



Ministry  
of Defence

# Armed Forces Pension Scheme Pension Savings Tax Booklet

AFPS Members' Guide to Taxation of Pension Benefits  
Annual Allowance (AA) & Lifetime Allowance (LTA)



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## Introduction

1. The Armed Forces Pension Schemes (AFPS) are registered pension schemes and provide tax privileged savings. Tax incentives are provided to encourage pension saving but there is a cost of providing this tax incentive so the Government places restrictions on the amount of pension saving that is tax privileged.
2. AFPS members are not required to contribute to their pension, therefore any loss of value from pension taxation should be considered in this context, whereas members of other public schemes also need to assess the value for money of their scheme contribution.
3. The amount an individual can save each year in a pension scheme before tax charges is known as the Annual Allowance. For tax year 22/23 the amount is £40,000, although a lower amount can apply in certain circumstances. Paragraph 5 outlines the changes that will apply for TY 23/24. The Lifetime Allowance (LTA) is the maximum amount of pension savings (pension and lump sum) that an individual can build up over their life from **all** registered pension schemes. In Tax Year (TY) 20-21 the LTA amount was frozen at £1,073,100 but see para 5 for further detail on recent changes.
4. Personnel affected by the AA and LTA charges are predominantly senior officers and medical and dental officers, however, others at more junior grades have become increasingly affected. Anyone impacted by AA in relation to their AFPS benefits only will receive a pension saving statement (PSS) annually detailing they have breached their allowance, although this may not mean they will have a tax charge to pay. LTA is assessed when the pension benefits become payable. This guide provides details on how to deal with exceeding these limits, including a comprehensive step-by-step guide and other useful information and examples.

### **Budget Statement 15 March 2023**

5. The Chancellor announced in his budget statement on 15 March 2023 changes to pension savings tax affecting both the Annual Allowance and the Lifetime Allowance effective:
  - a. The Annual Allowance will increase from £40,000 to £60,000 from 6 April 2023. Members will continue to be able to carry forward unused Annual Allowance from the 3 previous tax years.
  - b. The minimum Tapered Annual Allowance will increase from £4,000 to £10,000 from 6 April 2023 and the adjusted income for the Tapered Annual Allowance will also be increased from £240,000 to £260,000 from 6 April 2023. The threshold limit will remain unchanged at £200,000.
  - c. Open and closed public sector schemes will be considered linked to enable any negative growth in a legacy scheme (i.e. AFPS 75 or 05) to be offset against growth in the reformed scheme (i.e. AFPS 15).

d. The Lifetime Allowance charge will be removed from 6 April 2023. Members may still be subject to a tax charge at their marginal rate on a pension tax free lump sum if the lump sum exceeds 25% of the LTA limit, which is currently £1,073,100 i.e, the lump sum exceeds £268,275. If the member holds any LTA protection or has already been paid a lump sum from another pension, this may alter that limit. HMRC will publish more detailed policy on this in due course. These lump sums, include pension commencement lump sums (PCLS), serious ill-health lump sum (SIHLS), defined benefits lump sum death benefit (DBLSDB), and uncrystallised funds lump sum death benefit (UFLSDB).. All other LTA checks that take place when a Benefit Crystallisation Event occurs are to continue to until the LTA is abolished through legislation and expected to become effective from 6 Apr 24. There will be no retrospective changes; and

e. Updated support and guidance which reflects these reforms will be available to members for Tax Year 2023-24.

### **Use of this Tax Booklet**

6. The information in this booklet has information relevant to all affected by pension tax but is specifically written to assist those who have exceeded the AA in TY22/23 and are not affected by the 2015 Pension Remedy (see Para 36). Use of examples and reference to AA limits at £40,000, therefore, remain extant.

### **2015 Pension Remedy**

7. The 2015 Pension remedy will result in changes to the tax position for some members (see Para 37). Details on how this will impact individuals will be issued in separate guidance later this year.

## PART ONE - ANNUAL ALLOWANCE

### Introduction to Annual Allowance

1. There are two elements to the AA - standard and tapered. For TY 22/23 the standard tax-free allowance limit remains at £40,000. Only a relatively small number of Service Personnel will exceed this limit on the basis of their Armed Forces pension alone. Other Ranks are highly unlikely to be affected but a very small number of those who have passed their Immediate Pension Point (IPP) on legacy schemes may incur a tax liability. Some officers may incur a tax liability on promotion. This is likely to impact on promotion from OF3 to OF4, particularly for those promoting late in their career with significant service in pre-2015 pension schemes; the most pronounced effect can be expected at the ranks of OF5 and above. Additionally, the most senior officers (OF7 i.e. 2\* and above) and some specialists, such as Medical and Dental Officers (MODOs), with higher pensionable earnings may also incur a tax liability as a result of annual pay increments.
2. Tapering of the AA (introduced in TY 16-17) affects an even smaller number of personnel and further limits the AA for individuals with a threshold income more than £200,000 and an adjusted income in excess of £240,000 with effect from TY 20-21. Tapering gradually reduces an individual's AA limit by £1 for every £2 that adjusted income exceeds the adjusted income limit. The maximum reduction to the AA is £36,000. This means that anyone with an adjusted income more than £312,000 will have their AA capped at £4,000.
3. Individuals who exceed their AA limit (standard or tapered) because of the growth in the value of their AFPS benefits will be alerted by Veterans UK, via PSS letter sent by 6 Oct each year following the end of the tax year<sup>1</sup>. Similar letters will also be sent to individuals who do not exceed AA but may be affected by tapering due to their Service income, where this can be identified.
4. It is an individual's responsibility to assess whether they have sufficient unused AA from previous years which can be carried over from the relevant previous years for offsetting against any excess above the AA limit - and if not, whether and to what extent they are liable to pay an AA tax charge. Individuals will need to declare this to HMRC by submitting a Self-Assessment Tax Return, which must be completed no later than 31 Oct following the end of the tax year for manual submissions and 31 Jan for online submissions. If you have not previously completed a self-assessment tax return, you will need to apply for a Unique Taxpayer Reference (UTR)<sup>2</sup> and an activation code for self-assessment<sup>3</sup>. This UTR can take up to 10 working days and the activation code 7 working days. Details are available at HMRC [Register for Self Assessment - GOV.UK \(www.gov.uk\)](https://www.gov.uk/register-for-self-assessment).
5. Veterans UK are the administrators for AFPS schemes and will only send notifications that relate to AFPS benefits and Service income. If individuals have any personal pension arrangements or other income which may impact the calculations necessary to determine a potential AA tax charge liability, they should seek specialist advice from a tax advisor. Individuals who believe that they may have exceeded the AA because of a combination of personal and AFPS pension savings

<sup>1</sup> This is required under HMRC legislation (Regulation 14A of Statutory Instrument 2006/567)

<sup>2</sup> If you have a UTR for other tax reasons this can be used for SATR.

<sup>3</sup> An activation code is only required if you have a tax liability or are required to complete self assessment for another reason.

are responsible for their own independent calculations for the cumulative value of all pension schemes and income. To assist with this calculation, members can request a PSS from Veterans UK.

## What is the Annual Allowance?

6. The AA limits the amount of tax privileged savings (pension and lump sum) which may be made in a tax year to a registered pension scheme. For defined benefit pension schemes (such as the AFPS) the amount of tax privileged savings is deemed to be the increase over the year in the value of an individual's overall pension 'pot'. Where the increase in the pension pot exceeds the AA in relation to a tax year, a tax liability may arise.

## How to determine if the AA has been exceeded

7. To determine whether the AA has been exceeded for a tax year, it is necessary to know the Pension Input Amount (PIA). The PIA is the net increase in the value of the pension pot between the beginning and end of the Pension Input Period (PIP), which is 6 Apr to 5 Apr for all UK Registered Pension Schemes.

8. The PIA is calculated by multiplying the annual pension calculated at the start of the AA PIP (6 Apr) by 16 (which is the factor set by the Treasury) and, where applicable, adding the pension lump sum (3 x annual pension). This capitalised start value is then up-rated for inflation, using the Consumer Price Index (CPI) rate as at Sep of the year before the relevant tax year began (i.e. for TY 22-23 this is 3.1%, as this is the CPI rate at Sep 21). To calculate the pension pot at the end of the PIP, repeat the calculation using the pension value calculated at the following 5 Apr multiplied by 16 and, where applicable, adding the lump sum, but without any up-rating for inflation. Where the difference between the capitalised end value and the capitalised (and up-rated) start value is greater than £40,000 (or the individual AA limit for individuals subject to tapering) then the AA limit has been exceeded and the individual may be liable to pay an AA tax charge - unless they have sufficient unused AA available from the relevant previous years available to carry over for offsetting against the excess above the AA limit for the tax year under assessment. Use of unused AA carryover in this way will often eliminate, and if not may reduce, an individual's liability to pay an AA tax charge.

9. For TY 2022/23, in the event that the difference between the capitalised end value and the capitalised start value (including CPI) is a negative amount this results, under current HMRC rules, the PIA being set to zero. [PTM053301](#) and [PTM053320](#) refer. As stated at Paragraph 5c this will later for future tax years.

10. The next step is for individuals to use the HMRC AA calculator to determine if there is an amount on which tax is due, after calculation of any available unused AA carryover and whether tapering applies, and if so, to what extent. This is done by inputting the information provided in the PSS letter, in conjunction with information about any other pension schemes and income, into the HMRC AA calculator. The step by step guide provided on the AF REM Defence Connect page [here](#) will assist you through the process and help you use the HMRC AA calculator to determine whether a tax charge is due.

## Illustrative Example – Standard AA

**Example 1** – OF4, who became a member of AFPS15 with Accrued Rights in AFPS75 with effect from 1 April 2022. The OF4's AFPS Pension Input Amount of £107,119.65 for TY 22-23 is calculated as shown below. The OF4 exceeds the standard £40,000 AA limit by £67,119.65. The OF4 is not subject to a reduced/tapered AA.

<b>The total value of OF4 pension pot at 6 April 2022</b>	
£ 0.00 (AFPS15 pension) x 16 + 3.1% CPI	= £0.00
plus	plus
£12,286.38 (AFPS75 pension) x 16 + £36,859.14 (AFPS75 lump sum) + 3.1% CPI	= £240,677.90
<b>The total value of your pension pot at 5 April 2023</b>	
£3,156.00 (AFPS15 pension) x 16	= £50,496.00
plus	plus
£15,647.45 (AFPS75 pension) x 16 + £46,942.35 (AFPS75 lump sum)	=£297,301.55
<b>Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2022-23</b>	
AFPS 15 PIA £50,496.00 - £ 0.00	=£50,496.00
plus	plus
Legacy Scheme PIA £297,301.55 - £240,677.90	=£56,623.65
<b>AFPS PIA £50,496.00 + £56,623.65</b>	<b>=£107,119.65</b>

The OF4 is not subject to a reduced/tapered AA because their Threshold Income of £75,286.06 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) does not exceed £200,000.

## Illustrative Example – Tapered AA

**Example 2** – OF4 MODO<sup>4</sup> AFPS15 member on optional bonus earning terms instead of receiving an AFPS15 EDP. The OF4 MODO's AFPS PIA of £24,807.91 for TY 22-23 does not exceed the standard £40,000 AA limit but they are subject to a reduced/tapered AA limit owing to their income.

<b>The total value of OF4 MODO pension pot at 6 April 2022</b>	
£1,504.37 (AFPS15 pension) x 16 + 3.1% CPI	= £24,816.09
<b>The total value of your pension pot at 5 April 2023</b>	
£3,101.50 (AFPS15 pension) x 16	= £49,624.00
<b>Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2022-23</b>	
<b>AFPS15 PIA £49,624.00 - £24,816.09</b>	<b>= £24,807.91</b>

The OF4 MODO's income indicates they will be subject to a reduced/tapered AA limit, which will increase their excess. This is because their Threshold Income of £238,329.80 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds £200,000 and their Adjusted Income (threshold income plus PIA) of £263,137.71 exceeds the tapering threshold of £240,000.

<sup>4</sup> Medical or Dental Officer

The OF4 MODO may also have additional pension benefits in other schemes, which could also increase the amount by which their AA is reduced due to tapering, and ultimately, increasing their excess above their individual tapered AA limit. MODO SP who are also members of the NHS Pension Scheme in addition to the AFPS are likely to be affected.

(Note: More detailed examples and guidance are illustrated at Appendix 2 to this guide)

## Carry Forward

11. Where your PIA exceeds the AA limit in a TY, you may carry forward any unused AA from the three preceding TY – calculated using the same method and at the limit of £40,000 (or a lower tapered AA) against the excess. For example, carry forward of unused AA from the TYs , 19-20, 20-21 and 21-22, may be used to offset against an excess of AA in TY 22-23. Individuals **must** also consider any private pension schemes they may also be contributing to. Carry forward is always taken from the oldest year first.

12. In Example 1 (Page 7) the AA limit has been exceeded by £67,119.65 (PIA of £107,119.65 - £40,000 AA limit). However, this does not necessarily mean liability for an AA tax charge because any unused AA from the three preceding TYs can be offset against this amount. PSS letters will include the relevant PIAs and income information for your AFPS benefits and Service income in each of the relevant previous TYs. You will need to add any additional non-AFPS pensions or income that you may have to these.

13. On receipt of your PSS, you must then input the PIAs and income information (after adding any additional non-AFPS pensions or income) into the HMRC AA calculator. You must also take account of Additional Voluntary Contributions or Added Pension that you may be purchasing out with the AFPS. The HMRC calculator will determine whether a reduced AA limit applies due to tapering (and if so to what extent), the amount of unused AA available from previous years to carry forward and offset against any excess above the AA limit in the tax year under assessment, and the amount on which tax is due. The detailed examples at Appendix 2 include screenshots from the HMRC calculator which illustrate the effects of carryover, tapering, and use of Scheme Pays.

## How do I calculate the tax payable?

14. On completion of the assessment process the HMRC calculator will confirm the amount on which tax is due, which you must then use to calculate the amount of tax payable. An excess of AA is treated by HMRC as a freestanding tax liability and is added to earnings when calculating the tax due. For individuals who exceed the AA, tax will be calculated at 40% on all earnings up to £150,000 and at 45% of earnings above £150,000 as detailed in the following examples<sup>5</sup>.

<sup>5</sup> For personnel who are Scottish rate taxpayers the marginal rates are 46% for income over £150,000 and 41% for earnings between £43,663 and £150,000.

The HMRC AA calculator confirms that an individual has an amount on which tax is due of £26,860, after offsetting all available unused AA. They receive an Armed Forces salary of £98,000, with no other pensions or income from other sources. The amount of tax payable would be calculated as follows

Salary	£98,000
Excess of AA	<u>£26,860</u>
Total	£124,860

As this amount is under £150,000 tax due = 40% x £26,860 = £10,744

If the individual was in receipt of an Armed Forces salary of £125,000 with no other pensions or income from other sources. The amount of tax payable would be calculated as follows

Salary	£125,000
Excess of AA	£26,860
Total	£151,860

Tax due:

£150,000 - £125,000 = £25,000 @ 40%	= £10,000
£151,860 - £150,000 = £1,860 @ 45%	= <u>£837</u>
Total	£10,837

(Note: The term “marginal tax rate” is sometimes used to represent the tax rate to be paid on the next pound’s worth of income. In the above example, the next pound that the member earns will be taxed at 45%).

15. Further guidance on how to calculate the tax payable is available in the AFPS Step-By-Step Guide for Tax Year 2022/2023 available on DEFNET and [AF REM Defence Connect Page \(see also Para 38\)](#)

### If a tax charge is payable, how is this paid?

16. It is an individual’s responsibility to declare any tax payable to HMRC via a Self-Assessment Tax Return (SA101). In addition, it is an individual’s responsibility to decide how to pay any tax due to HMRC by 31 Oct for manual returns or 31 Jan for online returns (though see rules if using PAYE tax code adjustment), following the TY in which the charge occurred. Further guidance on how to complete a Self-Assessment Tax Return is available in the AFPS Step-by-Step Guide for Tax Year 2022/2023 available on DEFNET and the [AF REM Defence Connect Page](#)

17. For those members who have a tax liability there are several options available.

- a. **Scheme Pays.** See Para 18.
- b. **Pay the charge personally.** Individuals who have a tax charge may arrange to pay this personally and directly to HMRC.
- c. **Tax Code Adjustment.** For tax charges below £3,000 individuals can request HMRC to adjust their tax code in order to allow the tax charge to be recovered. A request for a tax

code adjustment must be submitted directly to HMRC during the self-assessment process. To use this option, you must submit your paper tax return by 31 Oct or your online tax return online by 30 Dec<sup>6,7</sup>; Veterans UK cannot provide advice or guidance about tax code adjustments.

- d. **Combination.** A combination of the above options can also be used to pay the charge.

## Scheme Pays

18. In 2011 the government introduced a mechanism called Scheme Pays to help pension scheme members pay their AA tax charges. In previous years a minimum limit of £2,000 applied to scheme pays – this limit has now been removed. Individuals can ask the scheme to pay up to 45% of their AFPS PIA on their behalf, in exchange for a subsequent and permanent reduction of equivalent actuarial value to their pension benefits once they come into payment. Scheme Pays is a choice, and some members may prefer to pay the charge to HMRC directly themselves or via tax code adjustment.

19. Scheme Pays can only be used in respect of tax charges which arise because of membership of the AFPS. Members who have exceeded the AA through membership of multiple pension schemes **cannot** elect for AFPS to meet those charges as well but may approach their other pension scheme(s) with a request to do so on their behalf.

20. The reduction in pension benefits is calculated using actuarial factors, which take account of the age of the individual at the time the tax charge is incurred and an assumed retirement age of 65. If an individual starts to receive their pension benefits earlier than 65, their Scheme Pays reduction will be adjusted accordingly. In practice the earlier you start to receive your benefits the lower the reduction will be, because you will have a longer period to “repay” the amount paid to HMRC on your behalf because the pension is in payment longer. Members of AFPS 05 and AFPS15 should note that Early Departure Payments (EDP) are unaffected by Scheme Pays. Therefore, for individuals in receipt of an EDP, the reduction in pension benefits does not take effect until their pension comes into payment<sup>8</sup>.

21. After retirement, the scheme pays reduction in pension benefits applies for the remaining lifetime of the scheme member. Scheme Pays does not have a consequential impact on the benefits payable to a spouse and any children upon the member’s death.

22. Appendix 2 includes examples which show the effects of Scheme Pays calculations. The default Scheme Pays conversion tables (used to calculate the initial “age 65” value of the reduction) and the Adjustment factor tables (used to revalue the debit to the member’s age at date of retirement) are available to members and their advisors online at the [Armed Forces Pensions](#) pages on Gov.UK, within the Scheme Pays factors section under tables 1201, 1202, 1203 and 1204 respectively.

<sup>6</sup> [HMRC Tax Code Guidance](#)

<sup>7</sup> [HMRC Contact Details](#)

<sup>8</sup> See the relevant AFPS scheme explained booklets for details on when pensions come into payment.

23. A decision to use Scheme Pays to pay an AA tax charge is usually made whilst still in service, although Scheme Pays can also be used after leaving service. Once made, a Scheme Pays decision is irrevocable and the reduction is permanent.

24. Individuals who wish to elect for Scheme Pays must inform HMRC of their intent by 31 Jan following the end of the TY through their self-assessment tax return. For TY 22-23 this will be 31 Jan 24. The Scheme Pays timeline for the AFPS is as follows:

Timeline	Activity
<b>By 6 Oct</b> (following the end of the relevant tax year to which the charge relates).	Veterans UK issue pension savings statement (PSS) letters to AA exceders and individuals who do not exceed AA but are likely to be tapered due to their Service income for the tax year just ended. The letter will include the relevant prior year Pension Input Amounts and relevant income information.
<b>By 31 Oct</b> (following the end of the relevant tax year to which the charge relates).	Deadline for individuals to submit paper Self-Assessment Tax Return (SATR) forms SA100/101 to HMRC. HMRC will send back confirmation of the tax owed.
<b>By 30 Dec.</b>	Deadline for adjustment of PAYE tax code to settle tax liability if not using Scheme Pays or alternate payment option
<b>By 31 Jan</b> (following the end of the relevant tax year to which the charge relates).	Deadline for individuals to submit on-line SATR Forms to HMRC. Tax due will be automatically calculated.
<b>By 31 Jan</b> (following the end of the relevant tax year to which the charge relates).	Individual decides to pay tax due direct to HMRC or via Scheme Pays. Individual pays tax to HMRC or reports they intend to pay tax through Scheme Pays via SATR.
<b>From 31 Jan</b> (following the end of the relevant tax year to which the charge relates).	Individual notifies Veterans UK they wish to elect for Scheme Pays via Annex D to PSS letter. Veterans UK notifies individual of impact upon pension benefits. Individual confirms to Veterans UK whether they wish to proceed via AFPS Form 17.
<b>By 31 Jul</b> (following the end of the relevant tax year to which the charge relates).  However, to ensure all claims for Scheme Pays are dealt with by this date, personnel are requested to submit their requests by 28 Feb as detailed in Annex D.	Deadline for individuals to submit irrevocable election to Veterans UK via AFPS Form 17 for “mandatory” Scheme Pays (where the scheme is jointly and severally liable with the member for timely payment of the charge).  Scheme Pays decisions received after this deadline can only be accepted by the scheme on a “voluntary” basis. Any additional charges or penalties imposed by HMRC as a result of a late decision are an individual’s responsibility and cannot be paid by the scheme – the <a href="#">HMRC Pensions Tax Manual</a> numbered PTM056430 refers

25. Veterans UK will write to all members of the AFPS who have exceeded their AA, or who do not exceed AA but are likely to be tapered due to their Service income, by 6 Oct following the end of the TY. Veterans UK will use the residence at work address held on JPA to contact you, therefore please ensure that these details are kept accurate and up to date at all times. In advance of individual notification letters being sent by Veterans UK, a DIN on the notification process will be published.

26. Members should give careful consideration as to which method of paying the tax charge is most appropriate for them given their individual financial circumstance and seek independent financial advice if needed. **Veterans UK will not be able to assist members in making their payment decision.**

27. Individuals may be liable to pay several tax charges throughout their career and there is no limit on the number of times a member can decide to use Scheme Pays. A member can adopt different approaches for each tax charge, e.g., pay one charge directly, pay another charge by Scheme Pays, or use a mixture of both approaches for another. If the member exceeds their AA in a subsequent TY, Veterans UK will notify them, a decision to use Scheme Pays in one year does not affect the options available in subsequent TYs. Each Scheme Pays decision is treated in isolation to a Scheme Pays previous decision.

28. The entire Scheme Pays election process can take several months to complete and AFPS members of the AFPS who are in the process of leaving the Service are urged to factor the Scheme Pays timescales shown above into their resettlement and retirement preparations. Further guidance on how to complete a Self-Assessment Tax Return when using Scheme Pays is available in the AFPS Step by Step guide 2022/2023 available on DEFNET and the [AF REM Defence Connect Page](#).

## HMRC Annual Allowance Calculator

29. The [HMRC Annual Allowance calculator](#) should be used in conjunction with PIAs provided in PSS letters.

### Pension Sharing on Divorce

30. Pension Sharing on Divorce (PSOD)<sup>9</sup> is very complex, and consequential pension debits from a Pension Sharing Order (PSO) may increase the likelihood of an AA tax charge, depending on the timing of the divorce. Members of AFPS 75, AFPS 05 and AFPS15 who divorce with a PSO which was implemented before reaching Immediate Pension point (IPP) (16 years - AFPS 75, age 55 - AFPS 05 and age 60 – AFPS15) will have their PSO debit actuarially revalued when they reach the IP point for the relevant scheme to which they are a member. Members who divorced after IPP on AFPS 75 then transferred under the Offer to Transfer to the AFPS 05 should contact Veterans UK to discuss their specific circumstances. Members who are in the process of divorce should familiarise themselves with [Pension Benefits on Divorce and Dissolution of Civil Partnerships booklet](#).

## Specific circumstances where adjustments to the Opening and Closing Values in the AA calculations are made

31. Adjustments may be made to opening/closing values of a pension for certain events. Veterans UK will make the necessary adjustment when calculating an individual's pension benefits and they will be included within the pension values used to calculate the PIA and shown in the information supplied with PSS letters. This includes:

- a. **Additional Voluntary Contributions (AVC).** Individuals who are paying to either an in-house AVC or a Free Standing AVC through a third party will need to include the additional voluntary contributions they pay in their AA calculations. See para 34 below.

<sup>9</sup> Including dissolution of Civil Partnership.

b. **Added Pension.** Individuals who are purchasing Added Pension under the AFPS need to include the additional pension benefits that they have accrued in respect of the added years, not the amount of additional contributions.

c. **Pension Supplements.** Members of AFPS 75 who receive daily supplements to their pension e.g. Divers, Aviators, Medics etc, will need to include these in their AA calculations. Supplement codes are published annually alongside the [AFPS 75 Pension Codes](#). The supplement is based on the number of days you have served since 1 Apr 92<sup>10</sup> multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code.

## Purchase of Added Pension (formerly known as Additional Voluntary Contributions) – Tax Implications

32. Added Pension replaced Additional Voluntary Contributions (AVCs) previously offered under the rules of Armed Forces Pension Scheme 1975 (AFPS 75) and Armed Forces Pension Scheme 2005 (AFPS 05). Added Pension provides the ability for members to enhance the value of the AFPS 15 pension that will be received in retirement.

33. Service personnel who had Transitional Protection<sup>11</sup> and remained active members of their legacy pension schemes (and who are not members of AFPS 15) were entitled to make AVCs in accordance with the rules of that scheme.

34. Added Pension contributions taken from salary are deducted before income tax is calculated, however those who purchase Added Pension by a lump sum must reclaim the income tax they have paid via their tax return. **Personnel who purchase Added Pension should be aware that it does count towards both the Annual Allowance and the Lifetime Allowance (though the Lifetime Allowance Charge has been removed for benefits that are paid after 6 Apr 23). It is an individual's responsibility to manage their own tax affairs; personnel are advised to seek independent financial advice prior to entering any added pension contract.**

35. Similarly, Service Personnel who have taken out Added Pension/Additional Voluntary Contributions will be aware of the implications of cancelling them from the declaration they signed at the outset. Any contributions made and what can be reclaimed will vary depending on the pension scheme the individual is a member of and they should ensure they understand these rules before determining whether they wish to cancel, along with seeking independent financial advice.

## Important Information for Self-Assessment Returns

36. Members who are liable to pay an AA tax charge must complete a Self-Assessment return are requested to include the following information on their return:

<sup>10</sup> Nurses and RN Clearance Divers supplement effective from 1 Aug 09.

<sup>11</sup> As part of the 2015 pension remedy transitional protection ended on 31 Mar 22.

- Employer Ref: 948/02/WZ82056
- Unique Taxpayer Reference (UTR)<sup>12</sup>
- Pension Scheme Tax Reference Numbers:

AFPS 15 00817591RA (also used by those with benefits in a legacy scheme)  
 AFPS 75 00330146RV  
 AFPS 05 00597994RX  
 RFPS 05 00716644RW

Note - the scheme name abbreviation shown above is for your information only and must not be included - you must only enter the relevant 10 character reference.

## Pension Remedy (McCloud)

37. The 2015 Pension remedy will be implemented on 1 Oct 23. To be eligible for the remedy you had to be in pensionable service on or before the 31 Mar 12 and on or after 1 Apr 15 without a break in service in excess of 5 years. On implementation of the remedy, all eligible personnel who transitioned to the AFPS 15 scheme on 1 Apr 15 will be rolled back to their relevant legacy scheme for the remedy period, 1 Apr 15 to 31 Mar 22. As a result of roll back this may affect the tax position and as such PIAs for this period will need to be recalculated. Because of this, PSSs for the affected cohort will be deferred until 6 Oct 24. A separate tax guide on pension remedy will be published containing further details.

## Tax Education and Information

38. A suite of pension taxation videos are available on You Tube, these do not reflect the changes in the Spring 2023 budget, but they do provide a useful overview of pension tax; they are available at these links:

[Armed Forces Pension Scheme: Introduction to pension taxation](#)

[Armed Forces Pension Scheme: Annual Allowance](#)

[Armed Forces Pension Scheme: Lifetime Allowance](#)

[Armed Forces Pension Scheme: Determining a tax charge](#)

[Armed Forces Pension Scheme: Paying a Tax Charge](#)

39. Further information on pension tax is also available here



<https://www.gov.uk/guidance/pensions-and-compensation-for-veterans#taxation>

<sup>12</sup> The individual's UTR will be printed next to the headings 'Tax Reference', 'UTR' or 'Official Use' on their HMRC correspondence.

## PART TWO - LIFETIME ALLOWANCE

### Introduction to LTA

1. **The detail in this chapter is provided for reference only and for those who were paid pension benefits (excluding EDP) on or before 5 Apr 23. If you have been paid pension benefits from 6 Apr 23 then no lifetime allowance tax charge applies, though your lump sum may still be subject to tax at your marginal rate if it exceeds 25% of your lifetime allowance (currently fixed at £1,073,100) or this may be different if you had previously taken individual protection.**
2. The Lifetime Allowance (LTA) is the maximum amount of pension savings<sup>13</sup> (pension and lump sum) that an individual can build up over their life from **all** registered pension schemes.
2. The LTA is assessed when a pension benefit (e.g., pension and lump sum) comes into payment. If you accrue pension savings worth more than the LTA, you will be subject to an LTA tax charge<sup>14</sup> on the excess. For members of the AFPS, the tax charge is automatically recovered from the members' pension benefits through an annual reduction.
3. LTA was introduced in TY06-07 and initially set at £1.5m. Transitional protection was made available in the form of Primary and Enhanced Protection. LTA was increased over the next few years, reaching £1.8M in TY10-11. On 6 Apr 12 the LTA limit was reduced from £1.8m to £1.5m and in TY20-21 it was frozen at £1,073,100. The LTA charge was removed with effect from 6 Apr 23.
4. Members can confirm the value of pension savings by requesting a forecast from Veterans UK. Scheme members are entitled to receive one forecast free of charge per year. The forecast will highlight projected pension benefits and the amount of the LTA that has been used. This guide should be read in conjunction with HMRC's latest guidance<sup>15</sup>.

### What is the LTA?

5. Since 6 Apr 06 no absolute limit has been placed on the amount of pension benefits an individual can receive from a single or amalgamation of, registered pension scheme(s). However, there is a maximum level of benefits (pension and /or lump sum) that can be drawn from all registered pension schemes without triggering certain tax charges; this maximum amount is called the LTA.

### When do I need to calculate whether I have exceeded the LTA?

6. Any event which results in payment of benefits (e.g., pension and /or lump sum) is known as a Benefit Crystallisation Event (BCE). When a BCE takes place the value of the pension plus lump

<sup>13</sup> Within AFPS 05 & 15 EDP is not a pension benefit and therefore not subject to LTA regulations.

<sup>14</sup> Pension savings in excess of LTA are taxed at 25%. Where the lump sum is worth more than a ¼ of the LTA, the excess on the lump sum is subject to 55% tax.

<sup>15</sup> [HMRC Full Guidance](#)

sum will need to be tested against the individual's LTA. As an example, a BCE in the Armed Forces would be when leaving the Services and a pension and /or a lump sum is payable immediately.

## How do I know if I have exceeded the LTA at retirement?

7. The LTA calculation is the same for all Armed Forces Pension Schemes; there are two parts to calculating whether you have exceeded the LTA:

- First, if your pension includes a lump sum<sup>16</sup> (3 x Annual Pension) on retirement, you must check whether the lump sum is greater than ¼ of the LTA (¼ of £1,073,100 is £268,275). If it is the excess is liable for tax<sup>17</sup>.
- After calculating the lump sum (where necessary), you must calculate the size of the pension pot. This is conducted by multiplying the amount of your annual Pension on retirement<sup>18</sup> by a factor of 20 and adding the Lump Sum (if it has not already been subject to tax in the first calculation).

### Example – no LTA tax liability

An individual retires in May 15 on AFPS 75 with an annual pension of £40,000.

Lump Sum = £40,000 x 3 = £120,000

The individual subsequently crystallises AFPS 15 benefits in July 20 with an annual pension of £10,000

Lump Sum raised by commutation = £30,000

The AFPS 75 pension is calculated against the LTA limit of £1,250,000 (since this is the limit in force at the time of crystallisation in May 15)

Lump Sum	= £40,000 x 3 = £120,000 <sup>19</sup>
Annual Pension x Factor	= £40,000 x 20 = £800,000
Total pension pot value	= £800,000 + £120,000 = £920,000
LTA for 2015/16	= £920,000/£1,250,000 x 100
	= 73.6% of LTA used by 75 Scheme

This is within the LTA limit and therefore there is no tax liability and no further action to be taken.

The AFPS 15 pension will be tested against the remaining 26.4% of the LTA limit of £1,073,100 (since this is the limit in force at the time of crystallisation in Jul 20)

LTA Remaining to be used	= 0.264 x £1,073,100 = £283,294.40
Lump Sum	= £30,000 <sup>20</sup>
Annual Pension x Factor	= £10,000 x 20 = £200,000
Total pension pot value	= £200,000 + £30,000 = £230,000
LTA for 2020/21	= £1,073,100
% of LTA used by AFPS 15	= £230,000/£1,073,100 x 100 = 21.43%
Total LTA used	= 73.6% + 21.43% = 95.03%

<sup>16</sup> Legacy schemes include an automatically payable lump sum, AFPS15 does not include an automatically payable lump sum but a lump sum may be payable via commutation.

<sup>17</sup> If the lump sum is greater than £268,275, the excess will be taxed at 55%.

<sup>18</sup> Estimating Annual Pension: for AFPS 75 - Identify expected annual pension using the AFPS75 Pension Codes; for AFPS 05 - Multiply annual salary by number of years reckonable service/70.

<sup>19</sup> Not greater than ¼ of £1,250,000 LTA (£312,500) therefore there is no tax charge on the lump sum

<sup>20</sup> Not greater than ¼ of remaining £283,294.40 LTA (£70,823.60) therefore there is no tax charge on the lump sum.

8. The table below illustrates which rank, salary and pension amount are likely to attract an LTA charge. This is based on the assumption that this is the only pension provision, and that the individual has served a full career (excludes those on specialist career paths e.g. Medical and Dental Officers (MODOs)).

Lifetime Allowance	Those likely to be affected by an LTA charge will have an annual pension (£pa) in excess of:	AFPS 75		AFPS 05		AFPS 15	
		Likely to affect those on salary (£pa) in excess of	Ranks likely to be affected	Likely to affect those on salary (£pa) in excess of	Ranks likely to be affected	Likely to affect those on salary (£pa) in excess of	Ranks likely to be affected
£1,073,100	£46,656	£110,463 <sup>21</sup>	OF 7 <sup>22</sup> & above and OF4 MODOs <sup>23</sup>	£95,000	OF6 <sup>24</sup> and above		

**Note.** Those on AFPS 05 could be affected at the rank of OF6 as AFPS 05 allows up to 40 years' service to count towards the pension, whilst AFPS 75 allows up to 34 years. No one currently serving (save those with transitional protection) will be purely AFPS75/05 member anymore and, therefore these are indicative, but all individuals' circumstances will vary depending on length of service and seniority.

## What happens if I breach the LTA?

9. An LTA tax charge may be levied on the lump sum and/or the annual pension. Where the Lump Sum exceeds  $\frac{1}{4}$  of the LTA of £1,073,100 (£) the excess is taxed at 55% and recovered from the Lump Sum payment. Where the value of the pension pot exceeds the remaining available LTA, the excess is taxed at 25%. This tax charge is then recovered from the Annual Pension, for the life of the pension, using age related factors based on age at last birthday.

<b>Example – no tax on Lump Sum but tax liable on pension pot</b>		
A 58-year-old retires in Jul 20 with an annual pension of £70,000		
Lump Sum	= £70,000 x 3	= £210,000 <sup>25</sup>
Annual Pension x Factor	= £70,000 x 20	= £1,400,000
Total Pension Pot Value	= £1,400,000 + £210,000	= £1,610,000
LTA for 2021/22		= £1,073,100
Excess over LTA		= £536,900
Taxed at 25%		= £134,225
Reduction in Pension per annum	= £134,225/20.12 <sup>26</sup>	=£6,671
New Annual Pension per annum	=£70,000 -£6,671	<b>=£63,329</b>

<sup>21</sup> OF7, Salary Point 1.

<sup>22</sup> Dependant on Salary Point and number of years reckonable service.

<sup>23</sup> Dependant on accredited/non-accredited status and number of years served.

<sup>24</sup> Dependant on Increment Level and number of years served.

<sup>25</sup> Not greater than  $\frac{1}{4}$  of £1,073,100 LTA (£268,275) therefore there is no tax charge in the lump sum.

<sup>26</sup> Age related factor for a 58-year-old female taken from column 1 Table 1205: Pensioner Lifetime Allowance Factor table.

**Example – tax liable on Lump Sum and pension pot**

A 61-year-old retires in Jul 20 with an annual pension of £130,000.

**Lump Sum Taxation @ 55%**

Lump Sum	= £130,000 x 3	= £390,000 <sup>27</sup>
Excess	= £390,000 - £268,275	= £121,725
Excess Taxed at 55%		= £66,948.75
New Lump Sum	= £390,000 - £66,948.75	= <b>£323,051.25</b>

**Annual Pension Taxation @ 25%**

A second calculation must also be done to work out whether the annual pension element exceeds the LTA. As the Lump Sum has now been taxed against £268,275 of the LTA, the second calculation must discount both the Lump Sum and the element of LTA it was assessed against to avoid taxing the same amount twice. Therefore, the remaining available LTA to test the pension value against is £804,825 (i.e. 3/4 of £1.0731m).

Annual Pension x Factor	= £130,000 x 20 (note no lump sum)	= £2,600,000
Excess over £804,825	= £2,600,000 - £804,825	= £1,795,175
Excess taxed at 25%		= £448,793.75
Reduction in pension per annum	= £448,793.75/18.60 <sup>28</sup>	= £24,128.70
New Annual Pension per annum	= £130,000 - £24,128.70	= <b>£105,871.30</b>

## AFPS LTA Factor Tables for calculating the reduction in members pensions - TY 20-21

10. [The Factor Tables](#) can be found on the [Armed Forces Pensions page](#)

**How to use the factor tables:**

- a. To calculate the factor by which the pension will be reduced the member needs to identify the correct table.
- b. Tables:
  - (1) Serial 1205 - Retirement not on grounds of ill health males & females.
  - (2) Serial 1206 - Retirement on grounds of ill health males & females.
- c. Members should use column 1, referring to the age at their last birthday.
- d. Once the factor has been established the tax charge should be divided by this factor to establish the yearly reduction.

<sup>27</sup> Greater than ¼ of 1.0731m LTA (£268,275) therefore there is a tax charge on the lump sum.

<sup>28</sup> Age related factor for a 61-year-old male taken from column 1 Table 1205: Pensioner Lifetime Allowance Factor table.

## LTA Protection

11. **Individual Protection 16 (IP16).** This allowed an individual to fix their LTA at the value of their pension pot on 5 Apr 16 (up to a maximum of £1.25m). Individuals may accrue pension savings in excess of this individual LTA with any excess being subject to the LTA tax charge. Individuals will remain active members of the AFPS and, if they wish, can join other pension schemes. **IP16 was available only to those who had a pension value of £1m or more on 5 Apr 16. If the pension was valued less than £1m on 5 Apr 16 you cannot take out this form of protection.**

12. **Fixed Protection 16 (FP16).** This enables individuals to 'fix' their LTA at a maximum of £1.25m. Further pension savings may not be accrued beyond 5 Apr 16, even if the pension's value is less than £1.25m. If an individual elected for this protection, they must have ceased to have been an active member of the AFPS from 5 April 2016 (meaning the pension's value is frozen) and will not receive Death in Service or Ill Health benefits. If any member did not opt out of the Scheme (by completing and submitting an AFPS Form 16 or similar) before or just after the 5 April 16 effective date, their fixed protection has been lost due to benefit accrual in the Scheme and they must now inform HMRC. A person holding Fixed Protection 16 cannot join another pension scheme.

**Disclaimer:** *This guide is not to be taken as a recommendation to pursue (or not pursue) a particular course of action. The MOD or its employees are not qualified financial advisors and cannot accept any responsibility or liability for any tax liability arising from any act or omission made in respect to the contents of this guide. This guide may not be relied upon in relation to an individual's own circumstances. **Individuals are reminded that it is their responsibility to understand and manage their finances and further are strongly advised to seek advice from their own Independent Financial Adviser or other professional adviser as appropriate.***

### Point of contact details:

Veterans UK Pensions Tax Team, Mail Point 484, Kentigern House, 65 Brown St, Glasgow, G2 8EX or by email at [DBS-JPAC@DBSPV.MOD.UK](mailto:DBS-JPAC@DBSPV.MOD.UK).

DPT REM Pension Policy: [AFPension-Policy@mod.gov.uk](mailto:AFPension-Policy@mod.gov.uk)

## Appendix I

### Guidance on Calculating Pension Entitlements

1. To assist individuals in determining their pension entitlements undertaking their AA calculations, the following Appendices have been provided:

Appendix 1	Guidance on calculating pension entitlements.
Appendix 2	Fully illustrative worked examples
Appendix 3	Frequently Asked Questions

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2. Pension entitlements in the main Armed Forces Pension Scheme (AFPS15) and the legacy pension schemes (AFPS 75 and AFPS 05) are calculated differently. For example, within AFPS75 there are different calculations depending on your rank and whether you have reached the Immediate Pension Point (IP) point or not. The IP point is 16 years Reckonable Service (RS)<sup>29</sup> for Officers and 22 years RS for Other Ranks.

#### Officers below OF4

3. Whilst Officers at OF4 and above are likely to be affected by AA at some stage in their career any Officer (and some Other Ranks) can be affected due to exceptional events in their careers that lead to sudden spikes in growth of their pension pot during a tax year. Some (but not all) of the triggers/events in a SP's career that could cause you to exceed the AA limit are as follows:

- Promotions – especially OF3 (including Late Entry Officers) to OF4 in AFPS75
- Medical and Dental Officers qualifying for Professional Supplements
- Officers who reach substantive OF7 during a tax year one year after promotion from OF6
- OCFR after 5 years' service as an Officer
- Officers in AFPS75 with Pension Sharing Orders due to divorce who complete 16 years Service and pass the IPP during the tax year under assessment
- ORs in AFPS75 with Pension Sharing Orders due to divorce who complete 22 years Service and pass the IPP during the tax year under assessment
- SPs that earn over £200,000.00 per annum

<sup>29</sup> For Pension purposes Service for officers which starts at age 21 (or date of entry; if later) for a maximum of 34 years.

4. These trigger events can occur together in combination, in which case the timing of these effects can have a cumulative impact on the pension value at the end of a tax year, with the effect that the Pension Input Amount is higher than would otherwise have been expected, in turn leading to an increased risk of an AA tax charge.

5. AFPS75 is primarily based on rank and length of service, and the scheme rules require SPs to spend certain periods of time in rank before qualifying for that rank for pension purposes. Generally, an SP must hold substantive rank for 2 years in order to qualify for that rank for pension purposes, although an uplift is applied after one year's service in the higher rank - but officers with three years acting rank can also qualify, and there are also other exceptions.

## AFPS 75

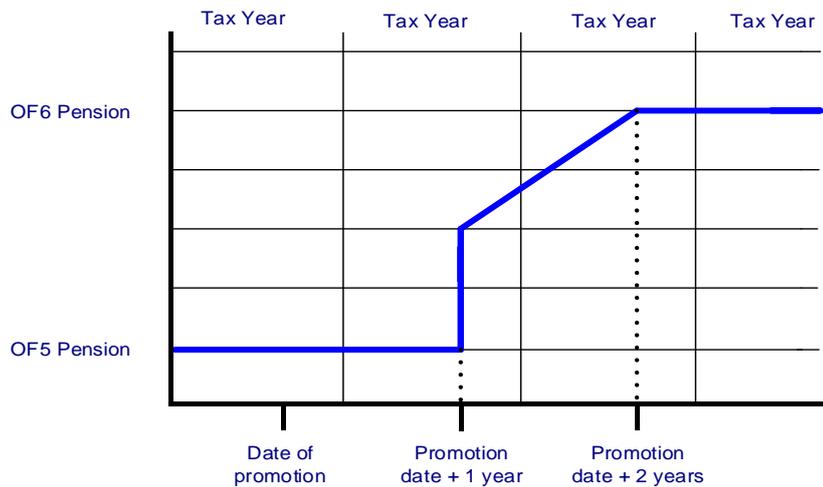
6. **OF6 and below.** The pension entitlement for AFPS 75 members of OF6 rank and below are based on representative rates of pay, which are [issued annually on Gov.uk](#) with effect from 31 Mar. Compulsory Rates of Service Retired Pay are used to determine the value of pension accrued at both the start and end of the Pension Input Period.<sup>30</sup> The pension for an AFPS 75 member of OF6 or below will also include a Pension and associated lump sum entitlement adjusted based on the Representative Rates of Pay in force on the calculation date<sup>31</sup>. A member of AFPS 75 at the rank of OF6 and below does not accrue full pension benefits in a specific rank until that rank has been held continuously for 2 years. After one year's continuous service in the new rank, as long as the individual is substantive, 50% of the higher rank pension will have been built up. Over the next year, the pension benefit will increase proportionally until it reaches 100% of the higher rank pension at the end of the second year.<sup>32</sup> The profile is illustrated below:

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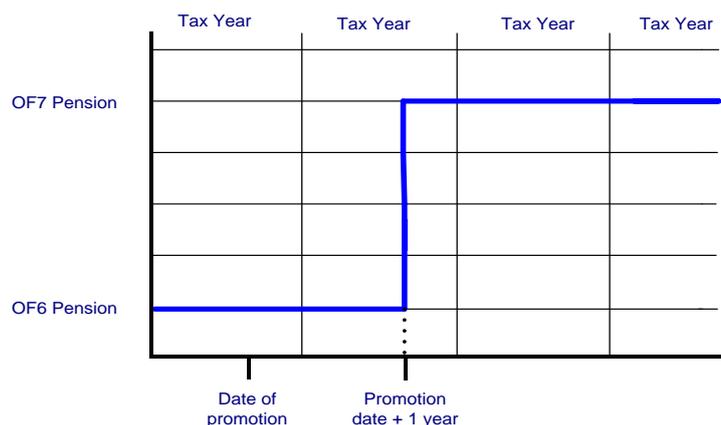
<sup>30</sup> Compulsory rates of Service Retired Pay are used to determine pension entitlement where the member terminates from service on or after their contract end date. Premature Voluntary Retirement rates of Service Retired Pay apply where a member retires at their own request before their contract end date. For an AFPS75 Officer, voluntary retirement is defined as leaving the Service prior to completion of a commission or completion of an extension, i.e. before the end of their contracted employment period, commonly known as the Engagement Expiry Date (EED). For members of OR9 or below there are no differing rates of pension, only standard rates of service pension apply to these ranks.

<sup>31</sup> The compulsory pension by final rank for the total AFPS75 reckonable service at the transfer point is adjusted by the ratio of the representative pay by final rank for the total AFPS75 and AF15 reckonable service at the exit point, to the representative pay by final rank for the total AFPS75 reckonable service.

<sup>32</sup> Where an Officer holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 3 years (33.33% at the end of Year 1, 66.67% by the end of Year 2 and 100% by the end of Year 3). Where an Other Rank holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 2 years (50% at the end of Year 1 and 100% by the end of Year 2).



7. **Promotion to OF7.** For promotion from OF6 to OF7 the individual only needs to hold the substantive rank for 1 year before the full pension benefits<sup>33</sup> are earned. The profile therefore as follows:



8. **OF7 and above.** Officers of OF7 rank and above begin to accrue full pension benefits once they have held substantive rank for 1 year. Pensions for these individuals are based on pensionable earnings, not representative pay. The percentage rates are published annually alongside the pension codes.

9. **Pre IPP.** Members of the AFPS 75 who have not yet reached their IP point need to use the following formula to establish their pension input amount (using 2014<sup>34</sup> pension codes):

- a. Officers: Full Career Pension (FCP) at 34 years' service in the current rank x Accrual Rate (3%) x RS, e.g. OF4 with 14 years' service = £37,644 x 3% x 14 = £15,810

<sup>33</sup> OF7 and above pensions are based on Final Pensionable Earnings calculated using percentage rates.

<sup>34</sup> [AFPS 75 Pension Codes](#)

- b. Other Ranks: FCP at 37 years' service in the current rank x Accrual Rate (2.75%) x RS, e.g. OR8 with 20 years' service = £19,473 x 2.75% x 20 = £10,710

10. **Pension Supplements.** Members of AFPS 75 who receive daily supplements (Divers, Aviators, Medics etc), need to include these in their AA calculations. The supplement is based on the number of days you have served since 1 Apr 92<sup>35</sup> multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code.<sup>36</sup>

11. The AFPS75 rank for pension purposes rules mean that promotion has a delayed effect for AFPS75 SPs, because the effect of the promotion does not manifest itself until the relevant qualification period has elapsed after the promotion occurred. The other AFPS schemes are all salary based, which means the effect of a salary increase on promotion is immediate - which means that any promotion will affect pension growth immediately within the tax year being assessed.

### AFPS 05

12. For members of AFPS 05 pension benefits are based on the Final Pensionable Earnings, which is the highest pensionable salary earned for 365 consecutive days in the last 3 years. Benefits are earned at a rate of 1/70<sup>th</sup> of Final Pensionable Earnings for each year served. Where the consecutive 365 days is not in the current year, the pensionable salary is up-rated for inflation as appropriate. [JSP 764 Part 1 \(0304A\)](#) contains detailed information on calculating the Final Pensionable Earnings and adjusting previous years earnings for inflation.

### AFPS 15

13. AFPS 15 replaced all existing Armed Forces pension schemes on 1 April 2015 and continues to be non-contributory. The pension is calculated using a system called Career Average Revalued Earnings (CARE) and the member's entitlement starts accumulating from the first day of paid service and is eligible to receive pension benefits provided they have completed at least 2 years qualifying service. This means that every year, the MOD adds an amount equal to 1/47th of the member's annual pensionable earnings for that year, to their individual 'pension pot'. The 'pension pot' starts to accumulate from the first day of pensionable paid service and is carried forward into each year where it is adjusted to ensure that it tracks inflation and maintains its value. The rights to pension benefits accrued in legacy Armed Forces pension schemes are protected: they will be linked to final pensionable salary/rank at the date of leaving the Services, not at the time of transfer to AFPS 15. Members of the Reserve Forces, including Part Time Volunteer Reserves, are also covered by AFPS 15.

<sup>35</sup> Date when specialist pay spines were introduced.

<sup>36</sup> For Nurses and RN Clearance Divers the effective date is 1 Aug 09

## Appendix II

## Annual Allowance (AA) and Scheme Pays Examples

These examples are all taken from real cases which occurred in the previous most recently ended tax years, with all personally identifying information removed.

Each example is split into several parts, as necessary;

Part	Description
1	Pension calculations at start and end of AA PIP
2	AA calculation – Pension Input Amount (PIA)
3	Relevant Prior Year PIAs & Information table – prior year PIAs are calculated exactly as shown in part 2 substituting CPI rates and AA limits for each of the relevant years. CPI/AA Rates are shown in the next table
4	HMRC AA calculator outputs
5	Scheme Pays – initial debit conversion calculation assuming payment at age 65
6	Scheme Pays calculations – revaluation/adjustment of debit to age at date of retirement

## CPI and AA Rates

Tax Year	10/11	11/12	12/13	13/14	14/15	15/16
CPI	1.10%	3.10%	5.20%	2.20%	2.70%	2.50%
AA	£50,000	£50,000	£50,000	£50,000	£40,000	£40,000

Tax Year	16/17	17/18	18/19	19/20	20/21	21/22
CPI	0%	1%	3%	2.40%	1.70%	0.5%
AA	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000

Tax Year	22/23
CPI	3.1%
AA	£40,000

## Summary of Detailed Worked Examples

The values and CPI rates reflected in the following examples are correct for the TY shown. They are provided for illustrative purposes only to show the methodology in calculating PIAs.

**Example 1** - OF5 MODO with Transitional Protection in AFPS05. The OF5's AFPS PIA of £19,001.09 for TY 19-20 does not exceed the standard £40,000 AA limit and they are not subject to a reduced/tapered AA limit under the tapering rules which applied in TY 19-20.

**Example 2** – OF4 who is a MODO AFPS15 member with Accrued Rights in AFPS05 and has opted for bonus earning terms instead of receiving an AFPS05 EDP. The OF4's AFPS PIA of £60,633.87 for TY 20-21 exceeds the standard £40,000 AA limit and they are subject to a reduced/tapered AA limit due to their income. The OF4 does not have sufficient unused AA carryover available from previous years for

offsetting against their excess above their individual tapered AA limit and consequently is liable to pay an AA tax charge.

**Example 3** – Non-MODO/SSRB Officer in AFPS15 with Accrued Rights in AFPS75, promoted from OF3 to OF4 w.e.f. 29 Aug 17. The AFPS75 rules which require rank to be held for a period of time before qualifying for that rank for pension purposes in AFPS75 has a delayed effect which results in a “spike” in pension growth during a later TY(s) depending on the timing of the promotion. Consequently, the OF4’s AFPS PIA of £125,966.87 for TY 18-19 exceeds the standard £40,000 AA limit but they are not subject to a reduced/tapered AA. The OF4 does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge. The OF4 decides to pay this via Scheme Pays before retirement, resulting in a reduction to their AFPS15 and AFPS75 pensions, and their AFPS75 lump sum.

**Example 4** – SSRB Officer with Transitional Protection in AFPS75, promoted to rank of OF8 w.e.f. 28 Apr 17. The OF8’s AFPA PIA of £85,966.73 for TY 18-19 exceeds the standard £40,000 AA limit and they are also subject to a reduced/tapered AA due to their income. The OF8 does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge. The OF8 decides to pay this via Scheme Pays after retirement, resulting in a reduction to their AFPS75 pension only.

**Example 5** – Non-MODO/SSRB AFPS 15 member with Accrued Rights in AFPS75, Commissioned from the Ranks as a Late Entry Officer to rank of OF2 during TY 19-20, but at the start of TY 19-20, their rank for pension purposes as an Other Rank under AFPS75 rules was OR8 with an uplift to OR9. At the end of TY 19-20, their rank for pension purposes as an Other Rank under AFPS75 rules was OR9. The OF2 also passed the 22 year Other Rank immediately payable pension point during tax year 19-20, which meant that their pension and lump sum at the start of the TY was assessed as deferred benefits with pension and lump sum elements payable at age 60 and 65, and their pension and lump sum at the end of the TY were assessed as immediately payable benefits payable at age 41 years and 7 months. Additionally, the OF2 had a pension debit due to a divorce Pension Sharing Order (PSO) - and again, having passed the 22 year Other Rank immediately payable pension point during tax year 19-20, their pension and lump sum PSO debits at the start of the TY were revalued as deferred debits which reduced the pension and lump sum elements payable at age 60 and 65, and their pension and lump sum at the end of the TY were assessed as immediately payable debits which reduced the pension from payable at age 41 years and 7 months. This meant the OF2’s PSO debits significantly reduced in value between the start and end of the TY, which in turn meant a corresponding increase to the value of the OF2’s pension between the start and end of the TY, and therefore a higher PIA. The OF2’s increase in rank upon Commissioning did not affect his PIA for TY 19-20 and the effect of this will not manifest itself until a future tax year, at the point where they have held the higher rank for the period of time necessary to qualify for pension of that rank.

## DETAILED WORKED EXAMPLES

### Example 1

OF5 MODO with Transitional Protection in AFPS05. The OF5's AFPS PIA of £19,001.09 for TY 19-20 does not exceed the standard £40,000 AA limit and they are not subject to a reduced/tapered AA limit.

#### Example 1 Part 1 – Pension calculations

AFPS05 benefits are calculated by reference to Final Relevant Earnings (FRE) and accrue at 1/70<sup>th</sup> of FRE for each year of reckonable service.

At the start of TY 19-20 on 5 Apr 19, the OF5 had completed 19 years and 13 days service and their FRE was £131,847.54 at that time. The pension value at the start of TY 19-20 was therefore calculated as follows		
Pension (FRE x service / 70)	= £131,847.54 x 19.0356 / 70	=£35,854.27
Lump sum (pension x 3)	= £35,854.27 x 3	=£107,562.81
At the end of TY 19-20 on 5 Apr 20, the OF5 had completed 20 years and 14 days and their FRE was £131,749.23 at that time. The pension value at the start of TY 19-20 was therefore calculated as follows;		
Pension (FRE x service / 70)	= £131,749.23 x 20.0383 / 70	= £37,714.83
Lump sum (pension x 3)	= £37,714.83 x 3	= £113,144.49

#### Example 1 Part 2 – Pension Input Amount calculation (PIA) for TY 19-20

These figures show the calculation of the OF5's PIA of £19,001.09 for TY 19-20. The OF5 does not exceed the standard £40,000 AA limit.	
<b>The total value of OF5 MODO pension pot at 6 April 2019</b>	
£35,854.27 (AFPS05 pension) x 16 + £107,562.81 (AFPS05 lump sum) + 2.4% CPI= £697,580.68	
<b>The total value of OF5 MODO pension pot at 6 April 2020</b>	
£37,714.83 (AFPS05 pension) x 16 + £113,144.49 (AFPS05 lump sum) = £716,581.77	
<b>Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2019-20</b>	
<b>£716,581.77 - £697,580.68</b>	<b>= £19,001.09</b>

The OF5 is not subject to a reduced/tapered AA limit. This is because their threshold Income of £130,783.04 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds the tapering threshold of £110,000 for TY 19-20. However, their Adjusted Income of £149,784.13 (which is their Threshold Income of £130,783.04 plus their AFPS PIA of £19,001.09) does not exceed the adjusted income limit of £150,000 for TY 19-20. Consequently, tapering does not apply.

The OF5 will not receive an AA Pension Savings Statement letter for TY 19-20, and no further action is required of them.

Based on the same PIA and income data for TY 20-21, the OF5 would not receive an AA Pension Savings Statement letter for TY 20-21 either – again because tapering does not apply. This is because the tapering threshold increased from £110,000 to £200,000 and the adjusted income limit increased from £150,000 to £240,000. These increases, w.e.f. 6 Apr 20, will significantly reduce the number of members who are subject to tapering.

## Example 2

OF4 who is a MODO AFPS15 member with Accrued Rights in AFPS05 and has opted for bonus earning terms instead of receiving an AFPS05 EDP. The OF4's AFPS PIA of £60,633.87 for TY 20-21 exceeds the standard £40,000 AA limit and they are subject to a reduced/tapered AA limit due to their income. The OF4 does not have sufficient unused AA carryover available from previous years for offsetting against their excess above their individual tapered AA limit and consequently is liable to pay an AA tax charge.

### Example 2 Part 1 – Pension calculations

**AFPS15** - pension is calculated on a Career Average Revalued Earnings (CARE) basis. This means that 1/47<sup>th</sup> of the member's pensionable pay is added to the "CARE Pot" each year, and each year whilst serving the CARE Pot is revalued in line with Average Weekly Earnings (AWE).

The OF4's AFPS15 CARE Pot, including AWE revaluation for 19-20, had a value of £14,037.22 at the start of TY 20-21. This is the AFPS15 pension start value on 6 Apr 20.

During TY 20-21, the OF4 added £2,838.16 to their AFPS15 CARE Pot, bringing its value to £16,875.38. The AWE increase for 20-21 of 2.4% was then applied, which meant that the pension value at the end of the TY on 5 Apr 19 was £17,280.39.

**AFPS05** benefits are calculated by reference to Final Relevant Earnings (FRE) and accrue at 1/70<sup>th</sup> of FRE for each year of reckonable service. For Accrued Rights members, further service does not accrue after 31 March 2015.

At the start of TY 20-21 on 5 Apr 20, the OF4 had completed 17 years and 65 days service as at 31 Mar 15 and their FRE was £128,545.33 The pension value at the start of TY 20-21 was therefore calculated as follows:		
Pension (FRE x service / 70)	= £128,545.33 x 17.1781 / 70	=£31,545.33
Lump sum (pension x 3)	= £31,545.33 x 3	= £94,635.98
At the end of TY 20-21 on 5 Apr 21, the OF4 had completed 17 years and 65 days service as at 31 Mar 15 and their FRE was £128,545.33. The pension value at the end of TY 20-21 was therefore calculated as follows:		
FRE x service / 70	= £133,425.29 x 17.1781 / 70	= £32,742.72
Lump sum (pension x 3)	= £32,742.72 x 3	= £98,228.17

### Example 2 Part 2 – Pension Input Amount calculation (PIA) for TY 20-21 (as shown on Annex A to PSS letter)

These figures show the calculation of the OF4's PIA of £60,633.87 for TY 20-21. This meant they exceed the standard £40,000 AA limit by £20,833.87.	
<b>The total value of OF4 MODO pension pot at 6 April 2020</b>	
£14,037.22 (AFPS15 pension) x 16 + 1.7% CPI	= £228,413.64
plus	
£31,545.33 (AFPS05 pension) x 16 + £94,635.99 (AFPS05 lump sum) + 1.7% CPI	= £609,550.41

<b>The total value of OF MODO pension pot at 5 April 2021</b>		
£17,280.39 (AFPS15 pension) x 16		= £276,486.24
plus		
£32,742.72 (AFPS05 pension) x 16 + £98,228.16 (AFPS05 lump sum)		= £622,111.68
<b>Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2020-21</b>		
AFPS15 PIA £276,486.24 - £228,413.64		= £48,072.60
Legacy scheme PIA £622,111.68 - £609,550.41		= £12,561.27
<b>AFPS Pension Input Amount</b>	<b>£48,072.60 + £12,561.27</b>	<b>= £60,633.87</b>

However, the OF4's income indicates they will be subject to a reduced/tapered AA limit, which will increase their excess.

This is because their Threshold Income of £235,562.54 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds the £200,000 threshold income limit for TY 20-21 and their Adjusted Income (threshold income plus Pension Income Amount) of £296,196.41 exceeds the £240,000 adjusted income limit for TY 20-21.

The OF4 may also have additional pension benefits in other schemes, which could also increase the amount by which their AA is reduced due to tapering, and ultimately, increasing their excess above their individual tapered AA limit.

#### Example 2 Part 3 - Prior Year PIAs & Info table (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service Pay	Adjusted Income – AFPS & Service Pay
2013-14	£50,000	£32,487.31	Not applicable	Not applicable
2014-15	£40,000	£36,755.55	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£10,680.35	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused AA between 6 Apr 15 and 8 July 15	£29,343.97	Not applicable	Not applicable
2016-17	£40,000	£54,502.86	£115,206.15	£169,709.01
2017-18	£40,000	£52,431.45	£119,294.17	£171,725.62
2018-19	£40,000	£45,210.13	£144,069.17	£189,279.30
2019-20	£40,000	£58,649.70	£339,121.48	£397,771.18
2020-21	£40,000	£60,633.87	£235,562.54	£296,196.41

**Example 2 Part 4 - HMRC AA calculator outputs (based on inputs from Part 3)****How we worked out your results**

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2020 to 5 April 2021	£11,902	£0	£60,633	£48,731	£0
6 April 2019 to 5 April 2020	£10,000	£0	£58,649	£48,649	£0
6 April 2018 to 5 April 2019	£20,361	£0	£45,210	£24,849	£0
6 April 2017 to 5 April 2018	£36,197	£0	£52,431	£16,234	£0
6 April 2016 to 5 April 2017	£61,561	£0	£54,502	£0	£7,059
9 July 2015 to 5 April 2016	£60,758	£0	£29,343	£0	£31,415
6 April 2015 to 8 July 2015	£100,758	£0	£10,680	£0	£60,758
6 April 2014 to 5 April 2015	£57,513	£0	£36,755	£0	£20,758
6 April 2013 to 5 April 2014	£50,000	£0	£32,487	£0	£17,513

These figures show:

- that the OF4 is subject to a reduced AA limit of £11,902 due to tapering, as a result of their income.
- take into account offsetting via carryover of unused AA from previous years.
- show that the OF4 is liable to pay an AA tax charge in TY 20-21 because after paying a tax charge in 19-20, they had no unused AA carryover available from previous years to use for offsetting against their excess above their individual tapered AA limit in 20-21

Additionally, the OF4 may have additional income, pension schemes or non-taxable deductions in any of these TYs, of which the AFPS is unaware. Each of these would make a difference to the outcome, so the OF4 needs to add these if they exist and then run the calculation again using the combined amounts.

### Example 3

Non-MODO/SSRB Officer in AFPS15 with Accrued Rights in AFPS75, promoted from OF3 to OF4 w.e.f. 29 Aug 17.

The AFPS75 rules which require rank to be held for a period of time before qualifying for that rank for pension purposes in AFPS75 has a delayed effect which results in a “spike” in pension growth during a later TY, or later TYs depending on the timing of the promotion.

Consequently, the OF4’s AFPS PIA of £125,966.87 for TY 18-19 exceeds the standard £40,000 AA limit but they are not subject to a reduced/tapered AA. The OF4 does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge. The OF4 decides to pay this via Scheme Pays before retirement, resulting in a reduction to their AFPS15 and AFPS75 pensions, and their AFPS75 lump sum.

#### Example 3 Part 1 – Pension calculations

AFPS15 - pension is calculated on a Career Average Revalued Earnings (CARE) basis. This means that 1/47<sup>th</sup> of the member’s pensionable pay is added to the “CARE Pot” each year, and each year whilst serving the CARE Pot is revalued in line with Average Weekly Earnings (AWE).

The OF4’s AFPS15 CARE Pot, including AWE revaluation for 17-18, had a value of £4,228.90 at the start of the 18-19 TY. This is the AFPS15 pension start value on 6 Apr 18.

During TY 18-19, the OF4 added £1,577.97 to their AFPS15 CARE Pot, bringing its value to £5,806.87. The AWE increase for 18-19 of 2.8% was then applied, which meant that the pension value at the end of the 18-19 TY on 5 Apr 19 was £5,969.46.

AFPS75 benefits for officers up to and including OF6 are calculated by reference to rank-based Pension Code Rates and length of reckonable service. For Accrued Rights members, further service does not accrue after 31 March 2015, but the rank for pension purposes is the assessed as at the last day of service.

The OF4 specialised as a Nurse and is therefore entitled to Tri-Service Nursing Supplement for each day of qualifying Service as a Nurse.

At the start of TY 18-19 on 6 Apr 18, the OF4 had completed 22 years and 191 days Accrued Rights service calculated up to 31 Mar 15, and total service of 25 years 196 days. They held the substantive rank of OF3 for pension purposes on 5 Apr 18.

The pension value at the start of TY 18-19, including Tri-Service Nursing Supplement, was therefore calculated as follows:

<b>Calculation A – Compulsory rates, based on 22 years 191 days service up to 31 Mar 15</b>	
AFPS75 Pension Code rate for 23 completed years’ service at OF3	= £21,457
AFPS75 Pension Code rate for 22 completed years’ service at OF3	= £20,692
Difference between 23- and 22-year rate £21,457 - £20,692	= £765
Pension for part completed year £765 / 365 x 191	= £400.31
Pension Value A £20,692 + £400.31	= £21,092.31

<b>Calculation B – Representative Rates, based on 25 years 196 days total pensionable service</b>	
AFPS75 Pension Code rate for 26 completed years' service at OF3	= £59,327
AFPS75 Pension Code rate for 25 completed years' service at OF3	= £59,045
Difference between 26- and 25-year rate £59,327 - £59,045	= £282
Pension for part completed year £282 / 365 x 196	= £151.43
Pension Value B £59,045 + £151.43	= £59,196.43

<b>Calculation C - Representative Rates, based on 22 years 191 days service up to 31 Mar 15</b>	
AFPS75 Pension Code rate for 23 completed years' service at OF3	= £58,479
AFPS75 Pension Code rate for 22 completed years' service at OF3	= £58,196
Difference between 23- and 22-year rate £58,479 - £58,196	= £283
Pension for part completed year £283 / 365 x 191	= £148.09
Pension Value C £58,196 + £148.09	= £58,344.09

<b>Calculation D – Base pension value before supplement</b>	
The base pension is Pension Value D and is calculated using the pension values from calculations A, B and C in the formula $B / C \times A = D$	
Base pension = Pension Value B / Pension Value C x Pension Value A	
$£59,196.43 / £58,344.09 \times £21,092.31$	=£21,400.44

<b>Calculation E - Tri-Service Nurse supplement</b>	
Tri-Service Nurse supplement 2,069 days x £0.155	= £320.70

<b>Calculation F - Pension and Lump sum at start of TY</b>	
Pension at start of TY £21,400.44 + £320.70	= £21,721.14
Lump sum at start of TY £21,721.14 x 3	= £65,163.42

At the end of TY 18-19 on 5 Apr 19, the OF4 had completed 22 years and 191 days Accrued Rights service calculated up to 31 Mar 15 and total service of 26 years 196 days.

They had spent 1 year and 220 days in the rank of OF4, which is less than the 2 years required to qualify for this rank substantively for pension purposes. The pension was assessed at OF3 rates with an uplift to OF4 for the period spent in the higher rank.

The pension value at the end of TY 18-19, including Tri-Service Nursing Supplement, was therefore calculated as follows:

<b>Calculation A – Compulsory rates, based on 22 years 191 days service up to 31 Mar 15</b>	
AFPS75 Pension Code rate for 23 completed years' service at OF4	= £28,665
AFPS75 Pension Code rate for 22 completed years' service at OF4	= £27,586
Difference between 23- and 22-year rate £28,665 - £27,586	= £1,079
Pension for part completed year £1,079 / 365 x 191	= £564.63
Pension Value A £27,586 + £564.63	= £28,150.63

**Calculation B – Representative Rates, based on 25 years 196 days total pensionable service**

AFPS75 Pension Code rate for 27 completed years' service at OF4	= £79,881
AFPS75 Pension Code rate for 26 completed years' service at OF4	= £79,354
Difference between 27- and 26-year rate £79,881 - £79,354	= £527
Pension for part completed year £527 / 365 x 196	= £282.99
Pension Value B £79,354 + £282.99	= £79,636.99

**Calculation C - Representative Rates, based on 22 years 191 days service up to 31 Mar 15**

AFPS75 Pension Code rate for 23 completed years' service at OF4	= £77,772
AFPS75 Pension Code rate for 22 completed years' service at OF4	= £77,244
Difference between 23- and 22-year rate £77,772 - £77,244	= £528
Pension for part completed year £528 / 365 x 191	= £276.30
Pension Value C £77,244 + £276.30	= £77,520.30

**Calculation D – Base pension value before supplement**

The base pension is Pension Value D and is calculated using the pension values from calculations A, B and C in the formula  $B / C \times A = D$ .

Base pension = Pension Value B / Pension Value C x Pension Value A

$$£79,636.99 / £77,520.30 \times £28,150.63 = £28,919.28$$

**Calculation E - Tri-Service Nurse supplement**

$$\text{Tri-Service Nurse supplement } 2,069 \text{ days} \times £0.093 = £192.42$$

**Calculation F - Rank uplift calculations**

OF4 pension before supplement	= £28,919.28
OF3 pension before supplement	= £21,400.44
Difference between OF4 and OF3 pension	= £7,158.84
One Year's Rank Uplift = Difference / 2 £7,158.84 / 2	= £3,759.42
Rank uplift for part completed year £3,759.42 / 365 x 220	= £2,265.95
Rank uplift due £3,759.42 + £2,265.95	= £6,025.37

**Calculation G - Tri-Service Nurse supplement uplift**

OF4 supplement	= £192.42
OF3 supplement	= £320.70
Difference between OF4 and OF3 supplement	= -£128.28
One Year's supplement Uplift = Difference / 2 -£128.28 / 2	= -£64.14
Supplement uplift for part completed year -£64.14 / 365 x 220	= -£38.66
Supplement uplift due £320.70 - (£64.14 + £38.66)	= £217.90

**Calculation H - Pension and Lump sum at end of TY**

Pension at end of TY £21,400.44 + £6,025.37 + £217.90	= £27,643.71
Lump sum at end of TY £27,643.71 x 3	= £82,931.13

**Example 3 Part 2 – Pension Input Amount calculation (PIA) for TY 18-19** (as shown on Annex A to PSS letter)

These figures show the calculation of the OF4's PIA of £125,966.87 for TY 18-19. This meant they exceed the standard £40,000 AA limit by £85,966.87	
<b>The total value of OF4 pension pot at 6 April 2018</b>	
£4,228.90 (AFPS15 pension) x 16 + 3% CPI	= £69,692.27
plus	
£21,721.14 (AFPS75 pension) x 16 + £65,163.42 (AFPS75 lump sum) + 3% CPI	= £425,082.71
<b>The total value of OF pension pot at 5 April 2019</b>	
£5,969.46 (AFPS15 pension) x 16	= £95,511.36
plus	
£27,643.71 (AFPS75 pension) x 16 + £82,931.13 (AFPS75 lump sum)	= £525,230.49
<b>Pension Input Amount (PIA) for all AFPS benefits for TY 2018-19</b>	
AFPS15 PIA £95,511.36 - £69,692.27	= £25,819.09
plus	
Legacy scheme PIA £525,230.49 - £425,082.71	= £100,147.78
<b>AFPS Pension Input Amount £25,819.09 + £100,147.78</b>	<b>= £125,966.87</b>

The OF4 is not subject to a reduced/tapered AA because their Threshold Income of £73,997.24 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) does not exceed £110,000.

**Example 3 Part 3 - Prior Year PIAs & Info table** (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2014-15	£40,000	£11,266.49	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£5,560.05	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused between 6 Apr 15 and 8 July 15	£15,276.11	Not applicable	Not applicable
2016-17	£40,000	£28,003.20	£61,765.93	£89,769.13
2017-18	£40,000	£30,503.93	£67,459.26	£97,963.19
2018-19	£40,000	£125,966.87	£73,997.24	£199,964.11

**Example 3 Part 4 - HMRC AA calculator outputs** (based on inputs from Part 2)**How we worked out your results**

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2019 to 5 April 2020	£0	£0	£0	£0	£0
6 April 2018 to 5 April 2019	£86,218	£0	£125,966	£39,748	£0
6 April 2017 to 5 April 2018	£105,455	£0	£30,503	£0	£46,218
6 April 2016 to 5 April 2017	£93,458	£0	£28,003	£0	£65,455
9 July 2015 to 5 April 2016	£68,734	£0	£15,276	£0	£53,458
6 April 2015 to 8 July 2015	£108,734	£0	£5,560	£0	£68,734
6 April 2014 to 5 April 2015	£40,000	£0	£11,266	£0	£28,734

These figures:

- show that the OF4 is not subject to a reduced AA limit due to tapering.
- take into account offsetting via carryover of unused AA from previous years.
- show that the OF4 has used up all available carryover from previous years.

This meant the OF4 had no unused AA carryover available to fully offset against their excess above the AA limit in TY 18-19.

Consequently, the HMRC AA calculator shows that the amount on which the OF4 was liable to pay tax on was £39,748 for TY 18-19.

The amount of tax payable would be calculated at their marginal tax rate, which their Service income indicated would be 40%.

This indicates that the amount payable as an AA tax charge would be £15,899.20 - assuming they had no other additional income, non-AFPS pension schemes or non-taxable deductions (each of which could change this amount).

**Example 3 Part 5 - Scheme Pays – initial debit conversion calculation (assuming payment at age 65)**

The OF4 was due to leave the Service on 29 Dec 19 and shortly before this registered their interest in using Scheme Pays. The amount they requested was £16,053.

The AFPS can accept and pay the amount requested, because it does not exceed 45% of their AFPS PIA.

This amount of £16,053 is then apportioned between AFPS15 and AFPS75 in the proportion that each of the schemes contributed to the OF4's PIA. This calculation is as follows;

AFPS15	Amount payable * AFPS15 PIA / AFPS PIA	$£16,053 \times £25,819.09 / £125,966.87$	=£3,290.34
AFPS75	Amount payable * AFPS75 PIA / AFPS PIA	$£16,053 \times £100,147.78 / £125,966.87$	=£12,762.66

The AFPS15 amount is then rounded up to £3,291 as this is the nearest whole pound and the AFPS75 pension is then rounded down £12,762 as this is the nearest whole pound. This is because HMRC require that all amounts due must be reported and paid to them in whole pounds only. No further rounding is done in subsequent Scheme Pays calculations.

The OF4 was age 47 on the relevant date of 5 Apr 19, the end of the TY to which the debit applies. Since the OF4 had not retired, and had not yet received their lump sum payment, the AFPS75 element of their Scheme Pays debit applies to both the pension and lump sum.

The factor taken from Table x-1201 "pension and lump sum default conversion" actuarial factors is 13.10. This factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit apportioned to the AFPS75 element of the OF4's pension and lump sum - assuming payment from age 65 - is therefore calculated as follows;

AFPS75 age 65 Pension debit	$£12,762 / 13.10$	= £974.20 per year
AFPS75 age 65 Lump sum debit	$3 \times £974.20$	= £2,922.60

The AFPS15 element of the pension does not have an automatically payable lump sum, so "pension only" default conversion factors are used.

The factor taken this time from Table x-1202 "pension only default conversion" actuarial factors is 11.12. Again, this factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit apportioned to the AFPS15 element of the OF4's pension - assuming payment from age 65 - is therefore calculated as follows;

AFPS15 Age 65 Pension debit	$£3,291 / 11.12$	= £295.95 per year
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### Example 3 Part 6 - Scheme Pays – revaluation/adjustment of debit to age at date of retirement

When the OF4's pensions become payable, their initial "age 65" Scheme Pays debit amounts are revalued using actuarial adjustment factors, which vary depending on gender and retirement type. CPI is also applied between the effective date of the initial "age 65" debit (the end of the TY to which the debit relates) and its revaluation date (which is the day after date of retirement).

The adjusted debit values – i.e. the reductions to be permanently applied to the annual pensions and AFPS75 lump sum – are then applied with effect from the date of retirement, with effect from the date on which each of the relevant elements of the pension benefits become payable.

In the OF4's case the revaluation of the AFPS75 pension happens almost immediately due to their retirement on 29 Dec 19. The revaluation is carried out using the appropriate actuarial factors, which in the OF4's case are factors of 0.466 and 0.678 for the pension and lump sum respectively. These are the factors (as at date of retirement) taken from Table x-1203 "good health retirement adjustment" actuarial factors.

CPI is then applied between the effective date of the initial "age 65" debit (5 Apr 19) and its revaluation date, which is the day after the OF4's date of retirement (29 Dec 19).

The result is the adjusted AFPS75 debit – i.e. the reduction to be permanently applied to the OF4's annual pension and lump sum with effect from their date of retirement on 29 Dec 19 – and is therefore calculated as follows;

#### Adjusted AFPS75 pension debit

$£974.20 \times 0.466 \times 1.000$  (i.e. 0% CPI between 5 Apr 19 and 29 Dec 19) = £453.98 per year.

#### Adjusted AFPS75 Lump sum debit

$£2,922.60 \times 0.678 \times 1.000$  (i.e. 0% CPI between 5 Apr 19 and 29 Dec 19) = £1,981.52

The AFPS15 pension is deferred and does not become payable until the OF4 claims it, either when reaching age State Pension Age (SPA - in this case age 67 years and 0 months) or earlier (from age 55 onwards) if the OF4 claims early payment on an actuarially reduced basis.

In either event, the AFPS15 debit will be actuarially revalued in the same way as shown above for AFPS75 when it becomes payable, using the same table of adjustment factors.

If paid at the OF4's SPA of 67 years old, the AFPS 15 debit would be expected to increase from its original "age 65" value, whereas if claimed earlier on actuarially reduced terms, the AFPS15 debit would be expected to reduce from its original "age 65" value.

## Example 4

SSRB Officer with Transitional Protection in AFPS75, promoted to rank of OF8 w.e.f. 28 Apr 17. The OF8's AFPA PIA of £85,966.73 for TY 18-19 exceeds the standard £40,000 AA limit and they are also subject to a reduced/tapered AA due to their income.

The OF8 does not have sufficient unused AA carryover available from previous years to offset against their excess above the AA limit and consequently is liable to pay an AA tax charge.

The OF8 decides to pay this via Scheme Pays after retirement, resulting in a reduction to their AFPS75 pension only.

### Example 4 Part 1 – Pension calculations

In AFPS75 Senior Officer pension is calculated as a percentage of Final Relevant Earnings (FRE). The percentage is a maximum of 50% and depends on the amount of completed Service.

At the start of TY 18-19 on 6 Apr 18, the OF8 had completed 32 years and 212 days service and their FRE was at that time £131,827.45. The pension value at the start of TY 18-19 is therefore calculated as follows;

33 years' completed service rate	48.9% x £131,827.45	=£64,463.62
32 years' completed service rate	47.7% x £131,827.45	=£62,881.69
Difference between 33- and 32-years rate	£64,463.62 - £62,881.69	=£1,581.93
Pension for partly completed year	£1,581.93 / 365 x 212	=£918.82
Pension at start of TY	£62,881.69 + £918.82	=£63,800.51
Lump sum at start of TY	£63,800.51 x 3	=£191,401.53

At the end of TY 18-19 on 5 Apr 19, the OF8 had completed 33 years and 212 days and their FRE was at that time £141,785.72. The pension value at the start of TY 18-19 is therefore calculated as follows;

34 years' completed service rate	50% x £141,785.72	=£70,892.86
33 years' completed service rate	48.9% x £141,785.72	=£69,333.22
Difference between 34- and 33-years rate	£70,892.86 - £69,333.22	=£1,559.64
Pension for additional days	£1,559.64 / 365 x 212	=£905.87
Pension at start of TY	£69,333.22 + £905.87	=£70,239.09
Lump sum at start of TY	£70,239.09 x 3	=£210,717.27

### Example 4 Part 2 – Pension Input Amount calculation (PIA) for TY 18-19 (as shown on Annex A to PSS letter)

These figures show the calculation of the OF8's PIA of £85,966.73 for TY 18-19. This meant they exceeded the standard £40,000 AA limit by £45,966.73.

However, their income indicates they will be also subject to a reduced/tapered AA limit, which will increase their excess.

This is because their Threshold Income of £141,387.46 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) exceeds the threshold income limit of £110,000 for TY 18-19 and their Adjusted Income (threshold income plus Pension Income Amount) of £227,354.19 exceeds the adjusted income limit of £150,000 for TY 18-19.

The OF8 may also have other income and/or additional pension benefits in other schemes, which could also further increase their excess.

**The total value of OF8 pension pot at 6 April 2018**

£63,800.51 (AFPS75 pension) x 16 + £191,401.53 (AFPS75 lump sum) + 3% CPI = £1,248,575.98

**The total value of OF8 pension pot at 5 April 2019**

£70,239.09 (AFPS75 pension) x 16 + £210,717.27 (AFPS75 lump sum) = £1,334,542.71

**Pension Input Amount for all AFPS benefits for TY 2018-19**

£1,334,542.71 - £1,248,575.98 = **£85,966.73**

**Example 4 Part 3 - Prior Year PIAs & Info table (as shown on Annex B to PSS letter)**

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2011-12	£50,000	£ 0.00	Not applicable	Not applicable
2012-13	£50,000	£ 0.00	Not applicable	Not applicable
2013-14	£50,000	£13,292.43	Not applicable	Not applicable
2014-15	£40,000	£104,646.06	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£8,007.90	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused between 6 Apr 15 and 8 July 15	£22,001.49	Not applicable	Not applicable
2016-17	£40,000	£54,863.07	£115,944.08	£170,807.15
2017-18	£40,000	£150,106.90	£130,132.98	£280,239.88
2018-19	£40,000	£85,966.73	£141,387.46	£227,354.19

## Example 4 Part 4 - HMRC AA calculator outputs (based on inputs from Part 2)

### How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2019 to 5 April 2020	£0	£0	£0	£0	£0
6 April 2018 to 5 April 2019	£10,000	£0	£85,966	£75,966	£0
6 April 2017 to 5 April 2018	£27,999	£0	£150,106	£122,107	£0
6 April 2016 to 5 April 2017	£84,304	£0	£54,863	£0	£17,999
9 July 2015 to 5 April 2016	£112,062	£0	£22,001	£0	£54,707
6 April 2015 to 8 July 2015	£152,062	£0	£8,007	£0	£112,062
6 April 2014 to 5 April 2015	£176,708	£0	£104,646	£0	£72,062
6 April 2013 to 5 April 2014	£150,000	£0	£13,292	£0	£136,708
6 April 2012 to 5 April 2013	£100,000	£0	£0	£0	£100,000
6 April 2011 to 5 April 2012	£50,000	£0	£0	£0	£50,000

These figures show:

- the OF8 is subject to a reduced AA limit of £10,000 due to tapering as a result of their income.
- the effect of offsetting via carryover of unused AA available from previous years.
- the OF8 was liable to pay a tax charge in TY 17-18, and at that point they had used up all available carryover from previous years. This meant the OF8 had no unused AA carryover available for offsetting against their excess in TY 18-19.

Consequently, the HMRC AA calculator shows that the OF8 was liable to pay tax on the amount of £75,966 for TY 18-19. The tax payable would be calculated at their marginal tax rate.

In this case, based solely on the OF8's AFPS pension and Service income only, we would expect the tax payable would be £30,386.40, calculated at a marginal tax rate of 40%. This is because the OF8's income of £141,387.46 – based solely on their Service pay - is below the £150,000 threshold at which 45% tax is payable. However, the OF8 may have additional income, pension schemes or non-taxable deductions, each of which could change this amount.

**Example 4 Part 5 - Scheme Pays – initial debit conversion calculation (assuming payment at age 65)**

The OF8 retired on 5 Jul 19 and subsequently registered their interest in using Scheme Pays in Dec 19. The amount requested was £26,168.00. This is lower than the amount expected based on paying 40% of the amount on which tax is due (as calculated using the HMRC AA calc tax in the previous step).

However, the OF8 may have decided to only use Scheme Pays to pay only part of the sum due and pay the balance themselves, or they may have other non-taxable deductions which reduce the amount payable.

The AFPS can accept and pay the amount requested, because it does not exceed 45% of their AFPS PIA.

The OF8 was age 54 on the relevant date of 5 Apr 19, the end of the TY to which the debit applies. Since the OF8 retired on 5 Jul 19, they have been in receipt of their pension and has already received their lump sum payment, which means their Scheme Pays debit can only be recovered from their pension.

The factor taken from Table x-1202 “pension only default conversion” actuarial factors is 12.99. This factor assumes (for simplicity across schemes) that the pension and its associated Scheme Pays reduction starts from age 65.

The initial debit - assuming payment from age 65 - is therefore calculated as follows;

$$£26,168.00 / 12.99 = £2,014.47 \text{ per year}$$

**Example 4 Part 6 - Scheme Pays – revaluation/adjustment of debit to age at date of retirement**

In view of the OF8’s retirement with an immediately payable pension on 5 Jul 19, their initial “age 65” Scheme Pays debit amount is then immediately revalued.

The revaluation is carried out using the appropriate actuarial factor which in the OF8’s case is the factor of 0.599 as this is the factor (as at their date of retirement) taken from Table x-1203 “good health retirement adjustment” table of actuarial factors.

CPI is then applied between the effective date of the initial “age 65” debit (5 Apr 19) and its revaluation date, which is the day after the Lt Gen’s date of retirement (6 Jul 19).

The adjusted debit – i.e. the reduction to be permanently applied to the OF8’s annual pension with retrospective effect from their retirement on 5 Jul 19 - was therefore calculated as follows;

$$£2,014.47 \times 0.599 \times 1.000 \text{ (i.e. 0% CPI between 5 Apr 19 and 5 Jul 19)} = £1,206.67 \text{ per year.}$$

## Example 5

Non-MODO/SSRB AFPS 15 member with Accrued Rights in AFPS75, Commissioned from the Ranks as a Late Entry Officer to rank of OF2 during TY 19-20, but at the start of TY 19-20, their rank for pension purposes as an Other Rank under AFPS75 rules was OR8 with an uplift to OR9.

At the end of TY 19-20, their rank for pension purposes as an Other Rank under AFPS75 rules was OR9. The OF2 also passed the 22 year Other Rank immediately payable pension point during TY 19-20, which meant that their pension and lump sum at the start of the TY was assessed as deferred benefits with pension and lump sum elements payable at age 60 and 65, and their pension and lump sum at the end of the TY were assessed as immediately payable benefits payable at age 41 years and 7 months.

Additionally, the OF2 had a pension debit due to a divorce Pension Sharing Order (PSO) - and again, having passed the 22 year Other Rank immediately payable pension point during TY 19-20, their pension and lump sum PSO debits at the start of the TY were revalued as deferred debits which reduced the pension and lump sum elements payable at age 60 and 65, and their pension and lump sum at the end of the TY were assessed as immediately payable debits which reduced the pension from payable at age 41 years and 7 months.

This meant the OF2's PSO debits significantly reduced in value between the start and end of the TY, which in turn meant a corresponding increase to the value of the OF2's pension between the start and end of the TY, and therefore a higher PIA. The OF2's increase in rank upon Commissioning did not affect his PIA for TY 19-20 and the effect of this will not manifest itself until a future TY, at the point where they have held the higher rank for the period of time necessary to qualify for pension of that rank.

### Example 5 Part 1 – Pension calculations

AFPS15 - pension is calculated on a Career Average Revalued Earnings (CARE) basis. This means that 1/47<sup>th</sup> of the member's pensionable pay is added to the "CARE Pot" each year, and each year whilst serving the CARE Pot is revalued in line with Average Weekly Earnings (AWE).

The OF2's AFPS15 CARE Pot, including AWE revaluation for 18-19, had a value of £3,746.97 at the start of the 19-20 TY. This is the AFPS15 pension start value on 6 Apr 19.

The OF2's AFPS15 CARE Pot, including AWE revaluation for 19-20, had a value of £5,003.92 at the end of the 19-20 TY. This is the AFPS15 pension end value on 6 Apr 20.

AFPS75 benefits for Other Ranks are calculated by reference to rank-based Pension Code Rates and length of reckonable service. For Accrued Rights members, further service does not accrue after 31 March 2015, but the rank for pension purposes is the rank assessed as at the last day of service.

At the start of TY 19-20 the OF2 held the rank of OR9 for 1 year and 284 days and had completed 21 years and 210 days qualifying service with 17 years and 205 days reckonable to 31st Mar 15.

As the OF2 had less than the 2 years required to qualify for OF9 rank substantively for pension purposes, the pension at the start of TY 19-20 was assessed at OR8 rates with an uplift to OR9 for the period spent in the higher rank.

The preserved pension (PP) value at the start of TY 19-20, before taking in to account the effect of the PSO, was therefore calculated as follows;

OR8 PP Rate @ 2018 rates	2.75% x 21,129.00 (37 year rate)	=	581.0475
17 years 205 days at OR8	17.5616 x 581.0475	=	£10,204.12
OR9 PP Rate @ 2018 rates	2.75% x 23,898.00 (37 year rate)	=	657.195
17 years 205 days at OR9	17.5616 x 657.195	=	£11,541.40
Pension for lift of 1 year 284 days			
Difference between OR9 and OR8	=£11,541.40 - £10,204.12	=	£1,337.28
Divide by 2 (for single year's uplift)		=	£668.64
Pension uplift for partly completed year	= 284 x 668.64 / 365	=	£520.26
PP @ 17 years 205 days with uplift to OR9	= £10,204.12 + £668.64 + £520.26	=	£11,393.02
Preserved Lump sum	= £11,393.02 x 3	=	£34,179.06

#### Pension Sharing Order debit revaluation at start of TY 19-20

The OF2's Pension Sharing Order (PSO) resulted in preserved pension debits calculated at the time of the divorce, which were as follows.

Age 60 Pension Debit at Transfer Day:	=	£2,376.02
Age 65 Pension Debit at Transfer Day:	=	£2,489.89
Age 60 Lump sum Debit at Transfer Day:	=	£7,128.07
Age 65 Lump sum Debit at Transfer Day:	=	£7,469.67

Because the OF2 is entitled to a preserved pension at the start of the TY these debits must now be increased in line with Pension Increases (PI) between the PSO Transfer Day/Effective Date of 18 March 2016 and the Revaluation date of 6 April 2019. The PI Factor between Transfer Day and Revaluation Date is 1.0403.

The OF2's preserved AFPS75 pension is made up of two deferred elements, the first payable at age 60 and the second at 65. Each element is revalued separately as follows;

#### Revalued Reductions

Age 60 pension debit	=	£2,376.02 x 1.0403	=	£2,471.77
Age 65 pension debit	=	£2,489.89 x 1.0403	=	£2,509.23
Total AFPS75 pension debit	=	£2,471.77 + £2,509.23	=	£4,981.00
Age 60 lump sum debit	=	£7,128.07 x 1.0403	=	£7,415.33
Age 65 lump sum debit	=	£7,469.67 x 1.0403	=	£7,770.70
Total AFPS75 lump sum debit	=	£7,415.33 + £7,770.70	=	£15,186.03

Preserved benefits at start of TY 19-20, taking into account the divorce PSO reduction

Pension	=	£11,393.02 - £4,981.00	=	£6,412.02
Lump sum	=	£34,179.06 - £15,186.03	=	£18,993.03

At the end of TY 19-20 on 5 Apr 20, the OF2 had completed 22 years and 211 days qualifying service with 17 years and 205 days reckonable to 31st Mar 15.

The OF2 had more than the 2 years required to qualify for OF9 rank substantively for pension purposes and had passed the 22 year immediate pension point for Other Ranks, the pension at the end of TY 19-20 was assessed at OR9 rates. The pension at the end of TY 19-20 before taking in to account the effect of the PSO, is therefore calculated as follows;

OR9 Rate @ 2019 rates	=	£16,140.00 (22yr rate) / 22	=	733.64
Pension for 17 years 205 days at OR9	=	17.5616 x 733.64	=	£12,883.89
Lump sum	=	£12,883.89 x 3	=	£38,651.67

Pension Sharing Order debit revaluation at end of TY 19-20

The OF2's Pension Sharing Order (PSO) resulted in preserved pension debits calculated at the time of the divorce, which again were as follows.

Because the OF2 is entitled to an immediately payable pension at the end of the TY these debits must now be actuarially revalued and increased in line with Pension Increases (PI) between the PSO Transfer Day/Effective Date of 18 March 2016 and the Revaluation date of 6 April 2020. The PI Factor between Transfer Day and Revaluation Date is 1.0834.

The OF2's preserved AFPS75 pension is made up of two deferred elements, the first payable at age 60 and the second at 65. Each element is revalued separately as follows;

Revalued Reductions

Age at Revaluation Day (in years and months):		41 Year(s) 7 Month(s)
PI Factor	1.0834	

Age 60 pension element

Deferred Pension Debit at Transfer Day:	£2,376.02
Pension factor from Table K1 for age 60 at Transfer Day:	1.000
Pension factor from Table K1 for age 41 Year(s) 7 Month(s) :	0.493

Actuarially revalued Age 60 Pension Debit

$$£2,376.02 \times 1.0834 \times (0.493 \div 1.000) = £1,269.07$$

Age 65 pension element

Deferred Pension Debit at Transfer Day - Age 65 element	£2,489.89
Pension factor from Table K1 for age 65 at Transfer Day	1.316
Pension factor from Table K1 for age 41 Year(s) 7 Month(s) :	0.493

Actuarially revalued Age 65 Pension Debit

$$£2,489.89 \times 1.0834 \times (0.493 \div 1.316) = £1,010.56$$

Actuarially revalued AFPS75 Pension Debit

$$£1,269.07 + £1,010.56 = £2,279.63$$

Age 60 lump sum element

Lump sum debit = LSDEB x PI x (LSERF at age RD ÷ LSERF at age 60)

Deferred lump sum Debit at Transfer Day:	£7,128.07
Lump sum factor from Table K2 for age 60 at Transfer Day:	1.000
Lump sum factor from Table K2 for age 41 Year(s) 7 Month(s):	0.646

Actuarially revalued Age 60 lump sum Debit

$$£7,128.07 \times 1.0834 \times (0.646 \div 1.000) = £4,988.77$$

Age 60 lump sum element

Deferred lump sum Debit at Transfer Day - Age 65 element:	£7,469.67
Lump sum factor from Table K2 at age 65 at Transfer Day:	1.126
Lump sum factor from Table K2 for age 41 Year(s) 7 Month(s):	0.646

Actuarially revalued Age 65 lump sum Debit

$$£7,469.67 \times 1.0834 \times (0.646 \div 1.126) = £4,642.84$$

Total revalued AFPS75 lump sum debit

$$£4,988.77 + £4,642.84 = £9,631.61$$

Immediately payable pension benefits at end of TY 19-20, after taking into account the divorce PSO reduction

Pension	=	£12,883.89 - £2,279.63	=	£10,604.26
Lump sum	=	£38,651.67 - £ 9,631.61	=	£29,020.06

**Example 5 Part 2 – Pension Input Amount calculation (PIA) for TY 19-20** (as shown on Annex A to PSS letter)

These figures show the calculation of the OF2's AFPS PIA of £92,857.18 for TY 19-20.

The OF2 is not subject to a reduced/tapered AA because their Threshold Income of £49,666.15 (which includes but may not be limited to total taxable earnings from Service pay, as shown on JPA P60) does not exceed the threshold income limit of £110,000 for TY 19-20.

This meant they exceed the standard £40,000 AA limit by £52,857.18

<b>The total value of OF2 pension pot at 6 April 2019</b>	
£3,746.97 (AFPS15 pension) x 16 + 2.4% CPI	= £61,390.36
plus	
£6,412.02 (AFPS75 pension) x 16 + £18,993.03 (AFPS75 lump sum) + 2.4% CPI	=£124,503.40
<b>The total value of OF2 pension pot at 5 April 2020</b>	
£5,003.92 (AFPS15 pension) x 16	= £80,062.72
plus	
£10,604.26 (AFPS75 pension) x 16 + £29,020.06 (AFPS75 lump sum)	=£198,688.22
<b>Pension Input Amount (PIA) for all AFPS benefits for TY 2019-20</b>	
AFPS15 PIA £80,062.72 - £61,390.36	= £18,672.36
plus	
Legacy scheme PIA £198,688.22 - £124,503.40	= £74,184.82
<b>AFPS Pension Input Amount £18,672.36 + £74,184.82</b>	<b>= £92,857.18</b>

**Example 5 Part 3 - Prior Year PIAs & Info table** (as shown on Annex B to PSS letter)

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2016-17	£40,000	£18,108.36	£45,638.91	£63,747.27
2017-18	£40,000	£19,060.08	£47,832.75	£66,892.83
2018-19	£40,000	£34,921.40	£49,041.01	£83,962.41
2019-20	£40,000	£92,857.18	£49,666.15	£142,522.76

**Example 5 Part 4 - HMRC AA calculator outputs** (based on inputs from Part 3)

## How we worked out your results

This is based on your answers at the time of calculation.

Any unused allowances are carried forward for up to 3 previous years.

Year	Available annual allowance	Available money purchase annual allowance	Pension savings	Amount on which tax is due	Unused annual allowance
6 April 2020 to 5 April 2021	£0	£0	£0	£0	£0
6 April 2019 to 5 April 2020	£87,911	£0	£92,857	£4,946	£0
6 April 2018 to 5 April 2019	£82,832	£0	£34,921	£0	£47,911
6 April 2017 to 5 April 2018	£61,892	£0	£19,060	£0	£42,832
6 April 2016 to 5 April 2017	£40,000	£0	£18,108	£0	£21,892

These figures;

- show that the OF2 is not subject to a reduced AA limit due to tapering.
- take into account offsetting via carryover of unused AA from previous years.
- show that the OF2 has used up all available carryover from previous years.

This meant the OF2 had no unused AA carryover available to fully offset against their excess above the AA limit in TY 19-20.

Consequently, the HMRC AA calculator shows that the amount on which the OF2 was liable to pay tax on was £4,946 for TY 19-20.

The amount of tax payable would be calculated at their marginal tax rate, which the OF2's Service income indicated would be 40%.

This indicates that the amount payable as an AA tax charge would be £ 1,978 - assuming the OF2 had no other additional income, non-AFPS pension schemes or non-taxable deductions (each of which could change this amount).

The OF2 decides not to use Scheme Pays, and instead pays the sum due in tax to HMRC directly themselves.

## Appendix III

### Annual Allowance (AA) – Frequently Asked Questions (FAQs)

#### **Q1 – Does receiving a PSS mean I have a tax charge, and do I have to complete a self-assessment tax return?**

A1 - Veterans UK will write to you if you have exceeded the Annual Allowance limit of £40K in any tax year in respect of your AFPS pension, or if you are subject to a reduced Annual Allowance due to tapering, based on your Service income. This does not automatically mean you have a tax charge, because you are allowed to carry over unused AA from the previous 3 tax years, and you may also be subject to a reduced AA limit due to other income or pension scheme memberships, all of which also affect your AA position. You must use the information provided in Veterans UK AA letter in conjunction with relevant information about other pension schemes and income and check on the HMRC website (AA Calculator) to see if you have an AA tax charge. If you do have an AA tax charge you must then declare that to HMRC using the self-assessment tax return.

#### **Q2 - Where will Veterans UK send my PSS?**

A2 - Veterans UK will send any AA correspondence to your residence at work address on JPA, so you must ensure that you keep this up to date.

#### **Q3 - What additional information do I need when completing Self-Assessment Tax Return?**

A3 - When completing your Self-Assessment Tax Return once you have calculated the taxable amount payable you must enter it into Boxes 10 to 12 of Form SA101 (page Ai 4 of Additional Information pages).

You must also enter the relevant Pension Scheme Tax Reference Number for your AFPS scheme. These are as follows:

AFPS 15	00817591RA (also for use by those with legacy scheme benefits)
AFPS 75	00330146RV
AFPS 05	00597994RX
RFPS 05	00716644RW

The scheme name abbreviation shown above is for your information only and must not be included - you must only enter the relevant 10 character reference.

#### **Q4 - Where do I find more information about the Self-Assessment Tax Return process?**

A4- You should refer to [HMRC guidance](#).

**Q5 - Whereabouts on my HMRC self-assessment tax return should I include the AA tax charge figures?**

A5. If the HMRC calculator confirms you have a tax charge you should put the details in boxes 10-12 on page Ai4 of the “Additional Information” pages on the self-assessment forms. Do not put your Annual Allowance figures in the main self-assessment tax return - if you do this HMRC will expect you to pay the tax immediately yourself rather than using Scheme Pays, and may also ask for “payment on account”, i.e. advance payment in anticipation of further tax charges in subsequent tax years!

**Q6 - What do I do if I made a mistake on my tax return, or need to change it after submission?**

A6 – HMRC will accept a revised return from you, which should include your AA figures. You will have until 31 October in the first year after the tax year has ended for a paper-based tax return, or 31 January in the second year after a tax year has ended for an online tax return, to submit a correction, i.e.

- 31 October 2023 to correct a paper-based tax return for the 2021-22 tax year
- 31 January 2024 to correct an online tax return for the 2021-22 tax year

If you need to submit a correction, please refer to the [guidance](#).

**Q7 - What do I do if I have other pensions or earnings that Veterans UK are unaware of?**

A7 - Veterans UK will only take into account your Armed Forces Pension Schemes when providing your pension growth for the tax year. If you have other pensions/earnings you must follow the guidance on the HMRC website or seek independent financial advice to get a complete picture of your tax position. Veterans UK cannot advise you on how to complete your tax return.

The information that we are able to provide is unavoidably limited to the information which is available to us as administrators of your AFPS benefits.

If you do have savings in other pension schemes, you will need to ask the relevant scheme administrator(s) to provide you with a Pension Savings Statement showing similar information for the relevant periods in their scheme(s). You must then add the relevant information for all schemes together and enter the total amounts for each period into the HMRC Pensions AA calculator. The same applies to any other income you may have from sources other than your Service pay.

**Q8 - Will Veterans UK allow me to use Scheme Pays to cover tax charges in respect of pensions/earnings outside of my MOD employment?**

A8 - HMRC have confirmed that Scheme Pays can only be used to pay up to a maximum of 45% (the highest marginal tax rate) of your AFPS Pension Input Amount for the relevant tax year.

**Q9 - If I choose to use Scheme Pays will you be able to tell me the amounts that you will deduct from my pensions to repay this?**

A9 - Yes. Before you make your final decision on using Scheme Pays you will be sent the details of the costs. Once you make the final decision to use Scheme Pays, we will pay your tax charge to HMRC. Your final decision is an “irrevocable election”, which means this decision cannot be reversed under any circumstances. The Government Actuary has advised that until your retirement date is finalised we must firstly calculate your reduction using factors which assume, for reasons of simplicity, that your pension will start at age 65. Then, when you do eventually retire, we must then revalue the reduction assuming payment at age 65 using factors appropriate to your age at your retirement date, and apply index-linking to ensure that the reduction remains proportionate to the growth in your pension.

**Q10 - I have tried to speak to HMRC but they cannot help me with my Annual Allowance query. Will Veterans UK speak to HMRC on my behalf?**

A10 - HMRC will not discuss your tax affairs with Veterans UK. If the HMRC Call Centre agent cannot answer your query you should ask to speak to a Manager at HMRC or to be passed to someone in HMRC who deals with Pensions Tax.

**Q11 - Why can't Veterans UK give me advice regarding my tax position?**

A11 - Tax is an individual responsibility, and we cannot assist you with tax liability calculations or assist with completion of Self-Assessment Tax Returns. Any questions about AA (or tax in general) must be directed to HMRC. The Finance Act 2004 prohibits pension scheme administrators from giving financial advice, so you will need to seek independent advice about your tax position and the options available to you.

**Q12 - Where do I find further information about tax from HMRC?**

A12 - In the first instance, please refer to the relevant pages on the HMRC website listed below. These pages all contain links to other relevant pages which provide more detailed information.

[Annual Allowance Overview](#)

[Provision of Pension Savings Statements](#)(see standard Pension Statements section)

[Calculation of Pension Input Amounts for Defined Benefit Schemes](#)[Tapered Annual Allowance for High Earners](#)[Income definitions](#)[Self-Assessment Tax Returns](#)[Further help with pensions tax](#)**Q13 - How will McCloud affect pension taxation?**

A14 - As part of the 2015 pension remedy, eligible members will be returned ('rolled back') into their relevant legacy pension scheme for the remedy period. For active and deferred<sup>37</sup> members this will happen automatically on 1 October 2023. For pensioner<sup>38</sup> members their benefits will only change after an election is made. Members will be given a choice of either legacy pension benefits, or the equivalent AFPS 15 scheme benefits, for the remedy period of 1 April 2015 – 31 March 2022 when their pension becomes payable. As a result of this, members may face changes to their individual tax situation. The remedy may impact a member's AA, LTA and any benefits in payment. Full details of this will be outlined in a separate booklet to be published later this year.

**Q15 - Where do I find further information about the AFPS?**

A15 - [The AFPS scheme booklets](#) will help you understand the benefits payable under the AFPS schemes.

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<sup>37</sup> An active member is someone still serving, a deferred member has left the Armed Forces but is not in receipt of any pension benefits

<sup>38</sup> A pensioner member is someone who is in receipt of pension benefits, this could include an EDP.

## Appendix IV – Technical Terms

<b>Added Pension</b>	Added Pension is an amount of extra annual pension that you can buy. This is done in order to increase either your retirement benefits and/or your dependants' benefits.
<b>Armed Forces Pension Scheme 1975 (AFPS 75)</b>	The Pension Scheme for Regular Service personnel, introduced in April 1975 and closed to new entrants from 6 <sup>th</sup> April 2005.
<b>Armed Forces Pension Scheme 2005 (AFPS 05)</b>	The Pension Scheme for Regular Service personnel who joined the Armed Forces from 6 <sup>th</sup> April 2005, and from 6 <sup>th</sup> April 2006 for Regular Service personnel who elected to transfer as a result of the Offer to Transfer. AFPS 05 closed to new members from 1 <sup>st</sup> April 2015 onwards, with the exception of members with transitional protection.
<b>Armed Forces Pension Scheme 2015 (AFPS 15)</b>	The Pension Scheme for Regular and Reserve Service personnel who join the Armed Forces from 1 <sup>st</sup> April 2015, and those Service personnel who were already in Service on that date and did not qualify for transitional protection.
<b>Annual Allowance</b>	The limit on what can be added each tax year to the value of the pension without tax charge. The rule is that, when added together, the increase in the value of an individual's pension savings in any input period may not exceed the Annual Allowance. Any amount over the Annual Allowance is taxed at 40%, which is due as a lump sum when the tax liability is calculated.
<b>Attachment Order</b>	A Court Order made as part of a divorce or dissolution settlement to pay all or part of a Scheme members' pension benefits to the member's former spouse or civil partner.
<b>Career Average Revalued Earnings</b>	A CARE pension scheme is one which provides pension benefits which are directly proportionate to pensionable earnings received throughout a career.
<b>Civil Partner</b>	A person of the same sex with whom there is a legally recognised partnership.
<b>Commutation</b>	When a member gives up part of their pension income in return for a tax-free lump sum.
<b>Consumer Price Index</b>	This measures the change in price levels in the UK. It is the method currently used to increase the value of pensions in April every year.
<b>Dependants</b>	A Scheme member's spouse, civil partner, eligible partner, or eligible children.
<b>Earmarking Order</b>	A Court Order under Scottish law, made as part of a divorce or dissolution settlement to pay all or part of a member's pension to the member's former spouse or civil partner.
<b>Early Departure Payment (EDP) Scheme</b>	A payment made to members of AFPS 15 who leave the Regular Armed Forces before age 60, after a minimum of 20 years' qualifying service AND who are at least age 40.
<b>Eligible Child</b>	A natural child or any child, who is financially dependent on the scheme member and who is under 18; under 23 and in full time education or vocational training; or unable to engage in full time gainful employment because of a physical or mental impairment, and the person was dependant on the scheme member at the time of death.

<b>Eligible Partner</b>	Someone with whom a Scheme member was cohabiting, in an exclusive and substantial relationship with financial dependence or inter-dependence with whom they were not prevented from marrying or forming a civil partnership.
<b>Final Pensionable Earnings</b>	The greatest amount of the member's total pensionable earnings in the best 365 consecutive days of their final 3 years of service.
<b>Full Time Reserve Service Pension Scheme 1997 (FTRSPS 97)</b>	The Pension Scheme applicable to Reserve Service personnel who gave Full Time Reserve Service before 6 <sup>th</sup> April 2005. The Scheme was closed to new entrants and those starting new commitments from 6 <sup>th</sup> April 2005.
<b>Inverse Commutation</b>	When a Scheme member exchanges all of an EDP lump sum for an increase in the amount of monthly EDP income.
<b>Lifetime Allowance</b>	The Lifetime Allowance is the maximum amount of pension savings that a person can build up over their life from all registered pension schemes before incurring a tax charge.
<b>Member</b>	An individual who has joined AFPS 15 and 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).
<b>The Reserve Forces Non-Regular Permanent Staff Pension Scheme (NRPS PS)</b>	The Pension Scheme for members of the Reserve Forces who serve on a full-time basis in units or posts responsible for the Army Reserve.
<b>Normal Pension Age</b>	The earliest age at which a person is entitled to an unreduced pension payable immediately on leaving service. The NPA for AFPS 15 is 60.
<b>Opting Out</b>	This occurs when an individual chooses not to become a member of AFPS 15, or chooses to leave the Scheme, if already a member.
<b>Pension Credit Member</b>	A former spouse or civil partner who becomes a member of a pension scheme in their own right as a result of a Court Order which decrees that a percentage of the value of a Scheme members' pension benefits are transferred to them permanently.
<b>Pension Debit Member</b>	A Scheme member whose pension is reduced as a result of a Court Order which decrees that a percentage of the value of their pension benefits are transferred to their former spouse or civil partner.
<b>Pensionable Earnings</b>	Basic pay, but excluding allowances, expenses, bonuses, financial incentives, Loan Service Pay, and any form of Recruitment and Retention Pay.
<b>Pension Sharing Order</b>	An Order made by the Court on divorce or dissolution of a civil partnership, creating pension benefits for a former spouse or civil partner. The former spouse or civil partner becomes a member of the Scheme in their own right.
<b>Qualifying Service</b>	Qualifying service refers to the amount of time you have been a member of the AFPS 15 pension scheme. It is the calendar days that you are in receipt of pensionable earnings or assumed earnings in AFPS 15. Hypothetically, if you worked 1 day a week for 2 years, your qualifying service would still be 2 years. As the name suggests, qualifying service qualifies you for certain benefits.
<b>Reckonable Service</b>	Reckonable service refers to the actual years and days that count towards your pension. It is reckonable service that counts in the calculation of the amount of your benefits under AFPS 15. Hypothetically, if you worked 2.5 days a week for 2 years, your reckonable service would only be 1 year.

	In general, it is likely that your qualifying service will be the same as your reckonable service. But for some people, their qualifying service will be more than their reckonable service.
<b>Reserve Forces Pension Scheme 2005 (RFPS 05)</b>	The pension scheme for Reserve Service personnel starting or renewing a Full Time Reserve Service (FTRS) commitment, including those on Additional Duties Commitment (ADC) terms on or after 6 April 2005
<b>Scheme Administrator</b>	Defence Business Services – Veterans UK is the Scheme Administrator for all Armed Forces Pension Schemes.
<b>Spouse</b>	A legally married partner of the Scheme member.
<b>Substantial Relationship</b>	To establish whether a relationship is substantial, various factors are taken into consideration, such as; children, financial dependence or inter-dependence, shared commitments such as a mortgage, prime beneficiary of a will, shared accommodation, the length of the relationship and the absence of a legal spouse or civil partner (on either side).
<b>Transfer Value</b>	The sum of money that a member requests to transfer between two pension schemes.
<b>War Pension Scheme</b>	The WPS provides no-fault compensation for all ex-Service personnel where illness, injury or death is caused by service before 6 April 2005.