members will not have any accrued rights (including no entitlement to a refund of premiums already paid), as the Death in Service AVC is an insurance-type arrangement providing ongoing cover while AVCs continue if the member does not die in service during payment of the AVC.
- 4.13.4. 'Enhancing Surviving Adults Pension' AVC. Payments in respect of this AVC, and the benefit cover, stopped in April 2015. The new scheme will automatically provide partner's benefits from April 2015 in addition to those being purchased. Members' spouses/civil partners will accrue rights to a proportion of this benefit purchased up to April 2015.
- 4.13.5. **AVCs Calculated on an Enhanced Basis**. Payments in respect of this AVC, and the benefit cover, stopped in April 2015. The new scheme will automatically provide benefits from April 2015 in addition to those being purchased. Members will accrue rights to a proportion of this benefit purchased up to April 2015.
- 4.13.6. **New Scheme AVC**. For members who transitioned to AFPS 15 a new AVC scheme is available see JSP 905.

5 Transfers

Section 5.1 - Transfers Out

- 5.1.1. From 6 April 2015 the <u>Pension Schemes Act 2015</u> prohibited transfers from unfunded public service defined benefit schemes²⁶ to schemes from which it may be possible to acquire a right or entitlement to flexible benefits such as funded defined contribution Pension Schemes. AFPS 75 is an unfunded public sector scheme and therefore transfers out are now only possible to schemes which have been approved by HMT.
- 5.1.2. **Public sector transfer**. A scheme member may apply under <u>Section 95 of the Pensions Scheme Act 1993</u> for a transfer value payment to be made under the public sector transfer arrangements, to a HMT approved scheme.
- 5.1.3. Unless the scheme administrator says otherwise, the application must be made:
 - a. within a year of the day on which the member begins pensionable service for the purposes of the scheme into which they intend to make the transfer;
 - b. in the case of a transfer value payment reflecting the member's entitlement to a pension for life from age 60 (see 5.1.2), before the member's 60th birthday; and
 - c. in the case of a transfer value payment reflecting the member's entitlement to a pension for life from age 65 (see 5.1.2), before the member's 65th birthday.
- 5.1.4. When the transfer is taking place under the public sector transfer regulations, the transfer value payment is calculated in accordance with those arrangements. The value is determined by reference to the guidance and tables provided by the Government Actuary and in use on the day of calculation.
- 5.1.5. **Non-public sector transfer**. Generally, this type of transfer is prohibited. A transfer can only be made to scheme to which the public sector transfer regulations do not apply if it is a HMT approved scheme. In this case, the amount of the transfer value payment the member is entitled to under Section 94 of the Pension Schemes Act 1993 should be calculated in accordance with the guidance and tables issued by the Defence Council, for the use at the guarantee date.
- 5.1.6 When making these tables the Defence Council must use factors which it believes are appropriate, taking into consideration Section 97 of the Pension Schemes
 Act 1993 and regulations made under this Act. Section 97 explains how cash equivalents should be calculated and verified.

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²⁶ Definitions of different types of pensions.

- 5.1.7. The Defence Council must not determine the factors or issue the guidance and tables without first contacting the scheme actuary.
- 5.1.8. The transfer value payment may be less than the aggregate value of any transfer value payments that have been made to the Scheme in respect of the member and any Additional Voluntary Contributions (Section 4.1) paid for by the member. In this case, the amount of the 'Transfer Value Payment' is to be equal to the 'aggregate value of any transfer value payments' instead.

Section 5.2 - Application for Transfers In

- 5.2.1. An active member may apply for a transfer value payment in relation to some or all of the rights which they have accrued in another scheme or arrangement, to be accepted by the scheme. Chapter 4 of Part 4 of the Pension Schemes Act 1993 sets out the schemes and arrangements from which a transfer value will be accepted.
- 5.2.2. A transfer value payment deriving from pension rights that are directly or indirectly attributable to a pension credit will not be accepted by the scheme.
- 5.2.3. Transfers in from a personal Pension Scheme are not allowed.
- 5.2.4. A member may not transfer in pension rights from an occupational scheme that derives from voluntary contributions made by the applicant. The exception is when the applicant is also applying for the Scheme to accept a transfer payment from another occupational Pension Scheme, in relation to the same employment. A transfer is possible providing that the transfer value payment in relation to the other scheme relates to or includes rights which are not voluntary contribution rights.
- 5.2.5. The public sector transfer arrangements do not apply to a transfer under this rule.
- 5.2.6. To apply for a transfer value payment to be accepted the member must write to the Scheme administrator on or before the member's 54th birthday. They must specify the scheme or arrangement form which the transfer payment if to be made and the anticipated amount of the payment.

Section 5.3 - Acceptance of Transfer Value Payment

- 5.3.1. An application will have to be accepted by the Scheme administrator providing that any conditions required by the Defence Council are met.
- 5.3.2. However, the Scheme administrator will not accept an application if:
 - a. it would be applied in whole or in part in respect of the member's or the member's spouse's or civil partner's entitlement to a guaranteed minimum pension; and
 - b. it is less than the amount required for that purpose, as calculated in accordance with guidance and tables prepared by the Scheme actuary for the purposes of this paragraph.

5.3.3. If the transfer is accepted, then the member is entitled to use the transfer value payment towards the calculation of their reckonable service.

Section 5.4 - Calculation of Transferred-In Reckonable Service

- 5.4.1. The period of reckonable service which a member can count in relation to their transfer value payment is determined as at the day on which the transfer is received by the Scheme. It is calculated in accordance with the guidance and tables provided by the Scheme actuary for that purpose.
- 5.4.2. The member's pensionable earnings must be known for the completion of the calculation. They are taken as the amount of earnings two months after the application was received, or the date on which the transfer value payment was received, whichever is later. If the transfer value payment is received within two months of the application being received, the calculation should be adjusted if there has been any change in the amount of the member's earnings.

6 Further Service

Section 6.1 - Further Service: Definitions and Eligibility

- 6.1.1. This chapter applies to a person who:
 - a. was previously in pensionable service in AFPS 75 but ceased such service; this is known as the 'previous service'; and
 - b. has since resumed service as a member of AFPS 75; this is known as the re-joined service.
- 6.1.2. **Definitions**. The term 'previous service' refers to the period of pensionable service which ended as described at 6.1.1(a). For the purposes of this chapter, it does not matter in which of the Regular Services the person served during this period.
- 6.1.3. 'Re-joined service' means the period of pensionable service, which begins on the day that the member resumed pensionable service as described at 6.1.1(b), and ends with the day on which the person next ceases to be in pensionable service.

Section 6.2 - Periods of Service Treated Separately

- 6.2.1. Where 'the earlier period' of service is to be treated separately to 'the later period' of service: Pension rights are treated separately for the 'previous service' and the 're-joined service', unless the member decides to aggregate both services together or is subject to automatic aggregation (applicable in certain circumstances).
 - a. Pension rights in respect of 'the later period' are determined without consideration of the reckonable and qualifying service given during the 'earlier period'.
 - b. Pension rights in respect of 'the previous service' are determined without consideration of the reckonable and qualifying service given during the 'previous service'.

This rule applies where the rules regarding automatic aggregation (Section 6.3) and options to aggregate (Sections 6.4 - 6.6) do not.

Section 6.3 - Automatic Aggregation

- 6.3.1. A person is treated as having been in pensionable service for a single continuous period, consisting of the 'previous service' and the 're-joined' service, if either:
 - a. the person is a pensioner member, in respect of the 'previous service' who is receiving an ill health pension (Section 2.20).

b. the person is neither a deferred member nor a pensioner member in respect of the previous service. (They did not have sufficient service to vest in the scheme in their first period of service.)

This single continuous period will not include the time interval between the services.

6.3.2. Where the condition described at 6.1.1(a) applies any pension payable to the person after the end of re-joined service' is to be calculated in accordance with Chapter 1 of this JSP. The fact that an ill-health pension was payable in relation to the 'previous period' is ignored.

Note: While this rule allows the automatic aggregation of service for an ill health rejoiner, it may not be in the member's interest to do so and could have tax implications for them. If the earlier period of service ended before 1 April 2005, aggregation could result in the member:

- a. losing tax free status for their ill health pension;
- b. the lump sum for the further service would not be tax free because only one tax free lump sum can be paid per pension; and
- c. the member's lifetime allowance may be exceeded.

The member is therefore to be allowed to choose whether to have an automatic aggregation or to receive two separate pensions for their service.

6.3.3. If the person chooses to receive two separate pensions, they will have their pension relating to previous service re-instated from the date they leave service a second time. A separate pension in relation to their later period of service, will be paid from the same date if they have reached the immediate pension point, or will be deferred if the immediate pension point is not reached.

Section 6.4 - Option to Aggregate: Deferred Members

- 6.4.1. If a member left his previous service period as a deferred member, they may opt to aggregate this period of service with their re-joined service.
- 6.4.2. If the member chooses to aggregate these two periods of service then their reckonable and qualifying service from their previous service is treated as reckonable and qualifying service (respectively), for the calculation of pension benefits in respect of their re-joined service. They are disregarded for all other purposes.
- 6.4.3. The member must opt to aggregate their two periods of pensionable service in AFPS 75, before the final day of their re-joined service in the Armed Forces. They must do so by informing the Scheme Administrator in writing.
- 6.4.4. In the following circumstances the person may be treated as having exercised the option to aggregate:

- a. they die without opting to aggregate but they would have been eligible to do so on the date of their death; and
- b. they have a surviving spouse or civil partner who is eligible to receive a pension in respect of both their earlier and later periods of service (Chapter 2); and
- c. the sum of pension from previous service and re-joined service is less than if aggregation had been applied.
- d. if a member has more than two periods of service in the scheme only the two most recent may be aggregated.

Section 6.5 - Option to Aggregate: Pensioner Members

- 6.5.1. If a member's pension rights in respect of the previous service' were in payment when they resumed pensionable service, they may still opt to aggregate their pension rights with their re-joined of service.
- 6.5.2. If the member does decide to aggregate these two periods of service then their reckonable and qualifying service from their previous service is treated as reckonable and qualifying service (respectively), for the calculation of pension benefits in respect of their re-joined service. They are disregarded for all other purposes.
- 6.5.3. The member must however opt to aggregate their two periods of pensionable service in AFPS 75, on the first day of their re-joined service in the Armed Forces by informing the Scheme Administrator in writing.
- 6.5.4. The Scheme Administrator may also permit the person to opt to aggregate if they believe there are exceptional circumstances as to why the person could not do so on the first day of the second period of service.
- 6.5.5. It is unlikely that a person who is a pension member in respect of the previous service will be in a position to apply to aggregate as AFPS 75 has been a closed scheme since April 2005 unless they are mobilised in an emergency.
- 6.5.6 If a member has more than two periods of service in the scheme only the two most recent may be aggregated.
- 6.5.7. **Note**: The Pension Commencement Lump Sum rules again apply if the earlier period of service ended after 6 April 2006. These mean that a person can only receive one tax free lump sum. Therefore, if an earlier period which ended after this date, is aggregated with a further period of service, the person will be taxed on any lump sum paid when they leave service for the second time.
- 6.5.8. If the person decides to keep their pensions separate, they will have their pension relating to their previous service paid from the date they leave service a second time. They will also receive a separate pension (including a tax- free lump sum) in relation to their re-joined service.

6.5.9. If the earlier period of service ended prior to 6 April 2006, the person will receive a tax free lump sum in relation to their later period of service, when they leave service for a second time.

Section 6.6 - Effect of Exercise of Option to Aggregate

- 6.6.1. The amount of immediate pension paid to officers of OF6 or below and other ranks, ill-health pensions and pensions which are preserved for deferred members are specified in the pension code in force on the member's last day of pensionable service. The pension code is set out in a table and read in accordance with the member's pension rank on their last day of pensionable service and the number of years of reckonable service the member has completed. A separate table sets out the rates for ill-health pensions.
- 6.6.2. However, where a member has opted to aggregate (Section 6.4 and Section 6.5), the pension code in force on the relevant day may be used instead and this pension code is read in accordance with the member's pension rank on that relevant day.
- 6.6.3. The relevant day is used in place of the member's last day of pensionable service, when this means that a greater annual amount of pension will be paid to the member.
- 6.6.4. The relevant day is:
 - a. the last day of the earlier period; or
 - b. if the member is aged 55 or over on the last day of the later period, the member's 55th birthday or, if later, the day on which the member reaches their normal retirement age. Members can accrue service after age 55 but only up to a maximum of 34 years and covers MODO's who routinely retire after age 55.
- 6.6.5. However, the relevant day will not be used in place of the member's last day of pensionable service, where:
 - a. the member was entitled to an immediate pension for the earlier period;
 - b. the member's pension rank is lower than what it would be if the later period were disregarded and below OF1; and
 - c. the alternative amount, A or B (calculated below), is greater than what would otherwise be the annual amount of the pension payable to the member at the end of the later period.
- 6.6.6. In this case, the annual amount of the member's pension is the greater of the alternative amounts A and B. For A and B to apply, the reversion in rank has to occur before the member becomes a member of AFPS 15. The formula for calculating the alternative amount for A and B is shown below:

Alternative amount A is calculated as follows:

The aggregate of the following:

- a) what the annual amount of the pension would be if:
- 1) the later period were disregarded; and
- 2) the member's pension rank were what it would be if the later period were disregarded,

and

b) the amount given by the following formula $(X-Y) \times Z/15$

Where:

X is the amount specified, for a person of the member's pension rank who has 37 years' reckonable service, in the relevant table in the pension code in force on the last day of the later period.

Y is the amount there specified for a person of the member's pension rank who has 22 years' reckonable service.

Z is the number of years in the later period.

Alternative amount B is calculated as follows:

The aggregate of the following:

- a) what the annual amount of the pension would be if:
- 1) the later period were disregarded, and
- 2) the member's pension rank were what it would be if the later period were disregarded, and
- 3) any reference to the member's last day of pensionable service in relation to the payment of immediate pensions to other ranks, ill-health pensions and professional supplements, is taken as the last day of pensionable service in the earlier period.

and

b) the amount given by the following formula $(X-Y) \times Z/15$

Where:

X is the amount specified, for a person of the member's pension rank who has 37 years' reckonable service, in the relevant table in the pension code in force on the last day of the later period

Y is the amount there specified for a person of the member's pension rank who has 22 years' reckonable service; and

Z is the number of years in the later period.

- 6.6.7. Due to ill-health, pension increases are applied to an immediate pension being paid to a member prior to them reaching age 55 (Section 2.21). Once the member reaches 55, the annual amount of immediate pension payable to the member from that day is used in place of the amount payable following the end of the later period, for the purposes of calculating pensions in accordance with Chapter 5.
- 6.6.8. If a lump sum has been paid to the member is respect of the earlier period of service it should be deducted (at its original value) from the lump sum calculated for the whole period of service. The original lump sum should <u>not</u> be re-valued when the second period of service ends. The effect this has is to increase the value of the lump sum to the member.
- 6.6.9. A lump sum death benefit (<u>Section 3.2</u>) may be paid to an eligible survivor if the member dies during the later period of service. In this case, the lump sum paid to the member in respect of their earlier period of service should be deducted (at its original value) from the lump sum death benefit paid in respect of the member's whole period of service.

Section 6.7 - Further Information

- 6.7.1. Sections 6.1 to 6.6 relate to members of AFPS 75 who have two periods of service within the scheme and remain within the scheme. However, the introduction of Armed Forces Pension Scheme 2005 (AFPS 05) on 6 April 2005 and Armed Forces Pension Scheme 2015 (AFPS 15) on 1 April 2015 means that members may have two or more periods of service in different Armed Forces Pension Schemes, which they may wish to aggregate. Where this is the case, the rules for aggregation are dependent on the schemes to which the member belongs and whether they transferred to AFPS 15 on 1 April 2015
- 6.7.2. Section 10.16 explains the pension rules regarding further service, where a member has served for less than two years in 'the earlier period'.

7 Commutation

Section 7.1 - Commutation of Small AFPS 75 Pensions

- 7.1.1. The payment of a trivial commutation lump sum does not trigger a Lifetime Allowance (LTA) test. However, the member must have LTA available at the point at which the lump sum is paid. The commutation limit is £30,000 (£18,000 prior to 27 March 2014) for members. Trivial commutation can take place once the individual has reached age 55 (or earlier where an ill health condition is met). There are seven conditions that must be met before a trivial commutation sum can be made:
 - a. the member has not been paid a trivial commutation lump sum previously (from any registered pension scheme although those that occurred before 6 April 2006 do not count).
 - b. The lump sum is paid in respect of a defined benefits arrangement or an in-payment money-purchase in-house scheme pension, or both.
 - c. on the nominated date, the value of the member's pension rights does not exceed £30,000.
 - d. the lump sum is paid when the member has available LTA.
 - e. the lump sum extinguishes the member's entitlements to benefits under the Pension Scheme.
 - f. the lump sum is paid from age 55 (earlier if an ill health condition is met).
 - g. dependants can select the Pension Scheme benefit they wish to commute provided the value does not exceed £30,000 in any one scheme.
- 7.1.2. Payment of a trivial commutation lump sum or a lump sum not exceeding £2,000 does not give rise to a Benefit Crystallisation Event (BCE) as a BCE 6 only includes a Pension Commencement Lump sum, a serious ill-health sum and a LTA excess lump sum.
- 7.1.3. **Members' Trivial Commutation**. The valuation of pension rights includes the individual's benefit entitlements which have been crystallised previously. Any rights that were commuted trivially before 6 April 2006 are not included in this measure. The scheme administrator will need confirmation from the member of any LTA that has already been used up before actioning a trivial commutation request.
- 7.1.4. **Trivial Commutation of a Lump Sum Benefit**. Dependants' pension benefits are not BCEs and are tested against the LTA. However, if a pension due to a dependant is worth less than £30,000 (this will only apply to trivial lump sum death benefits paid on or after 6 Apr 15 prior to this date the limit was £18,000) it can be trivially commuted. A trivial commutation lump sum death benefit is always taxed on

the whole amount. In addition, the entire lump sum is taxable as pension income of the dependant.

- 7.1.6. Members with a Guaranteed Minimum Pension (GMP) will need to wait until GMP age before they are able to take Trivial Commutation. Where the pension is less than the guaranteed minimum, the member cannot commute even if they have reached SPA/GMP age
- 7.1.7. **Members who left service on or before 31 March 2017**. Members who left service before 31 March 2017 can opt to trivially commute their pension at SPA. Members with pension benefits due to be paid early due to ill-health can opt to trivially commute their pension from the date when their pension goes into payment (no automatic consideration if under age 55, cases to be referred to MOD Authority only if the member requests a lump sum).
- 7.1.8. **Members who left service on or after 1 April 2017**. Members who left service on or after 1 April 2017 can opt to trivially commute their pension from age 55 however if the member applies before the pension benefits are due payable, the pension benefits due will be based on an actuarially reduced amount Members with pension benefits due to be paid early due to ill-health can opt to trivially commute their pensions from the date when their pension goes into payment (no automatic consideration if under age 55, cases to be referred to MOD Authority only if the member requests a lump sum).
- 7.1.9. PCMs with a pension due at age 60/65 where the Pension Sharing Order (PSO) took effect before 1 April 2017. PCMs with a pension due at age 60 or 65 with a PSO which took effect before 1 April 2017 can only opt to trivially commute their pension at SPA
- 7.1.10. PCMs with a pension due at age 60/65 where the PSO took effect on or after 1 April 2017. PCMs with a pension due at age 60 or 65 can opt to trivially commute their pension from age 55 if the PSO is effective on or after 1 April 2017 and the PCM applies on or after 1 April 2017 however if the PCM applied before the pension benefits are due payable, the pension benefits due will be based on an actuarially reduced amount
- 7.1.11. **Small Pot Lump Sum**. A member may be able to take the whole of their Armed Forces pension as a small pot if:

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²⁷ Tax when you get a pension (GOV.UK).

- a. they have retired and are aged at least 55, or if they are retiring at an earlier age because of ill-health; and
- b. the value of their pension pot does not exceed £10,000.
- 7.1.12. Unlike trivial commutation, individuals do not have to take into account any other defined pension benefits they may have, when giving up a pension for a small pot. The Government will allow them to give up three pension arrangements under the small pots rule.
- 7.1.13. If benefits are not in payment, they will have the option to take 25% of the pension value as a tax-free cash sum. The remainder is added to the rest of their taxable income in the tax-year in which they take it when determining any income tax liability.
- 7.1.14. A member whose pension is already in payment can apply for small pot commutation to the scheme administrators.
- 7.1.15. A change was made to the legislation in 2017 to allow members of the AFPS 75 to take their deferred pension normally payable at age 60 for service before 6 April 2006 and age 65 for service after 6 April 2006, as a small pot commutation lump sum at age 55 years on an actuarially reduced basis, providing the pension is within the limits.
- 7.1.16. Electing to take Small Pot Commutation will extinguish the member's entitlement to all defined benefits under that scheme
- 7.1.17. Members with a Guaranteed Minimum Pension (GMP) will need to wait until GMP age before they are able to take Small Pot Commutation. Where the pension is less than the guaranteed minimum, the member cannot commute even if they have reached SPA/GMP age
- 7.1.18. The earliest age at which a member no longer in service can access small pot commutation is age 55 years (unless the ill-health condition is met). This age will change in 2028 to age 57. It will then rise in line with the SPA so that it is always 10 years below SPA.
- 7.1.19. Pension credit members cannot commute until SPA unless the Pension Sharing Order (PSO) has taken effect on or after 1 April 2017 and the PCM applies after this date. As there is no spouse/partner's pension payable, this is not considered when calculating the amount payable under small pot commutation

Section 7.2 - The Armed Forces Resettlement Commutation Scheme 2010 (AFRCS 2010)

7.2.1. Resettlement Commutation allows an eligible person to commute part of their pension to obtain an additional lump sum. Their pension is reduced as a result and then restored to full value when they reach age 55.

- 7.2.2. **Definitions**. For the purposes of this Section a transition member is a person who is a member of AFPS 75 by virtue of their pensionable service prior to 1 April 2015 and who is also a member of AFPS 15 by virtue of their pensionable service on and after 1 April 2015.
- 7.2.3. **Eligibility**. Resettlement Commutation is available to members of the Armed forces who:
 - a. entered service before 6 April 2005;
 - b. ceased service on or after 6 April 2010;
 - c. prior to age 55 with an entitlement to an immediate pension, other than ill-health pension; and
 - d. who the Defence Council considered to have satisfactory health when they left service.
- 7.2.4. A person may not commute pension under both the AFRCS 2010 and the life commutation rules explained in Section 7.1. This is unless the person is an other-rank and they are able to commute less than £1000 under AFRCS 2010. In this case, they may commute concurrently under the AFRCS 2010 and life commutation rules (Section 7.1) to provide a combined sum of up to £1000, provided that they commute the maximum amount possible under the AFRCS.
- 7.2.5. A person may only commute pension under the AFRCS 2010 once and they must opt to do so before their last day of service.
- 7.2.6. Commutation is not allowed where an officer has agreed to re-join the Armed Forces.
- 7.2.7. **Amount of commutable pension**. The maximum sum that may be commuted by a person who is not a transition member is:
 - a. for officers, the difference between the lump sum that they received on leaving service and the 34 year pension rate.
 - b. for other ranks, the difference between the lump sum that they received on leaving service and the 37 year pension rate.

The applicable pension rate is set out in the pension codes in use on date that a member's service ends.

7.2.8. The maximum lump sum which can be commuted by a transition member is calculated using the following formula:

Calculating the maximum lump sum commuted by a transition member:

$$(A-B) \times \frac{C}{D}$$

Where:

A in the case of an officer is the 34-year rate and for an other rank the 37-year rate;

B is the aggregate lump sum from reckonable and pensionable service in AFPS 75 and AFPS 15;

C is the number of years of AFPS 75 service; and

D is the total number of years of reckonable and pensionable service in AFPS 75 and AFPS 15.

- 7.2.9. The maximum lump sum for commutation is different where the person's service has ended due to misconduct:
 - a. For an officer, it is the difference between the lump sum for length of service based on the 34-year rate for premature voluntary retirement.
 - b. For other ranks, the difference between the lump sum for length of service relating to misconduct and the 37-year rate. This is unless the member is a transitional member; in which case, the amount given by this paragraph is inserted into the formula given at Section 7.2.8 as **A**. The formula is then used to calculate the maximum amount a transitional member can commute under AFRS 2010²⁸.
- 7.2.10. Any supplements paid to a person shall be included when calculating resettlement commutation and pension.
- 7.2.11. Resettlement commutation shall not be allowed to reduce the basic rate of pension by more than half.
- 7.2.12. III-health pensions, any proportion of pension based on purchased added years or AVCs (see Section 4.1) and preserved pensions are not commutable.
- 7.2.13. Repayment of resettlement commutation and abatement. When a member leaves service having taken a lump sum under AFRCS 2010 and then re-joins the Armed Forces, their AFPS 75 pension may be abated, if there is balance remaining it will be deducted from their regular salary. If a members AFPS 75 pension is abated in full on re-joining, the abatement in respect of resettlement commutation is deducted from their salary
- 7.2.14. A person who re-joins the Armed Forces may have a pension in payment in respect of their former service. In this case, their pension is abated so that the combined value of their pay and pension income does not exceed the amount of pay (uprated for inflation) they were receiving on the day before they left service. If they have also received a lump sum from AFRCS 2010 the repayment due in relation to this payment will be deducted from the revised amount of pension once the abatement has been applied. If there is a shortfall, the repayment due will be deducted from the members salary.

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²⁸ Armed Forces Redundancy Scheme 2010.

Section 7.3 - Dependant's Commutation

- 7.3.1. A trivial commutation lump sum death benefit may be paid after the member's death to a dependant in respect of any entitlement to pension benefits.
- 7.3.2. Dependants can opt to trivially commute their pension at any age.
- 7.3.3. Trivially commuting a lump sum death benefit will eradicate all of the dependant's entitlement to pension death benefits under the Armed Forces Pension Scheme. A trivial commutation lump sum death benefit is always taxed on the whole amount. In addition, the entire lump sum is taxable as pension income of the dependant.
- 7.3.4. Where more than one pension exists or the pension pot under AFPS is more than £10,000, there is a requirement for the pension pot(s) to be measured against the trivial commutation limit of £30,000. For dependants the commutation limit of £30,000 applies per scheme. As long as the pension value is under £30,000 for one of the schemes then trivial commutation can be offered for that scheme. Dependants can select (for the purposes of measuring against the limit) which pension they would like to commute. If both are below the threshold, both can be commuted.
- 7.3.5. Dependants can take small pot commutation at any age.

Section 7.4 - Life Commutation: Commutation of AFPS 75 Pension in respect of service before 6 April 1980

- 7.4.1. An active member of the scheme who began pensionable service before 1 April 1978 and who is expected to be eligible to receive an immediate pension on leaving service, may opt to exchange part of their immediate pension for a lump sum
- 7.4.2. The annual amount of pension which may be exchanged for a particular lump sum will be determined by the Defence Council after consultation with the scheme actuary.
- 7.4.3. No more than 50% of the pension which is attributable to pensionable service prior to 6 April 1980 may be exchanged for a lump sum. No more than 25% of the individual's total pension may be exchanged.
- 7.4.4. The amount which can be commuted is also limited by the greatest lump sum which could be paid in association with their immediate pension (Section 3.2) to a person of the same rank as the member, who ceased service on the same day. The commuted lump sum combined with the lump sum paid to the member in association with their immediate pension must not exceed this amount.
- 7.4.5. A rank or rating may only exercise the option to commute their pension with permission from the Defence Council. This permission will only be granted if:
 - a. the Scheme medical adviser is of the opinion that:
 - (1) the member is in good health; or

- (2) that the member's life expectancy is not reduced by more than five years on account of the member's state of health; and
- b. the Defence Council is satisfied that the exchange would be of distinct and permanent advantage to a member.
- 7.4.6. The member must notify the Scheme Administrator that they wish to commute their pension before ceasing pensionable service. No further requests for commutation will be accepted, even by active members, after 6 April 2020.
- 7.4.7. The rules explained in this Chapter 7 do not apply to pensions derived from pension credit rights.
- 7.4.8. Commutation allowed at State Pension Age of PCM unless the PSO has taken effect on or after 1 April 2017 and the PCM applies on or after 1 April 2017.

8 Abatement

Section 8.1 - Further Pensionable Service: General Rule

8.1.1. An AFPS 75 pensioner member may be reemployed in the Armed Forces. The reemployed pensioner member may have their pension abated for the period of further employed service. This is unless the pensioner member was recalled under the Reserve Forces Act 1980/1996.

Section 8.2 - Service for Short Periods

- 8.2.1. Pension abatement will not apply if the pensioner member is re-employed for a short period of service. A 'short period' is considered as either:
 - a. a period not exceeding six months; or
 - b. two or more periods which do not total more than six months within any period of 12 months.

Any unpaid leave does not count towards the further period of service.

8.2.2. If it is not clear whether further service will be for a short period, abatement will be applied. When it becomes apparent that the member will be reemployed for a short period, the abated pension will be paid to the member.

Section 8.3 - Service on Lower Pay

- 8.3.1. A pensioner member is considered to be serving 'on lower pay' where their basic rate of pay on reemployment is less than the basic rate of pay (adjusted for CPI inflation) which they received on their last day of previous pensionable service, for the period in respect on which their pension is payable.
- 8.3.2. A pensioner member who is serving on lower pay shall have their pension abated by the relevant amount, which is calculated according to the following formula:

$$(A-B)-C$$

Where:

A is the annual amount of the pension, which includes in the case of an AFPS 2015 pensioner, their accrued right pension entitlement under the legacy scheme only;

B is the member's annual rate of basic pay on the first day of further service; and

C is the member's annual rate of basic pay on the last day of the period of service in respect of which the pension is payable (uprated by CPI).

Where a pension has been commuted, A is the amount of pension before any reduction for commutation.

A change in rank generates a reassessment of abatement.

A pension sharing order reducing the member's basic rate of pension generates a reassessment of abatement and the amount of reduced pension is the sum of A.

A change in the member's salary due to maternity leave also generates a reassessment of abatement. If any of these changes occur the sum of B is the amount of basic pay immediately after the change.

If pension increases apply in relation to the pension C is increased in proportion to the increase in the amount of the pension.

Section 8.4 - Reserve Service

- 8.4.1. For the purposes of this section, reserve service means:
 - a. service in the Reserve Forces (within the meaning of the Reserve Forces Act 1996) under a commitment under Section 24 or Section 25 of that Act; or
 - b. full-time service with the Regular Forces by a member of the Reserve Forces.
- 8.4.2. A pensioner member who is reemployed in reserve service will have their pension abated by the relevant amount which is calculated by the following formula:

$$(A-B)-C$$

Where:

A is the annual amount of the pension, which includes, in the case of an AFPS 2015 pensioner, their accrued right pension entitlement under the legacy scheme only:

B is the member's annual rate of basic pay on the first day of reserve service; and

C is the member's annual rate of basic pay on the last day of the period of service in respect of which the pension is payable.

A. Where a pension has been commuted, A is the amount of pension before any reduction for commutation.

B. If after the first day of reserve service:

- the member's rank changes,
- they take up a new post, or
- they enter into a new commitment under Section 24 or 25 or the Reserve Forces Act 1996,
- the member's pension reduces after a pension sharing order,
- the member's salary changes due to maternity,

B is the member's annual rate of basic pay immediately after the event (or, if there is more than one such event, the last).

C. If pension increases apply in relation to the pension, C is increased in proportion to the increase in the amount of the pension.

9 Supplementary Provisions

Section 9.1 - Claims for Benefits

- 9.1.1. References to a pension or a lump sum in this JSP, include those which would be payable were it not for the fact that the member has not notified the Scheme administrator of their entitlement
- 9.1.6. For the purposes of this Section 9.1, the following apply: an associated lump sum is any lump sum which is payable under the same rule as a pension and from the same time. A lump sum paid in respect of an active, fixed protection, deferred or pensioner member (see section 3.3) is considered to be associated with the surviving spouse or civil partners' pension (see section 3.4). Where there is no eligible surviving spouse or civil partner the lump sum may be paid to an eligible child (see section 3.9). In this case, the lump sum is considered to be associated with a child's pension (see section 3.9).
- 9.1.2. Deferred pension entitlements and any associated lump sums (see section 2.14) are not paid to a person unless they make a declaration in writing to the Pension Scheme Administrator stating their entitlement to receive them and the date on which they became so entitled. The dates the pension due is notified to them in the award letter on discharge and will be at age 60/65 (see section 2.5.6) However, if a child is entitled to receive benefits, the declaration may be made by the person who is eligible to receive payment of these benefits on the behalf of the child (see section 3.9).
- 9.1.3. Immediate pensions (see section 2.3) associated lump sums, and ill-health pensions are paid automatically; the member is not required to inform the Scheme Administrator of their entitlement to them. Those who qualify for an immediate pension/ill-health award must complete a Pen Form 1 (available on JPA) as part of their discharge administration. Where JPA is not available the member can submit notice in writing to Veterans UK, the form can be found here Form 1.
- 9.1.4. If a member does not claim their pension within six years of becoming eligible to receive it, the Scheme Administrator may decide that the pension is to be forfeited and any associated lump sum is not payable. Alternatively, the Scheme administrator may decide that the pension is only payable from the day on which the declaration is made.
- 9.1.5. If a member with an entitlement to a pension dies without claiming their pension entitlement the Scheme administrator may make a payment to the member's estate. This is providing that there are exceptional circumstances which are considered to justify this. A member's dependents have an entitlement to benefits but subject to the circumstances surrounding the delay.

- 9.2.1 The Defence Council may require any person who is claiming or receiving benefits under the Scheme to provide proof of identity and entitlement (or continuing entitlement).
- 9.2.2. If such evidence is not provided, the Defence Council may withhold the whole or any part of the benefits payable to the person. This includes those who have moved address without notifying the paying agent and their correspondence is being returned.

Section 9.3 – Payment of Pensions

9.3.1. Pensions payable under the Scheme are paid monthly in arrears. Each monthly payment must be one twelfth of the annual amount of the pension.9.3.2.

Where payment is made for any reason for a period of less than one month, the amount paid is a fraction of the amount which would be paid for a period of month ending on the day of payment. The fraction is calculated as the number of days for which payment is to be made, divided by the number of days in the calendar month during which the payment is to be made.

Section 9.4 -Non-assignability

- 9.4.1. No benefit to which a person is entitled under the Scheme is assignable or chargeable with any person's debts.
- 9.4.2. This rule does not however affect any enactment or anything which may be done under or for the purpose of the <u>Chelsea and Kilmainham Hospitals Act 1826</u>. That is those individuals entering the hospitals will have their pensions suspended.

Section 9.5 - Beneficiaries who are incapable of looking after their affairs

- 9.5.1. If the Defence Council considers that a person receiving scheme benefits is unable to look after their affairs, due to illness, mental disorder or otherwise, they may:
 - a. use any amount due to that person under the Scheme for their benefit; or
 - b. pay it to another person to do so.
- 9.5.2. If the Defence Council chooses to pay an amount to another person (see 9.5.1), they no longer have an obligation to pay this amount to the member.

Section 9.6 – Forfeiture of retirement benefits

9.6.1. The Secretary of State on behalf of the Defence Council, has the authority to withhold pension benefits payable to a member, if the member is:

- a. convicted of treason.
- b. convicted of one or more offences under the Official Secrets Acts for which the member has been sentenced on the same occasion to a term (or two or more consecutive terms) of imprisonment lasting at least ten years.
- c. convicted of an offence which is in connection with their Service i.e. they would have not been able to commit the offence but for their service within the Armed Forces and the Secretary of State considers that offence to have been gravely injurious to the defence, security or other interests of the state.
- d. the member has, since becoming a member of the Scheme become obliged to pay money to the Crown due to:
 - (1) criminal, negligent or fraudulent act or omission by the member; or,
 - (2) or in connection with, the member's service in the regular forces.
- 9.6.2. If the amount of the obligation is disputed, 9.6.1 (d) can only apply if it has been made enforceable by either:
 - a. the order of a competent court; or
 - b. an award of an arbitrator or, in Scotland, an arbiter to be appointed (if the parties fail to agree) by the sheriff.
- 9.6.3. Where the member has not been convicted of 9.6.1 (a) or 9.6.1(b) and the member has a guaranteed minimum pension under section 14 of the Pensions Act 1993 then the benefits withheld are only those that exceed the guaranteed minimum..
- 9.6.4. Where condition 9.6.1 d) is met, the benefits withheld must not exceed the amount of:
 - a. the money which is owed; or
- b. If less, the value of the person's entitlement or the accrued right in question (see section 93(2) of the Pensions Act 1995).

Section 9.7 - Forfeiture of death benefits

- 9.7.1. When a member dies, death benefits may be paid to a person in respect of the member (see Chapter 3). The Secretary of State (on behalf of the Defence Council) may forfeit benefits from this beneficiary to any extent it considers appropriate, if one of the following conditions are met:
 - a. the member's retirement benefits had previously been forfeited in accordance with Section 9.6; and Secretary of State (on behalf of the Defence

Council) is satisfied that the beneficiary was also guilty (either as principal or accessory) of the same offence. This means where the member only met the conditions for forfeiture under 9.6.1(a) due to two of more offences, the beneficiary must also be considered guilty of all these offences, for their benefits to be forfeited; or

b. the beneficiary has been convicted of the murder or manslaughter of the member or any other offence (such as aiding or abetting) in which the unlawful killing of the member is an element.

Section 9.9 - Procedure

- 9.9.1. If the Defence Council decides to withhold benefits from a scheme member or a beneficiary who is entitled to receive benefits in respect of a member (see Sections 6 and 7 of this chapter), they must notify the person in writing.
- 9.9.2. The person must be given notification of their rights under the arrangements established by the Defence Council for the resolution of disputes relating to the Scheme that are in force at the time and Part 10 of the 1993 Act (investigations: the Pension Ombudsman).
- 9.9.3. If the Defence Council withholds a benefit from a scheme member as the condition explained at 9.6.1(d) has been met, the member must be given a certificate showing the amount withheld and the effect of its being withheld on the member's benefits under the Scheme.
- 9.9.4. The Defence Council will also communicate with the member to invite representations prior to a final decision being as to whether the Defence Council forfeits the member's pension.

Section 9.10 - Determination of questions

9.10.1. Except where the Scheme rules state otherwise, any question arising under the Scheme is to be determined by the Defence Council, whose decision on it shall be final.

Section 9.11 - False declarations about member's health

- 9.11.1. The Defence Council may withhold payment (or further payment) of any benefits payable to a member or in respect of any member, if it appears that the member made a false declaration, or deliberately suppressed information about their health. The Defence Council may also recover any benefits already paid.
- 9.11.2. This applies where either:

- a. an ill-health pension (see Section 2.20) is in payment in relation to a member,
- b. the Scheme administrator has accepted an application by a member for a transfer payment to be accepted by the Scheme; or
- c. a member has increased their benefits by exercising one of the options described in Chapter 4 of this JSP. In this case, the Defence Council may also stop the member exercising this option.

Section 9.12 - Reduction of benefits and transfer values where Lifetime allowance charge is payable

- 9.12.1. The Scheme administrator must pay tax on a Benefit Crystallisation Event (BCE), listed in the table at section 216(1) of the Finance Act 2004, which occurs in relation to a member. This is providing that the member and the Scheme administer are jointly and severally liable to the charge in respect of the event.
- 9.12.2. The amount or value of the benefits payable to or in respect of the member must be reduced by the amount that the Scheme actuary considered to fully reflect the amount of the tax paid.
- 9.12.3. This is unless the BCE is the transfer to a qualifying recognised overseas pension scheme (see event 8 in the table). In this case, it is the amount or value of the sums of assets transferred, which are reduced by the amount which the Scheme actuary considers to fully reflect the amount of tax paid.

Section 9.13 - Deduction of special lump sum death benefits

- 9.13.1. Before a payment is made which is defined as a pension protection lump sum death benefit of the Finance Act 2004 (see paragraph 14 of Schedule 29), the Scheme administrator may deduct any tax due in respect of the payment, as set out under Section 206 of the same Act.
- 9.13.2. For the purposes of this Section 14, the Scheme administrator is the same Scheme administrator as is liable to pay the lifetime allowance charge, as set out in <u>Section 217</u> of the Finance Act 2004.

10 Gurkhas

Section 10.1 - Applicability

- 10.1.1. A Gurkha who was a member of the Gurkha Pension Scheme (GPS) between 1 July 1997 and 30 September 2007, who was also either:
 - a. a pensioner member of the GPS on 30 September 2007; or,
 - b. was an active member of the GPS for at least two years but ceased service before 1 October 2007 without a qualifying pension.

May be allowed at the discretion of the Defence Council to join the AFPS75 scheme. The Gurkha must make their application in writing to the scheme administrator DBS Veterans UK.

- 10.1.2. A Gurkha may also be treated as having been an active member on 1 July 1997, if they left service earlier but with a period of condoned service which extended to 1 July 1997 or beyond. Condoned service is a period during which a Gurkha is not in active service but is treated as pensionable for GPS purposes. Condoned service is treated as qualifying but not reckonable service in AFPS 75.
- 10.1.3. Gurkhas who took the Offer to Transfer are given the same rights as the AFPS 75 members

Section 10.2 - Qualifying and Reckonable service calculations

- 10.2.1. For Gurkhas who started service before 1 October 1993. For those who joined prior to 1 October 1993, 1 years qualifying service before 1 July 1997 in the GPS is equal to 1 years qualifying service under the AFPS 75. Reckonable service is calculated as a percentage of qualifying service determined under the Gurkha Offer to Transfer (GOTT) arrangements, the percentage that applies is determined by rank held on 1 October 2007. For service after 1 July 1997 1 years GPS service is equal to 1 years qualifying service and 1 years reckonable service in the AFPS 75.
- 10.2.2. For Gurkhas who started service on or after the 1 October 1993. For those who joined on or after 1 October 1993, 1 years GPS service equals 1 years qualifying service and 1 years reckonable service.
- 10.2.3. For Gurkha LE Officers who joined the Army before 1 July 1997 For pre 1 July 1997 1 years GPS service equals 1 years qualifying service. Reckonable service is calculated as a percentage of qualifying service. The percentages are those published under the GOTT arrangements. The percentage is determined by the rank held on 1 October 2007.
- 10.2.4. For Gurkha LE Officers who joined the Army on or after 1 July 1997.1 years GPS service is equal to 1 years qualifying service and 1 years reckonable service.

Section 10.3 - Effect of permission to join AFPS 75: Pensioner member of GPS

- 10.3.1. For the purposes of this Section, qualifying service is any period of service which would have been considered a qualifying service had the Gurkha been an active member of the AFPS75 scheme throughout their career as a Gurkha plus any period of condoned service they have received.
- 10.3.2. If a pensioner member of the GPS joins the AFPS75 scheme they are entitled to a pension for life from the 'relevant date' if the service person has:
 - a. 16 years qualifying service from the age of 21, at least 5 of which was served as an officer
 - b. at least 22 years qualifying service served from the age of 18

The relevant date is the last day of service, unless the Defence Council directs that it should be paid from a later date.

- 10.3.3. A Gurkha who is in receipt of an ill-health pension under the GPS is also entitled to a pension payable from the last day of service under the AFPS 75, unless the Defence Council directs that it should be paid from a later date. This is regardless of the amount of qualifying service they have completed.
- 10.3.4. If a pensioner member of the GPS joins the AFPS 75 but they are entitled to a pension however this is not payable until 1 March 2008 or the date of their 60th birthday, whichever is later.
- 10.3.5. Pension increases are applied in the same way as to any retirement benefits accrued in AFPS75. For pensioner members of the GPS (except those receiving an ill-health pension) who transfer into AFPS75, suspension of pension increases until age 55 applies.
- 10.3.6. For the purposes of calculating dependant's benefits, abatement and applying the miscellaneous and supplementary provisions of the scheme to pensions described in this Section, the person's service is treated as having been pensionable under AFPS75 and the pension they receive is treated as an AFPS 75 pension. The Gurkha is considered to have been a pensioner member of the Scheme from the relevant date..

Section 10.4 - Effect of permission to join AFPS 75: Gurkhas retiring without a Pension

- 10.4.1. If a Gurkha was an active member of the GPS for at least two years' and ceased service before 1 October 2007 without qualifying for a pension the person is to be treated as being (or having been) a deferred member of the AFPS 75 scheme from 1 March 2008 until the day before the person's 60th birthday.
- 10.4.2. Upon reaching age 60 they are entitled to a pension under the AFPS 75 and a lump sum. The pension and lump sum are payable from their 60th birthday. The reason that these benefits may include a pension commencement lump sum is that no previous pension commencement lump sum will have been paid from GPS.
- 10.4.3. The annual amount of the pension and the amount of the lump sum are determined by the Defence Council after consultation with the Scheme actuary.

10.4.4. For the purposes of calculating pension increases, dependants' benefits, abatement and applying miscellaneous and supplementary provisions of the scheme to the pensions described in this section, the persons service is treated as having been pensionable under AFPS 75 and the pension they receive is treated as ab AFPS 75 deferred pension. The Gurkha is considered to have been a pensioner member of the scheme from their 60th birthday.

Section 10.5 - Application by a dependant of a deceased member of the GPS for entitlement under the AFPS 75

- 10.5.1. if a Gurkha was an active member of the GPS on or after 1 July 1997 and then either:
 - a. Died in service before 1 October 2007; or,
 - b. Ceased service before that date and died before 1 March 2008,

The defence council may allow their dependant to acquire an entitlement under the AFPS 75

10.5.2. A widow, eligible child or surviving civil partner must apply in writing to Veterans UK.

Section 10.6 - Effect of permission to acquire dependants benefits under AFPS 75

- 10.6.1. If the service person meets the conditions outlined at 10.5.1, and the widow or surviving civil partner of a deceased member of the GPS acquires the right to AFPS 75 benefits they are entitled to a pension and a lump sum. The pension is payable from the date after the deceased member's death, unless the Defence Council determines that it should be paid from a later date.
- 10.6.2. If the service person meets the conditions outlined at 10.5.1, and an eligible child of a deceased member of the GPS acquires the right to AFPS 75 benefits, they are entitled to a pension for as long as they remain an eligible child. They may also be paid a lump sum if no lump sum is payable to a surviving spouse or civil partner.
- 10.6.3. An eligible child's pension is payable from the latest of:
 - a. The day after the date of death;
 - b. The day on which the child was born; and
 - c. The first day on which they became an eligible child.
- 10.6.4. The amount of pension is determined by the Defence Council in consultation with the scheme actuary.
- 10.6.5. While a dependant may have an entitlement to a lump sum it can only be paid to them within 2 years of which the scheme administrator first knew or could reasonably be expected to know of the members death. If this means that a dependant will not receive a

lump sum, the Defence Council may increase their annual amount of pension by an amount determined through consultation with the scheme actuary.

- 10.6.6. Where a Gurkhas surviving spouse or civil partner is eligible to receive a pension, they will be subject to the general AFPS 75 rules regarding the suspension of pension upon remarriage prior to 1 April 2015, pension increases and recovery of pensions for surviving spouse and civil partners
- 10.6.7. Where a child of a Gurkha is eligible to receive a pension, the general AFPS 75 rules regarding the payment of children's benefits (Section 3.9) apply.
- 10.6.8. The rule regarding the forfeiture of benefits (Section 9.6) also applies to death benefits paid to a Gurkhas dependant.

Section 10.7 - Cancellation of effect of permission

- 10.7.1. If permission to join the Scheme has been granted to a member of the GPS (see Section 10.1) or a dependant of a deceased member of the GPS (see Section 10.5), their application may not be withdrawn.
- 10.7.2. Sections 10.3,10.4 and 10.6 shall cease to apply and shall be regarded as never having been applied if the Defence Council writes to notify the applicant that the effect of the transfer may be cancelled. The applicant has three months from the date on which notice is given to write to the Defence Council and confirm that the **effect** of the transfer should be cancelled.

Section 10.8 - Pension entitlement for active members in service on October 2007 who transferred to AFPS 75

- 10.8.1. A Gurkha who was an active member of the GPS before 6 April 2006 and was still serving on 1 October 2007, and who transferred into AFPS 75, may have an entitlement to an immediate pension. This is if they have either:
 - a. at least 16 years qualifying service, from age 21, at least five of which were served as an officer;
 - b. at least 22 years qualifying service that were served after the member reached aged 18
 - c. or they met the ill-health condition (Section 2.20)
- 10.8.2. Where a Gurkha does have an entitlement to an immediate pension, the amount to be paid is determined by the Defence Council, after consulting the Scheme actuary. The general rules regarding the payment of immediate pensions (Section 2.3) do not apply.
- 10.8.3. The general rules regarding pension increases are applied to a Gurkhas pension. As such pension increases will not usually be applied to the immediate pension until the Gurkha reaches age 55 unless it is an ill health pension. With regards to the application of the general AFPS 75 rules concerning the payment of death benefits, abatement of pension and miscellaneous and supplementary provisions, the Gurkhas service is to be treated as pensionable under AFPS 75

11 Additional Information

Section 11.1 - Service less than 2 years

- 11.1.1. A member, who left service having completed less than two years service in AFPS75, will not have vested in the scheme. 3 months after leaving service, the contributions equivalent premium would be paid back to the state scheme based on the difference between National insurance deductions, essentially restoring contributions within the state scheme. If the member re-joined service, that previous CEP would be reclaimed, providing the gap between discharge and re-joining was no more than 5 years. This only applies to those that are discharged whilst a member of AFPS 75 and re-join service in AFPS 75.
- 11.1.2. If the member then re-joins the same Armed Forces pension scheme i.e. they were a member of AFPS 75 and they re-joined the AFPS 75 then the CEP can be reclaimed and they can use the earlier period of time as qualifying time to vest in the scheme. Once they have completed a total of two years service, the earlier period will count as reckonable as well as qualifying service. The earlier period will also count for Redundancy compensation purposes. However, this situation is unlikely to occur as AFPS75 has been a closed scheme since April 2005.
- 11.1.3. The exception is with regards to the payment of Resettlement Grants, where even periods of service of less than two years will count towards the relevant service (relevant service is from 21 as an Officer and from 18 as an Other Rank) for a Resettlement grant. A member of AFPS75 may also re-join a different scheme and continue to count all their service towards their relevant period for a Resettlement Grant.
- 11.1.4. The Armed Forces Pension Schemes are contracted out from the State Second Pension (SSP) (previously SERPS). For pensions accrued between 1978 and 1997, the Armed Forces Pension Schemes are required by law to pay a pension benefit at least as beneficial as that paid by the SSP. This amount is known as the Guaranteed Minimum Pension(GMP).

Section 11.2 - Mobilised Personnel

- 11.2.1. The UK Reserve Forces are authorised by Acts of Parliament under which they may be called-out for permanent service. This process is called mobilisation and serves as the primary mechanism for enabling reservists to undertake operations. Mobilisation is the act of bringing an individual reservist or group of reservists to a state of readiness in permanent service. The regulations for the call-out and recall of members of the reserve forces for permanent service are governed by the Reserve Forces Act 1996 (RFA 96) as amended by the Armed Forces Act of 2006.
- 11.2.2. When personnel are mobilised under Parts 4, 5, 6 or 7 of the RFA 96, (or any corresponding provision of RFA 80), they are treated differently from personnel joining or re-joining the Regular Armed Forces or *FTRS*. This is because they have no choice as to whether they are mobilised.

- 11.2.3. If they are in receipt of a pension under AFPS 75, the RFA 96 and RFA 80 provide for the AFPS 75 pension to remain in payment without abatement provided the service is for less than six months in duration.
- 11.2.4. Following the introduction of AFPS15 any member of the Reserve who is mobilised must choose to 'opt out' of AFPS 15 if they intend to apply for MOD to pay their employer contributions into their civilian occupation pension scheme. A Reservist who chooses to opt out of AFPS 15 and remain in their occupational pension scheme and continues to make their employee 'pensions payments', any contributions suspended by their employer will be made up by the MOD. Those who are Transitionally Protected (from 1 April 2022 no one is transitionally protected, and all active members have been moved to AFPS 15) will stay in their pension scheme until the end of the mobilisation. If they demobilise and become PTVR they will be auto-enrolled into AFPS15. For those who have an AFPS15 pension or EDP in payment there will be no abatement.
- 11.2.5. Reservists who are in civilian occupational or pension arrangements, may choose to continue to contribute towards their occupational or personal pension scheme. MOD will contribute the employer's element of the occupational pension scheme, but the individual must continue to pay their employee contributions. Individuals will need to provide details of their civilian employment pension scheme to enable the necessary payments to be made.

Section 11.3 - Pension Code

- 11.3.1. A final rank-based pension means that all members of AFPS 75 (OF 6 and below) with the same rank and same length of service will receive the same pension, regardless of actual pay.
- 11.3.2. The current Pension Code is a table created by DBS Veterans UK (Scheme administrators). It lists the different rates of pension available by rank and lengths of service. The code links to spot rates (fixed pay spine points). These provide a rate of pay known as the representative rate of pay for pension. Because the code is linked to the pay table, the Pension Code increases each year in line with Armed Forces pay, recommended by the Armed Forces Pay Review Body and approved by the Secretary of State for Defence.
- 11.3.3. The Pension Code applies only to Other Officers and Other Ranks.
- 11.3.4. The AFPS 75 scheme rules define representative rates of pay as "the representative rate of pay set out in the pension code in force on the member's last day of pensionable service for a person of the member's pension rank with the amount of reckonable service that the member has".
- 11.3.5. Representative pay rates are derived from "spot" rates. Two pay points are used for Officers and one for Other Ranks.
- 11.3.6. The representative rates for Officers reflect that Officers' pensions do not accrue at a uniform rate but at two different rates. Pensions accrue at a faster rate up to the 16-year point (the point at which an immediate pension can be paid), to boost the benefits of those leaving after a short career and at a slower rate after that, up to the 34-year point (when a full pension is earned). Two different points are required (at the 16- and 34-year points) to enable the different accrual rates to be mapped on to the pay scales for each rank. For

Officers, the difference between the two rates is added evenly to each year from years 17 to 33 and then removed from each years 15 to 1.

EXAMPLE

For Officers, a 16 year pension is derived from 28.5% of the representative rate of pay and the full career pension at 34 years derives from 48.5% of the representative pay. The incremental progression of the 18 years between 16 and 34 rises evenly.

For Other Ranks, the 22 year pension derives from 31.833% of the representative pay and the 37 year full career derives from 48.5% of the representative pay. The incremental progression of the 15 years between 22 and 37 years rises evenly.

11.3.7. Other Ranks must serve for 22 years before an immediate pension can be paid, only one accrual rate, and therefore one representative pay point, is used. The representative rates used for AFPS 75 have been adjusted to reflect changes introduced with Pay16 and are maintained in line with the Annual Pay Award. Pension Code supplements exist for the following employment groups with separate pay arrangements²⁹; Medical and Dental Officers (see Section 11.5), Aviators (see Section 11.6), Nurses (see Section 11.7) and Royal Navy Clearance Divers (see Section 11.8).

Section 11.4 - Pension at the Requisite Benefit rate

- 11.4.1. **General**. If a member of AFPS 75 who has at least two years qualifying service leaves with less than two years' reckonable service, they are to be awarded the better of the following alternative amounts:
 - a. The preserved pension appropriate to their pension rank and reckonable service only as calculated under whichever of the foregoing paragraphs in this section applies to them, or
 - b. Preserved pension calculated at the 'requisite benefit rate' for all their qualifying service.
- 11.4.2. **Requisite Benefit Rate**³⁰. Where the person has at least two years qualifying service when they leave service and they are not entitled to a higher rate of pension, they are legally entitled under the Scheme's obligation, which is set out in the occupational pension schemes contracting-out legislation, to a pension at no less than the 'requisite benefit rate'. However, where the requisite benefit rate applies, no additional deferred pension lump sum is payable.
- 11.4.3. **Calculation**. The requisite benefit rate is calculated at one point two five percent (1.25%) of the member's 'relevant earnings' for each whole year of qualifying service served after 6 April 1978. Where contracted-out service exceeds a whole year, the calculation is to include a fraction of a whole year expressed to four decimal places by dividing the number of days of qualifying service by 365 (366 if the year includes 29 February).

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²⁹ JSP 754 Chapter 4

³⁰ Army Pension Warrant 1977

Calculating alternatives - less than two years reckonable service

A member holding the pension rank OF1 leaves service with 3 years qualifying service from age 18 but only 200 days (i.e. 0.5479 years) of that is reckonable service. They are to be awarded a deferred pension at the better of options 1 and 2 below:

Option 1 - Deferred Pension Calculation:

- Retirement Pension for OF2 or below after 37 years reckonable service is £13,457.00
- Deferred Pension (per annum):

for 200 days reckonable service is: $(£13,457 \times 3\%) \times 0.5479 = £221.19$

Deferred Pension Lump Sum (at three times deferred pension) = £663.57

Option 2 - Alternative Requisite Benefit Calculation:

- Average annual pay earned in last three years = £22,679.76
- Less average annual LEL for NIC

£4,524 \times 1.5 = £6,786.00

Balance

£22,679.76 - £6,786.00 = £15,893.76

Requisite Benefit rate pension (per annum)

 $(£15,893.76 \times 1.25\%) \times 3 = £596.02$

No additional lump sum is awarded with pension at requisite benefit rate.

Choosing the better rate:

The annuity (pension) value of pension lump sum is that sum divided by 12.

In this case at (1) that is £663.57 \div 12= £55.30

Therefore, the total pension value of Option 1: £221.19+ £55.30 = £276.49

The better of alternative rates in this case is Option 2 which is £596 p/a with no additional lump sum

11.4.4. Relevant earnings is:

- a. The average annual rate of the member's earnings during their last three years of qualifying service in respect of which contracted-out National Insurance contributions (NIC) have been paid, less
- b. the average annual rate of so much of those earnings did not exceed the lower earnings limit (LEL), multiplied by one point five

Section 11.5 - Medical and Dental Officer Supplements

- 11.5.1. From 10 June 2009 MODOs who retire before age 58 and/or do not have the required reckonable service will be granted a pension based on their rank on retirement. This rule also applies to those leaving under redundancy terms. See the Armed Forces Redundancy JSP for more information on redundancy terms.
- 11.5.2. A MODOs cadets service from prohibitionary commission over the age of 21 counts as qualifying and reckonable service providing it is full paid service. If the service person received a bursary or attendance pay, this is not counted as full paid service. A full paid cadet service from age 21 will qualify and reckon towards an immediate pension and attract the appropriate MODO supplement
- 11.5.3. The professional supplement is the product of the daily supplement specified for a person of the members pension rank, holding the professional qualification or appointment held by the member, in the appropriate table of professional supplements in the pension code in force on the members last day or pensionable service and the number of days reckonable service the member has. The members reckonable service does not include:
 - a. Any day before 1 April 1992; or
 - b. Any day on which the member was not fully qualified as a MODO; or,
 - c. Any rights that have accrued to or in respect of the member under any other scheme or arrangement
- 11.5.4. **OF 3 and OF 4 MODO rates**. From 10 June 2009 OF 3 and OF 4 MODOs in the AFPS 75 are entitled to retire on representative OF 5 rates
- 11.5.5. **MODOs who receive retired pay at OF 5**. MODOs may be granted retired pay at OF5 rates subject to the following conditions
 - a. Provided they have attained the rank of OF 3 or OF 4; and,
 - b. Completed at least 25 years reckonable pension earning service from the date of their promotion to OF 3; and,
 - c. Are aged 58 or over
- 11.5.6. MODOS who retired before 58 and/or do not have the required reckonable service after 10 June 2009. Where this applies, they will be granted a pension based on their rank on retirement. For those leaving on redundancy terms, see Armed Forces Redundancy JSP for more information.
- 11.5.7. Accredited MODOS and Non-accredited MODOs supplements. Pension supplements are a set rate for the rank and vary depending on whether the MODO is accredited or non-accredited.
- 11.5.8. **Training serving officers**. Serving officers who subsequently train in the field of medicine or dentistry will qualify for supplements from when they start to receive full pay during their training. The rate of supplements is based on the rank position they hold at the point of retirement i.e. OF4 Consultant Accredited rate for all service after 01/04/1992 even though the consultant accreditation was awarded in 2012.

- 11.5.9. **Medical and Dental Officer Transfer Scheme**. In 2009 the MODO transfer scheme was introduced whereby serving officers could consider transferring to Army Medical Services (AMS) as a medical or dental officer. The scheme ran for one year and has been discontinued. Those who took up the offer can receive pension supplements from the day they receive full pay during their training. This will be dependent on whether they have chosen the 4 or 5 year pathway. Any career breaks do not qualify as reckonable service. Those who have become MODOs through the transfer scheme cannot accrue pension supplements for their reckonable service before transferring onto the MODO training path.
- 11.5.10. **Higher Medical Managers**. Pension supplements for MODO higher medical managers who were in post before 4 July 2011 and were promoted above OF 6 are eligible to receive a supplement in addition to a pension. This does not apply to new appointments after 4 July 2011
- 11.5.11. **AVCs and pension supplements**. Members who have added years AVCs to buy reckonable service can receive supplements on the days they have purchased from contributions made towards AVCs after 1 April 1997.
- 11.5.12. MODOs have an entitlement to both pension and professional supplements for periods at University, provided they were commissioned, paid and over the age of 21.
- 11.5.13. The Pension Code Pension Supplement for Service Medical and Dental Officers can be found on the gov.uk website (Medical and Dental officers supplements GOV.UK (www.gov.uk)

Section 11.6 - Professional Aviators Supplements

- 11.6.1. Those on the Professional Aviators pay spine (PAS) from 1 April 2003. Professional Aviators will accrue supplements on a daily rate which will be paid on leaving to those who have served 5 years where their pay was calculated using the professional aviators' pay spine.
- 11.6.2. **Professional Aviators who voluntarily retire before reaching immediate pension point**. Those who prematurely retire on a voluntary basis before completing 5 years' service where their pay was calculated using the professional aviators pay spine will be paid the premature voluntary retirement rate of pension appropriate to their rank without the addition of the supplement.
- 11.6.3. **Professional aviators' pensions on divorce**. Pensions on Divorce calculations before 5-year service where pay was calculated using the professional aviators' pay spine will not include the PA supplement.
- 11.6.4. **Returning to regular service**. those who return to regular service voluntarily before completing 5 years will lose the supplement accrued and will be entitled only to the normal pension related rank. Those who were invalided during this period will be awarded the better of:
 - a. The compulsory retirement rate plus the professional aviator supplement; or,
 - b. The normal service invaliding rate

- 11.6.5. **Tax-free Lump sum**. the tax-free lump sum is calculated at 3 times the annual rate of pension. the PA supplement (for more than 5 years on PAS) adds value to the pension. Therefore, subject to qualifying requirements, the supplement will add to the value of the lump sum received.
- 11.6.6. **Invaliding Terms**. if the member medically retired through causes out of the members control, they are deemed to have left on compulsory terms. As a result they may receive the better of the following:
 - a. The compulsory retirement rate plus PA supplement
 - b. The normal service invaliding rate

Section 11.7 - Professional Nurses Supplements

- 11.7.1. Tri-service Nurses are entitled to the same pension benefits as Officers and Other Ranks without the professional qualification if they meet the requirements to be awarded a pension under AFPS 75.
- 11.7.2. If a nurse meets the requirements to be awarded a pension under AFPS 75 they are entitled to also receive a supplement on top of their basic pension. This is known as a professional supplement. There are two service Nurses Pay Spines for Officers and Other Ranks that are for Regulars and Reserve Personnel. The Tri service Nurses will receive daily supplements for reckonable service that was served when fully qualified on or after 1 August 2009. The supplements are revised as necessary to reflect future changes in pay.
- 11.7.3. The supplements are shown in the appropriate table of professional supplements in the pension code in force on the members last day of pensionable service and the number of days reckonable service being the aggregate of all periods of flexible reckonable service and non-flexible reckonable service that the member has.
- 11.7.4. The supplements apply to immediate and preserved pensions. Death and ill-health benefits are based on representative rates of pay, except where this would be lower, in which case the improved retired pay and pensions including the supplements would be awarded.
- 11.7.5. A nurses reckonable service does not include any day before 1 August 2009, any day on which the member was not fully qualified as a nurse or any day the member served as a Medical or Dental Officer
- 11.7.6. If a member continues to serve after accruing the maximum years under the scheme, professional supplements will continue to accrue for each day of service beyond the maximum. The only restriction on professional supplements is that they are capped and will not exceed 34 or 37 years.

Section 11.8 - Professional Clearance Divers Supplements

11.8.1. Clearance Divers are entitled to professional supplements providing the members pay was calculated using the clearance divers pay spine. The supplements are shown in the appropriate table of professional supplements in the pension code in force on the

members last day of pensionable service and the number of days reckonable service being the aggregate of all periods of flexible reckonable service and non-flexible reckonable service that the member has.

- 11.8.3. To be eligible for the selection for the Clearance Divers' Pay Spine, and therefore supplements, personnel must have completed the Petty Officers (Diver) qualifying course (including DEODS elements). Have 15 years paid service, be in receipt of SP (Diving) and not be permanently downgraded as unfit to dive. Supplements are only payable after completion of 5 years return of service.
- 11.8.2. The additional amount of professional supplement is the product of the daily supplement specified for a person of the members pension rank, holding the professional qualification or appointment in the appropriate table of professional supplements in the pension code in force on the members last day of pensionable service; and the number of days reckonable service, being the aggregate of all periods of flexible reckonable service and non-flexible reckonable service, that the member has.
- 11.8.3. Reckonable service for the supplement does not include any day not falling within a continuous period of at least 5 years throughout which the members pay was calculated using the Clearance Divers pay spine.
- 11.8.4. The supplements apply to immediate and preserved pensions. Death and ill-health benefits are based on representative rates of pay, except where this would be lower, in which case the improved retired pay and pensions including the supplements would be awarded.
- 11.8.5. The supplements are revised as necessary to reflect future changes in pay.
- 11.8.6. If a member continues to serve after accruing the maximum years under the scheme, professional supplements will continue to accrue for each day of service beyond the maximum. The only restriction on professional supplements is that they are capped and will not exceed 34 or 37 years.

Section 11.9 - Factor Tables Affecting AFPS 75 Members

- 11.9.1. The factors that affect AFPS 75 members can be found under the MOD's Armed Forces Pension Schemes page on Gov.uk website: Within this you can search by category or topic and an example of this is the factors affecting pension sharing on divorce:
- 11.9.2. Many of these tables have been developed with the assistance of the Government Actuary's Department (GAD) and include a wide range of issues including public and non-public transfers in and out of the various schemes, pension sharing on divorce, additional voluntary contributions, and various commutation factors.
- 11.9.3. If you have any questions or issues relating to any of the factors you should contact Veterans UK as follows:

DBS

Veterans UK

Mail Point 480

Kentigern House

65 Brown St

Glasgow G2 8EX

0141 2243600

0800 0853600

94560 3600

Section 11.10 - Surplus AVCs

- 11.10.1. Members of the AFPS 75 who have made Additional Voluntary Contributions (AVCs) that exceed the maximum available benefits under the scheme will not normally be refunded, except in certain circumstances:
 - a. Departmental request to extend service. when the members terms and conditions are changed by the department so that reckonable service with the enhancement of Added years exceeds the maximum allowable under scheme rules, the member may be offered enhanced survivor benefits to the value of the overfunding, or a refund of contributions after the repayment of any tax relief that the member benefitted from
 - b. Extension of service at members own request. A personal request to extend service is not considered to be an exceptional circumstance. Although the application to extend may be endorsed by the services, the member makes the choice in the knowledge that completing further service they may have reckonable service in excess of that required for a full career pension at the point of retirement. No refund of contributions is made, however excess contributions can be converted to enhanced survivor pension benefits
- 11.10.2. Factors used in conversion to survivor benefits. The rates published in the factor tables at the time the AVC was purchased will apply, which may convert to a lower rate for survivor benefits than current factors.
- 11.10.3. Members transferring to AFPS 15. For members who transferred to AFPS 15, Added years AVCs purchased before the transition date will continue unchanged in accordance with AFPS 75 rules. Members will continue to pay their AVCs and the added years' service will be added to the individuals AFPS 75 benefits when they exit the Armed Forces. The options to refund or convert as outlined in 1.2.1 will also apply to these members, but the option to convert is limited to enhanced survivor benefits and cannot be converted to Added Pension under AFPS 15. Members transferring to AFPS 15 must have entered into a contract to purchase AFPS 75 Added Years AVCs before the transition date.

Section 11.11 - Annuity & Additional Pension for Holder of Gallantry Awards

11.11.1. The Victoria Cross is awarded to military personnel for gallantry in the presence of the enemy. It may be awarded posthumously and awarded to civilians. The George Cross

is awarded to military personnel for those acts for which military honours would not normally be granted, such as acts of gallantry not in presence of the enemy. It may be awarded posthumously and awarded to civilians.

- 11.11.2. All Service personnel (including Reserve personnel), irrespective of rank, and pension scheme who have been awarded a Victoria Cross or George Cross are entitled to an annuity for life.
- 11.11.3. The annuity for Victoria Cross and George Cross and the additional pensions that are paid to holders of Gallantry awards for valour are exempt from tax under Section 638 of the Income Tax (Earnings and Pensions) Act 2003 and EIM74307 Pensions: particular occupations: armed forces: awards for bravery. The tax exemption only applies to the annuity and additional pension.
- 11.11.4. **Criteria.** The eligibility criteria for receipt of a payment of an annuity award are:
 - a. that the Award was bestowed in recognition of deeds committed while serving in the Regular or Reserve Armed Forces; and
 - b. such further criteria as may be determined by the Defence Council and set out in this publication, amended from time to time as the Defence Council considers necessary.
- 11.11.5. The Special Annuity award for Victoria Cross and George Cross holders is:
 - a. An annual annuity of £2419 (wef 07/04/2022). This sum is increased each year in line with other pension increases (currently increased by CPI).
 - b. The annuity is paid annually in arrears on the anniversary of the act of bravery for which the recipient is honoured.
 - c. The annuity is paid for life, however, if an individual who is in receipt of the VC/GC dies before the annuity is payable for that year, nothing is payable for that year.
 - d. If a person receives both the Victoria Cross and the George Cross, they are entitled to an annuity for each.
- 11.11.6. **Payments of VC/GC Annuity to Other Nationalities**. The Ministry of Defence UK Government accepts responsibility to pay annuities to holders of the VC/GC who served in the UK Armed Forces whose acts of bravery as members of the Armed Forces gave rise to the award. Holders of the award who served with the Armed Forces of India, Pakistan, Australia, New Zealand, Canada, and South Africa are paid the annuity by their own Government.

Section 11.12 - Additional Pension for Gallant conduct

11.12.1. **Eligibility**. An additional pension of £0.025 per day or such greater amount as the Secretary of State may think appropriate, may be paid to those in receipt of a pension (this applies to all Armed Forces Pension Schemes), if:

- a. The pensioner member (members whose pension is in payment) is a holder of the Victoria Cross, and when he/she received that decoration they were not an officer: or
- b. The pensioner member (members whose pension is in payment) was awarded any of the awards specified in paragraph 11.12.1 c before 7 September 1993.
- c. The other awards are:
 - (1) the George Cross (other ranks only)
 - (2) the Military Cross (other ranks only)
 - (3) the Distinguished Flying Cross
 - (4) the Distinguished Conduct Medal
 - (5) the Conspicuous Gallantry Medal (Naval)
 - (6) the Conspicuous Gallantry Medal (Flying)
 - (7) the Distinguished Service Medal
 - (8) the Military Medal
 - (9) the Distinguished Flying Medal.
- 11.12.3. Those awarded any of the medals specified in 11.12.1 c on or after 7 September 1993, are not entitled to receive the additional pension.
- 11.12.4. Conditions of Payment. The additional pension for gallant conduct is:
 - a. Paid annually at £9.10 (£9.12 in leap years), and
 - b. Once in payment it is increased annually by the Consumer Price Index rate of inflation. Please see the Armed Forces Pension page- Taxation for further guidance

Section 11.13 - Officers Commissioned from the Ranks- Resettlement Commutation

- 11.13.1. Resettlement commutation is separate from those of the AFPS 75 Pension Scheme. The legislation governing entitlement to Resettlement Commutation is in <u>Part 4 of Armed Forces (Redundancy, Resettlement and Gratuity Earning Schemes) (No.2) Order 2010</u>
- 11.13.2. Members are not able to "opt" to be treated as officers under the commutation scheme, the scheme treats them as officers in any event.
- 11.13.3. **Less than 2 years commissioned service**. qualifying period for a members substantive pension rank for officers is 2 years. For an OCFR who leaves with less than 2 years commissioned service, the rate of pension is based on the rank held before they were

commissioned. The maximum resettlement commutation calculation is based on the same pension code

- 11.13.4. **More than 2 years but less than 5 years commissioned service**. the pension is based on OR9 rates plus Commissioned Service Addition (CSA). However, as a substantive officer, the Resettlement Commutation is calculated using the pension code for officers. CSA is only due if the commission took place before transition into AFPS 15. If the member is commissioned after the transition date they are not entitled to CSA and it is not an accrued right entitlement.
- 11.13.5. **Redundancy**. If an OCFR's officer service ends before the 2 year point due to redundancy, the pension is based on officer rates. The resettlement commutation is calculated using the same pension code.
- 11.13.6. **III Health**. Resettlement commutation is not available if the member leaves service due to ill health.
- 11.13.7. Further information on the AFRCS 2010 is found at Section 7.2 of this JSP

Section 11.14 - Pension entitlement following AWOL, Detention and Reduction in rank as a punishment

- 11.14.1. **AWOL** does not qualify or reckon for pension, even if member was in receipt of pay for the period. For the Army only periods of AWOL less than 5 days that took place before 3 January 2011, can count as qualifying and reckonable service
- 11.14.2. **Detention does not qualify or reckon for pension**, on the basis that while in detention a member will not be in receipt of pensionable earnings. For the Army only, periods of detention of less than 7 days that took place before 3rd January 2011, will count as qualifying and reckonable service.
- 11.14.3. **Rank addition Other Ranks**. if during the qualifying period the member was reduced in rank on grounds of misconduct, one rank higher than the members pension rank will be their pension rank.

11.14.4. Reduction in rank as a punishment (Other Ranks):

- a. **Immediate pension**. Where discharge is within a 5 year period in which a higher rank (acting or substantive) was held for more than 2 of those years, the immediate pension will be based on standard rates for the higher rank held. If the discharge is 'with disgrace' the lower rates of pension will apply
- b. **Service beyond 5 year point**. if service in the Armed Forces continues for more than 5 years after reduction in rank, no account of the higher rank held will be taken into consideration; the best two out of the last five year rule applies (see 2.12.1).
- c. **Less than two years in rank**. When the member has not held the higher substantive rank or acting rank for 2 years their pension rank will be based on the

rank below. Any rank addition due for the higher rank is added at the deferred pension age, this only applies for one rank higher in the event of misconduct.

Example- reduction in rank with less than 2 years in higher rank (Other Ranks)

A member whose rank is OR 7 with less than 2 years in that rank pension rank will be based on OR 6 rates (if OR 6 had been held for 2 years or more). This applies even if the reduction in rank as a punishment was to OR 4.

The immediate pension is based on the rank OR 6 and any rank addition due for OR 7 is added at deferred pension age. In the event of misconduct, the rank addition is only applied for one rank higher.

Section 11.15 - Further service in different schemes

- 11.15.1. Members of the AFPS75 scheme, who have two periods of service in the AFPS75 scheme, who remain in the AFPS75 scheme after 1 April 2015 are explained in Chapter 6 Sections 1-6. However, in summary and for comparison:
 - a. If the member's pension was deferred after their first period of employment, they must opt to aggregate their two periods of pensionable service in AFPS75, before their final day in the Armed Forces.
 - b. If the member was a pensioner member after their first period of service, they must have opted to aggregate their two periods of pensionable service in AFPS75 on the first day of the second period of service.

Where b) applies the Scheme administrator may permit the person to opt to aggregate if they believe there are exceptional circumstances as to why the person could not do so on the first day of the second period of service.

However, it is unlikely that b) will apply as AFPS75 has been a closed scheme since April 2005.

- c. If a member has more than two periods of service in 75 only the two most recent may be aggregated.
- 11.15.2. Members of the AFPS75 scheme, who have two periods of service in the 75 scheme, who transfer to **AFPS15 on 1 April 2015**:
 - a. If the member's pension was deferred after their first period of employment, they must opt to aggregate their two periods of pensionable service, before their final day in the Armed Forces **NOT** their last day of pensionable service in the 75 scheme.
 - b. If the member was a pensioner member after their first period of service, they must have opted to aggregate their two periods of pensionable service on the first day of the second period of service.

Where b) applies the Scheme administrator may permit the person to opt to aggregate if they believe there are exceptional circumstances as to why the person could not do so on the first day of the second period of service.

However, it is unlikely that b) will apply as AFPS75 has been a closed scheme since April 2005.

c. If a member has more than two periods of service in 75 only the two most recent may be aggregated.

Members who transfer across to AFPS15 or re-join the Armed Forces as a member of AFPS15 cannot aggregate their AFPS75 pensionable service with their AFPS15 pensionable service.

- 11.15.3. Members of the AFPS75 who left the Armed Forces with a deferred entitlement under AFPS75 and then re-joined the Armed Forces as a **member of AFPS05 who remains** in the AFPS 05 scheme after 1 April 2015:
 - a. Only active members may opt to aggregate two periods of service. They must apply to aggregate their two periods of pensionable service before their final day in the Armed Forces. However, they may only aggregate their service in 05 with their latest period of service in the 75 scheme.
 - b. A past period of service may only be aggregated if a member has a deferred pension entitlement in relation to it.
- 11.15.4. Members of the AFPS05 scheme, who have one period of service in the 05 scheme and one or more in the 75 scheme, who transfer to the AFPS15 on 1 April 2015:
 - a. Only active members may opt to aggregate two periods of service. They must apply to aggregate their two periods of pensionable service before their final day in the Armed Forces NOT their last day of pensionable service in the 05 scheme. However, they may only aggregate their service in 05 with their latest period of service in the 75 scheme.
 - b. A past period of service may only be aggregated if a member has a deferred pension entitlement in relation to it.

Members who transfer across to the AFPS15 scheme on 1 April 2015 or re-join the Armed Forces as a member of AFPS15 cannot aggregate their deferred AFPS05 pensionable service with their AFPS15 pensionable service. Members of AFPS05 and AFPS15 cannot aggregate any previous pension benefits that have crystallised (come into payment).

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Annex A to JSP 854 Part 1

AFPS 75 Prerogative Instruments (Pension Scheme rules)

The pension scheme rules are set out in three Prerogative Instruments (one for each Service):

- a. The 2010 Order sets out the main provisions of the scheme. The rules for Attributable Benefits remains in this 2010 version of the Royal Warrant at Schedule 11 and were not included within the 2010 amendment order of 2011 (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) Order/Warrant 2010):
- (1) Navy
- (2) <u>Army</u>
- (3) Air Force
 - b. The 2010 <u>Amendment</u> Order sets out the main provisions of the scheme. (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) (Amendment) Order/Warrant 2010):
- (1) **Navy**
- (2) Army
- (3) Air Force
 - c. The 2012 amendment introduced Fixed Protection membership. (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) (Amendment) Order/Warrant 2012):
- (1) Navy
- (2) **Army**
- (3) Air Force
 - d. A 2015 amendment was made to the scheme rules. (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) (Amendment) Order/Warrant 2015):
- (1) <u>Navy</u>
- (2) Army
- (3) Air Force
 - e. A 2017 amendment was made to the scheme rules. (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) (Amendment) Order/Warrant 2017):
- (1) Navy
- (2) <u>Army</u>
- (3) <u>RAF</u>
- f. A 2018 amendment was made to the scheme rules. (Naval and Marine/Army/Air Force Pensions (Armed Forces Pensions Scheme 1975 and Attributable Benefits Scheme) (Amendment) Order/Warrant 2018):

- (1) Navy
- (2) Army
- (3) RAF
- h. The current scheme rules were amended by further legislation to ensure equal provision for scheme members and their dependants who enter a same sex marriage:
 - 1. The Marriage (Same Sex Couples) Act 2013 (Consequential Provisions) Order, SI 2014 No 107
 - 2. The Marriage (Same Sex Couples) Act 2013 (Consequential and Contrary Provisions and Scotland) Order 2014, SI 2014 No 560:
 - 3. The Marriage (Same Sex Couples) Act 2013 and Marriage and Civil Partnership (Scotland) Act 2014 (Consequential Provisions) Order 2014, SI 2014/3061:
 - 4. Armed Forces (Transitional Provisions) Pensions Regulations 2015, SI 2015/568:

Glossary of Terms

- 1. **Abatement** -The reduction that is applied to a pension that has already come into payment upon re-joining the Armed Forces Pension abatement will not apply if the pensioner member is reemployed for a short period of service.
- 2. **Accrued Benefits/ Pension Rights-**The pension benefits or rights a member has built up at a particular date.
- 3. **Acting Rank** -a rank held by virtue of temporary or conditional promotion
- 4. **Active Member** a person who is in pensionable service; and unless otherwise stated is a member of the regular Armed Forces
- 5. **Actuarial reduction** -The pension is reduced using tables produced by the scheme actuary. This reduction is made to take account of circumstances where a pension will be in payment longer than would normally be expected. Not to reduce in this way would undermine the assumptions underpinning the pension scheme
- 6. **Added Years** An arrangement in which a member makes contributions to buy extra years of service to enhance the calculations of their final pension and lump sum and/or that of their dependants.
- 7. **Additional Maternity Leave** leave which, in the opinion of the Defence Council, corresponds to additional maternity leave within the meaning of section 73 of the Employment Rights Act 1996
- 8. **Additional Voluntary Contributions** Tax deductible payments made by a scheme member to enhance his/her pension or death benefit.
- 9. **Aggregation** Adding together pension benefits arising from two or more periods of service in the Regular Armed Forces.
- 10. **Annual Allowance** -The limit is the maximum value that can be added each year to the total pension earned in all schemes without a tax charge. Any increase over the Annual Allowance limit is taxed at the marginal rate and is due to be paid by the individual, either through, Scheme Pays or direct to HM Revenue and Customs.
- 11. **Appropriate Fraction** -Where the member has additional reckonable days in excess of the number of whole years of reckonable service that the member has, they are entitled to a pro-rata addition to their pension (see 2.5.4)
- 12. **Armed Forces Attributable Benefits Scheme (AFAB)** The Scheme provides ill health benefits to those discharged from the Armed Forces on medical grounds in respect of injury or illness caused by service on or before 5 April 2005, who have been awarded a benefit under the War Pensions Scheme and whose degree of disablement due to the disabling condition is 20% or more.

The rules provide for a guaranteed minimum income according to the individual's rank and the assessment of the degree of disablement.

- 13. **Armed Forces Compensation Scheme (AFCS)** -The AFCS was introduced on 6 April 2005, replacing two separate compensation arrangements under the Armed Forces Pension Scheme 1975 (Armed Forces Attributable Benefits) and the War Pensions Scheme. The AFCS covers injury, illness and death that are caused by service on or after 6 April 2005. The AFCS is a tariff-based compensation Scheme, which has been designed to be simple to understand and to produce consistent and equitable decisions, using an evidence-based approach. Further information on the AFCS can be found on the Armed Forces Compensation Scheme page on .gov.uk.
- 14. **Armed Forces Pension Scheme 1975** This is the pension scheme for Regular members of the Armed Forces introduced in 1975 and was closed to new entrants on 6 April 2005. The Armed Forces Pension Scheme 1975 set out in:
 - a. Orders in Council made under section 3 of the Naval and Marine Pay and
 - b. Pensions Act 1865 (28 and 29 Vict. c.73);
 - c. The Army Pensions Warrant 1977; and
 - d. Orders and regulations made under section 2 of the Air Force (Constitution) Act 1917 (7 and 8 Geo 5 c.51).
- 15. **Armed Forces Pension Scheme 2005** This scheme is for Regular members of the Armed Forces. It is effective for new entrants and re-joiners of the Armed Forces from 6 April 2005 and from 6 April 2006 for serving personnel who elected to transfer from AFPS 75 as a result of the offer to transfer.
- 16. **Armed Forces Pension Scheme 2015** The current pension scheme for members of the Armed Forces. The scheme commenced on 1 April 2015. All Armed Forces Personnel, including Reservists, who continue in service on or beyond 1 April 2022 do so as Armed Forces Pension Scheme 2015 (AFPS 15) members. Regardless of age, rank and whether you were previously offered Transitional (Full) Protection.
- 17. **Armed Forces Redundancy Scheme 2010** The AFRS 2010 applies only for personnel who remain solely in AFPS 75. If members have transferred to the AFPS15 then AFRS 2020 applies and provides a proportionate level of compensation depending on the time they have spent in each scheme up to the point of redundancy.
- 18. **Assumed Pay** is a term used to describe periods where an active member is receiving reduced pay or no pay but is allowed to count the period as reckonable. Examples are:
 - a. secondment to private industry where the terms of secondment provide for the member to be an active member of the pension scheme
 - b. ordinary maternity leave
 - c. ordinary paternity or ordinary adoption leave
 - d. periods of approved unpaid leave that have been authorised by the Defence Council as counting towards pension

- 19. **Attachment Order** A court order instructing the scheme administrators to pay all or part of a pension already in payment to a member's former spouse or civil partner as part of a divorce or dissolution settlement.
- 20. **Attributable** The term generally used to describe where:
 - a. An injury or illness was caused or aggravated by service;
 - b. A death was caused or significantly hastened by service.

See also Armed Forces Attributable Benefits, Armed Forces Compensation Scheme and War Pensions Scheme.

- 21. **Attributable Benefits** Attributable benefits are paid under two schemes depending on the date when the injury or condition was caused. See also Armed Forces Attributable Benefits, Armed Forces Compensation Scheme and War Pensions Scheme.
- 22. **Additional Voluntary Contributions (AVCs)** Members of the AFPS 75 can make tax deductible AVCs to:
 - a. Improve their death in service lump sum
 - b. Improve their spouse's pension
 - c. Fill the headroom between their representative rate of pay and their military salary
- 23. **Benefit Crystallisation Event (BCE)** Any event which results in payment of benefits (e.g. pension and /or lump sum) is known as a Benefit Crystallisation Event (BCE). DBS Veterans UK must test the value of the benefits in a member's pension scheme that are being crystallised, or deemed to be crystallised, against the member's lifetime allowance. Within three months of the benefit crystallisation, DBS Veterans UK must provide certain information to the member:
 - a. the chargeable amount that has arisen as a result of the BCE
 - b. details of how the chargeable amount has been calculated; the amount of tax due
 - c. details of whether the scheme administrator has already accounted for the tax or intends to account for it.
- 24. **Civil Partner/Civil Partnership/Same Sex Marriage** The member enters into a legally recognised marriage/partnership with another person of the same sex in accordance with the Civil Partnership Act 2004 or the Marriage (Same Sex Couples) Act 2013. If the marriage/civil partnership is legally dissolved, the former spouse/partner is not entitled to benefits.
- 25. **Deferred Member** a person (other than an active, fixed protection or pensioner member) who has accrued rights under the Scheme; and (unless otherwise stated) was, on the person's last day of pensionable service, a member of the regular Armed Forces
- 26. **Deferred Pension** The benefits due to a member leaving AFPS 75 after a minimum of two years' service and before the Immediate Pension point. The deferred pension is

payable at the age of 60 for service before 6 April 2006 and age 65 for service after that date.

- 27. **Dependants** An AFPS 75 member's spouse or civil partner or children. For Attributable Benefits this may include an eligible partner.
- 28. **Eligible Child/ Children** An eligible child is aged under 17, or in full time education/training (up to age 23) or not able to support themselves due to a physical or mental disability which prevents them from undertaking full time employment, an eligible child may also be one whose service parent died before April 2006 who continues education beyond age 23. The eligible child/children must have a relationship to the member which is:
 - a. A child/children of the member;
 - b. A child/children of the member's spouse or civil partner;
 - c. The child/children were financially dependant on the member at the time of death.
- 29. **Eligible Partner** Someone with whom the scheme member:
 - a. was cohabiting,
 - b. in an exclusive and substantial relationship,
 - c. had financial dependence or interdependence,
 - d. was not prevented from marrying or forming a civil partnership.

An eligible partner may receive a pension on the death of a member if it was attributable to service.

- 30. **Final rank** The highest rank held for more than two years in the last five years in the case of Other Ranks. Or, the highest substantive (permanent) rank held for more than two years or the highest paid acting rank held for three years in the case of Officers.
- 31. **Flexible Service** one or both of the following types of service
 - part-time service;
 - b. restricted separation service
- 32. **Full protection** In relation to a person, means a person who remains an active member of a connected scheme by virtue of provisions being made under section 18(5) of the Act (Finance Act 2004). Full protection is often also referred to as Transitional Protection.
- 33. **Free-Standing Additional Voluntary Contributions** An additional pension saving outside the scheme in a plan set up and run by an insurance company, building society or other commercial company.
- 34. **Ill-health condition** has the meaning given by paragraph 1 of Schedule 28 to the Finance Act 2004 ("the scheme administrator has received evidence from a registered

medical practitioner that the member is (and will continue to be) incapable of carrying on the member's occupation because of physical or mental impairment, and the member has in fact ceased to carry on the member's occupation.").

- 35. **Immediate Pension** A pension paid immediately on leaving the Armed Forces after 16 years qualifying service from age 21 as an Officer or 22 years qualifying service from age 18 as an Other Rank.
- 36. **Index Linked** The pension is reviewed annually for inflation. Increases are applied in line with increases in the Consumer Price Index. This is applied as follows:
 - a. All ill health pensions, full career pensions and dependants' pensions are index linked from the date of payment.
 - b. Immediate pensions are not index linked until the member is age 55.
 - c. Deferred pensions are index linked from the date of leaving service.
- 37. **Invaliding Pension Code (ill-health code)** The tri-service pension codes that specify the rates of pension and rates of compensation for injury. Please see the <u>Armed Forces Pension Schemes page- Tri Service Pension Codes for rates</u>
- 38. **Later Period** means the period of pensionable service, which begins on the day that the member resumed pensionable service as described at 6.1.3, and ends with the day on which the person next ceases to be in pensionable service.
- 39. **Last day of pensionable service** In relation to a member, means the last day of the service in respect of which the members pensionable earnings are payable.
- 40. **Lifetime Allowance** The lifetime allowance is the maximum amount of pension saving you can build up over your lifetime that benefits from tax relief. If you build up pension savings worth more than the lifetime allowance, you'll pay a tax charge on the excess. Please see the gov.uk <u>Armed Forces Pension page- Taxation</u> for more guidance.
- 41. **Lump Sum** A one off lump sum equal to three times the annual pension is awarded. The lump sum is paid in addition to the pension when the pension first comes into payment and normally tax free.
- 42. **Member** A person who has joined AFPS 75 and who is earning benefits under the Scheme (Active member), has a deferred pension under the Scheme (Deferred member) or is receiving a pension from the Scheme (Pensioner member).
- 43. **Normal minimum pension age** has the same meaning as in section 279(1) of the Finance Act 2004: ("before 6th April 2010, 50, and on and after that date, 55")
- 44. **Normal Retirement Age** the normal retirement age for the member's rank and type of commission or engagement
- 45. **Occupational pension scheme** Has the meaning given in section 1 of the Pension Schemes Act 1993
- 46. **Paid Acting Rank** an acting rank which entitles its holder to a rate of pay in excess of that applicable to the holder's substantive rank

- 47. **Part-time service** for enlisted members, a period of service where the member is serving in accordance with an arrangement provided for in regulations made under section 329(2)(ha) of the Armed Forces Act 2006 for members who are officers, a period of service on equivalent terms of service.
- 48. **Pensionable Pay** Basic pay including the X factor, but excluding allowances, bonuses, financial incentives, loan service pay bounties and any form of specialist pay.
- 49. **Pensionable service** A member is in pensionable service under this scheme in any period in respect of which the scheme member is
 - a. employed in scheme employment; and
 - b. receiving pensionable earnings or assumed pay.
- 50. **Pension credit member** Pension credit has the meaning given in section 124(1) of the Pensions Act 1995. A Pension credit member, in relation to this scheme, is a person who has rights under this scheme which are attributable, directly or indirectly to a pension credit under a pension sharing order following dissolution of marriage or civil partnership.
- 51. **Pension debit member** Pension debit means a debit under section 29(1)(a). Pension debit member means a person who is a member of his scheme whose benefits or future benefits under this scheme have been reduced under section 31 of the Welfare Reform and Pension Act 1999.
- 52. **Pensionable Service** Any period in which a member of the scheme is in employment and is receiving pensionable earnings or assumed pay.
- 53. **Pension Sharing Order** An order made by a court on divorce or dissolution of a civil partnership creating pension rights for a former spouse or civil partner out of the benefits in the Scheme which the member has built up at the time of the Pension Sharing Order. The former spouse or civil partner will become members of the scheme in their own right and achieves a clean break. The PSO will specify a percentage (or monetary value for Scottish cases only) that is to be deducted from the Scheme member's pension benefits, known as the pension credit.
- 54. **Preserved Pension** Preserved pension has the same meaning as a deferred pension. Under the AFPS 75 and AFPS 05 deferred pensions were known as preserved pensions, under the new AFPS 15 the term was changed to deferred. The benefits due to a member leaving AFPS 75 after a minimum of two years' service and before the Immediate Pension point. The deferred pension is payable at the age of 60 for service before 6 April 2006 and age 65 for service after that date.
- 55. **Previous Service** Was previously in pensionable service in AFPS 75 but ceased such service; this is known as the 'previous service'
- 56. **Qualifying Service** Qualifying service is the aggregate of every
 - a. Period in which the member receives pensionable earnings or is treated as having received assumed pay (this includes statutory maternity/paternity/adoption pay; or unpaid leave which the Defence Council has directed shall be treated as assumed pay);
 - b. Period in which member was on unpaid leave:

- c. Period during which member was on loan to an organisation and was required to be an active member of a pension scheme open to members of that organisation;
- d. Period immediately before 4 January 2011, the member was entitled to count a qualifying service under any former provisions of the scheme.

Note: Only actual service counts towards an Immediate Pension. Transferred in service does not count towards Qualifying Service for an Immediate Pension. Certain absences do not qualify for pension purposes, such as a period of detention or unauthorised absence.

- 57. **Reckonable Service** Reckonable Service is the aggregate of every period served from
 - a. For Officers this starts at age 21 (or date of entry if later)
 - b. For Other Ranks this starts at age 18 (or later date if entry later).
 - c. For which the member received pensionable earnings or is treated as having received assumed pay (this includes statutory maternity/paternity/adoption pay; or unpaid leave which the Defence Council has directed shall be treated as assumed pay). Periods of detention or absence without leave are not included.
 - d. Reckonable service is increased by the purchase of Additional Voluntary Contributions, loan to another organisation and transferred in service and any period before 4 January 2011 for which the member was entitled to count as reckonable service under any former provisions of the scheme.
 - e. Reckonable service cannot exceed 34 years for an officer and 37 years for other ranks.
- 58. **Regular Forces** Has the same meaning as in the <u>Armed Forces Act 2006 (2006 c.52)(see section 374 of that Act)</u>
- 59. **Reserve Forces** Has the same meaning as in the <u>Reserve Forces Act 1996 (1996 c.14) (see section 1 of that Act)</u>
- 60. Retirement benefits Means retirement benefits payable under AFPS 75 Chapter 2
- 61. **Scheme actuary** provides a consulting service on actuarial matters relevant to this scheme or a connected scheme. The scheme actuary is responsible for:
 - a. carrying out valuations of the scheme and any connected scheme; and
 - b. preparing a report on such a valuation;
 - c. advising the scheme administrator as required
- 62. **Scheme Advisory Board** Has the meaning given in Section 1.2: Governance
- 63. **Scheme manager** Has the meaning given in Section 1.2: Governance
- 64. **Service Capital Payment** SCP is a tax-free lump sum and the level of payments and how individual awards are calculated are explained in Volume 7, Sections 2 and 3 of

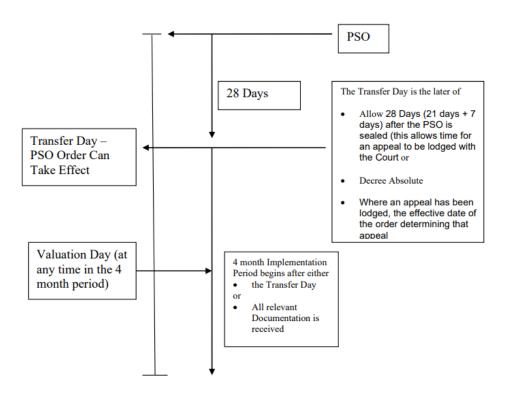
The Armed Forces Redundancy Scheme 2010. Compensation for officers who have opted out of the Armed Forces Pension Schemes is calculated under AFRS 06 rules. See JSP 764 for details.

- 65. **Shadow Rank** is the rank a member would likely have achieved had they remained in ordinary service, the single Service Secretary need to keep a shadow rank record as a member cannot be rank disadvantaged on return to ordinary service.
- 66. **Spouse** The partner from a legal marriage including a same sex marriage. This term does not apply to an unmarried partner.
- 67. Surviving Spouse/ Civil Partners' Benefits (formerly Widow/Widowers' Benefits) The legally married or legally recognised civil partner may receive pension benefits when the scheme member dies. A former spouse/ civil partner is not entitled if the relationship was legally ended (i.e. divorce or dissolution).
- 68. **Transfer value** is an amount equal to:
 - a. The guaranteed cash equivalent as defined in section 94(1A) of the PSA 1993 calculated in accordance with regulations made under section 97 of that Act; or
 - b. a sum representing the aggregate of the amount in paragraph (98.1a) and such other amount as may be payable by virtue of paragraph (99) (right to require payment of a transfer value)
- 69. Transfer Value Payment- is the amount equal to:
 - a. for transfers out, payment of a transfer value in respect of a member's right to accrued benefits under this scheme; and
 - b. for transfers in, payment of a transfer value in respect of a member's accrued rights under a pension scheme
- 70. **Transfer Day** the transfer day is the later of:
 - a. 28 days (21 +7) after the pension sharing order is ealed, this allows time for an appeal to be lodged with the court; or,
 - b. Where an appeal has been lodged, the effective date of the order determining that appeal.
- 71. **Transition member** means a person:
 - a. A member of a connected scheme by virtue of pensionable service under the connected scheme
 - b. Who is also a member of this scheme by virtue of pensionable service under this service
- 72. **Valuation day** A 4 month implementation period begins after the transfer day or when all of the relevant documentation is received. Once the implementation period has begun Veterans UK will choose a Valuation Day. This is any day within the implementation period that Veterans UK specifies in writing to both parties

- 73. **War Pension Scheme** This scheme may pay benefits to an individual when they have left the Armed Forces, where an injury, illness or death was caused, worsened, or hastened by service in the Armed Forces before April 2005. See the War Widow Pensions page on the .gov website for further information
- 74. **X Factor** A percentage included within the Annual Salary of Regular Service Personnel (and Reserve personnel depending on commitment level), intended to reflect the differences between conditions of service experienced by members of the Armed Forces over a full career and conditions in civilian life, which cannot be taken directly into account in assessing pay comparability

Pension Sharing Order Implementation Process

- 1. The PSO does not take effect immediately, the PSO will specify that the Transfer Day is the day the PSO takes effect, this is when the former spouse/partner becomes legally entitled to the pension credit. The Decree Absolute/Final Dissolution Order (the member is not divorced/ dissolution of civil partnership until this is issued), this is usually made last and most often the trigger event for the Transfer Day. The Decree Absolute/Dissolution Order ends the marriage and until it is issued the parties are not divorced.
- 2. Once the Transfer Day is confirmed and Veterans UK has all of the required documentation a 4 month Implementation Period will begin and Veterans UK will choose a Valuation Day, this is any day within the Implementation Period that Veterans UK specifies in writing to both parties. The pension sharing order is implemented using process below.



- 3. If the scheme member dies and the Decree absolute has already been obtained prior to the effective date of the sharing order the pension sharing order will become unenforceable. The members ex-spouse/partner would no longer receive the pension.
- 4. If the ex-spouse dies after the pension sharing order has been made but before it has taken effect at the effective date, the pension sharing order would fail and the member would retain the whole of their benefit.
- 5. Information required by Veterans UK to commence the implementation period can be found under:

- a. the Pension on Divorce etc (Provision of Information) Regulations 2000, SI 2000/1048, reg 5
- b. The Family Procedure Rules 2010, SI 2010/2955, s9.36(2), (4)-(5);
- c. The Welfare Reform and Pensions Act 99 s.34(1)
- 6. The list of documents required before the Implementation Period can begin includes:
 - a. The PSO
 - b. Pension Form P1
 - c. A copy of the Decree Absolute/ Final Dissolution Order
 - d. The information specified in the the Pension on Divorce etc (Provision of Information) Regulations 2000, SI 2000/1048, reg 5 and The Family Procedure Rules 2010, SI 2010/2955, s9.36(2), (4)-(5), and
 - e. Payment of charges

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