FUTURE ARMED FORCES PENSION SCHEME - CONSULTATION PRESENTATION

SCRIPT

Warning. Pension policy is a complex and emotive subject. We all need to be very careful to use exactly the right terminology in order to avoid giving Service personnel the wrong information. Please read the script verbatim and do not be tempted to ad-lib.

Presenters should mouse click on [Click] where indicated

Slide 1	**TITLE** This presentation is aimed at regular Service personnel. It should last 45 minutes. I shall take questions at the end. This is a briefing is in support of a formal Consultation on changes to Armed Forces pension schemes. There is an accompanying Consultation Document which I recommend that you read as soon as possible. The Consultation began on 29 March and will last until 31 May 12. This is the first stage of the process. Following this initial consultation, we intend to publish an Outline Scheme Design which will contain greater detail and on which further views will be invited. [Click]
Slide 2	**INTRODUCE THE FUTURE ARMED FORCES PENSION SCHEME TEAM** My name is XXXXXX and I am one of the serving members of the Future Armed Forces Pension Team in the Ministry of Defence. It is important for you to realise that there are serving officers, wearing the same uniform as you, representing your interests in the creation of the new Armed Forces Pension Scheme; this situation is unique amongst the Public Service pension schemes. [Click]
Slide 3	**NEWSPAPER HEADLINES** You will be aware that UK has public debt problems. The cost of public service pensions is contributing to the UK's debt, thanks to the increase in longevity. You will have seen newspaper headlines about public servants striking over changes to their pensions. Service personnel are public servants too, and your pensions are included in the changes that will happen. This is a Consultation. The MoD has some latitude in the design of the new pension and we want to know what you think about these changes. [Click]
Slide 4	**PURPOSE OF PRESENTATION** The MoD will introduce a new pension scheme and is planning for a Point of Transition on 1st April 2015. Most Service personnel will be transferred to the new scheme; I will tell you who will not be affected during this presentation. There are two aims to this presentation:

	Firstly, to reassure you about your rights to your existing Armed Forces Pension following transition to the new scheme. And secondly, to gather your views on the design of the <u>Future</u> Armed Forces Pension Scheme. Following this presentation, some of you will take part in discussions or focus groups in which you can give your views. You can also make your views known by filling in an online questionnaire, or if all else fails, you can submit a written questionnaire. A formal Consultation Document will be published which will include more detailed explanations of many of the points I raise in this presentation, please look out for it. [Click]
Slide 5	**EXPLAIN CONSULTATION IS FOCUSSING ON EDP** This slide shows a typical pension where the Service person earns his salary and serves beyond a threshold which is situated at around age 40. In AFPS 05 this is known as the Early Departure Point. Beyond this point, once the Service person exits the Armed Forces, he will be entitled to a regular monthly income, and a tax free lump sum. At this stage in the Consultation, we are primarily focussed on this Early Departure Payment. Where is the most appropriate place for the EDP in terms of Length of Service and Age? Is it better to maximise the size of the lump sum, or the monthly income, or pay both together? As we go through the presentation, please bear in mind that we will be asking your opinion on the timing, size and nature of the Early Departure Payment within the new Pension Scheme. [Click]
Slide 6	**YOUR VIEWS COUNT** Your views count, but it would be naive to believe that we can resist change just because we don't like it. The new pension still has to be acceptable to the wider UK Government. It has to be fair, not only to you, the Service person, but also to the taxpayer who will fund your pension. But the opinions of the Service population remain important. You will have some influence on the decision making. Your views will be used as evidence to support a recommendation. [Click]
Slide 7	**PROGRAMME** This presentation is broadly split into 4 parts. After this introduction. I will remind you about the existing Armed Forces Pension schemes, although I would hope that you have some idea of your pension and what it consists of already. All 3 Services have produced various documents and films to educate you about your pension and I commend them to you; this is important. I will then tell you about the rights that you will have accrued to your existing pensions by the

	time we transition to the new scheme in 2015. The second part will tell you about the new pension, why we have to change and what the new scheme may look like. I will tell you what we know, what has been decided and what we are still discussing. I will close by telling you about the parts of the new scheme where your opinions are needed. The final few slides will tell you how to register your opinions and what happens next. [Click]
Slide 8	**COMPARE AFPS 75 WITH AFPS 05** This slide compares the two main existing schemes; Armed Forces Pension Scheme 75 and Armed Forces Pension Scheme 05. Armed Forces Pension Scheme 75 was the original scheme and most older Service personnel are likely to be members of this scheme. Anyone who joined after 1st April 2005 will be a member of Armed Forces Pension Scheme 05. Approximately 7½% of the Service population voluntarily transferred from the 75 Scheme to the 05 Scheme in 2006. By 2015, roughly half the Armed Forces will be members of each scheme. The text in white font shows characteristics where the schemes are almost identical; the text in yellow font is where they differ. Both schemes are non-contributory, that means that you don't make a compulsory contribution to your pension scheme by having a deduction made from your salary. It is the MoD that funds your pension. We will talk more about this later in the presentation. Both schemes are what is known as Final Salary schemes, in that the pension you get is based on your final salary. But in the case of Armed Forces Pension Scheme 75, your pension is based on a representative pay rate which is applicable to your rank. Whereas under Armed Forces Pension Scheme 05, your pension is based on the best 365 days' pay that you have received in the last 3 years. Both schemes have a 2 year vesting period; that is, you have to have completed two years of pensionable service before you can be entitled to any benefits from the pension. Under the Armed Forces Pension Scheme 75, pensionable service starts from age 18 for Other Ranks, and age 21 for Officers. Under Armed Forces Pension Scheme 05, pensionable service starts from the date of 'attestation' – that is the first day of paid service. It is very likely that the new scheme will operate in the same way. Both schemes have a form of Early Departure Payment. In the Armed Forces Pension Scheme 75 this is known as the Immediate Pension and occurs after reaching 22 years of pensionable service for Other Ranks and 16 for Officers. The equivalent in Armed Forces Pension Scheme 05 is the Early Departure Payment and occurs after reaching 18 years of pensionable service and the age of 40. This is sometimes known as the 18/40 point. It is highly likely that the new scheme will also have an Early Departure Payment and the timing and nature of this EDP is the main element on which we are consulting. Under both schemes, those who do not serve to the Early Departure Point, or Immediate Pension Point, are entitled to a Preserved Pension, sometimes known as the Deferred Pension, which can be drawn when they reach the State Pension Age of 65. In fact, members of AFPS 75 can also draw a portion of their pension, for service prior to 2006, at age 60. You may already be aware that the State Pension Age is increasing and will be 66 in 2020, rising to 67 by 2028 and 68 by 2046.

	Both schemes provide an automatic tax free lump sum of 3 times the full pension, and both schemes will provide a full pension for those who serve through to age 55. [Click]
Slide 9	**SERVICE LEAVER'S CHART** (BUILD SLIDE) Now, bearing those facts in mind, let's look at this chart, which shows the average length of service of personnel leaving the Armed Forces in recent years. [Note: Average over 2005-2009]. The average length of service, across the 3 Services, is 9 years. [Click] Nearly two thirds of Service personnel, 64%, will not reach the Immediate Pension or Early Departure Point and so will not be entitled to an Immediate Pension or Early Departure Payment, but will instead be entitled to a Preserved Pension when they reach the State Pension Age. [Click] Around one third of Service personnel, 34%, will reach the Early Departure, or Immediate Pension Point but will leave before they are 55. They will be entitled to an Early Departure Payment or Immediate Pension. [Click] Finally, only 2 % of Service personnel will serve all the way through to age 55. Please keep these facts in mind when I explain the new pension scheme. You have to consider your own position, intentions, and which of these coloured ovals best represents where you think you will end up. [Click]
Slide 10	**KEY POINTS** The key points that you should get from this presentation should be:- Firstly, your pension scheme will change. That change will not take place before April 2015. Your rights to the pension you will have earned up to April 2015 are fully protected. The Government has committed that the new Armed Forces Pension will remain amongst the best available in the public or private sector. And finally, that this Consultation will allow you to tell the MoD your views on the design of the new pension. [Click]
Slide 11	**ACCRUED RIGHTS** I know that many of you will have been worried that you will lose all the pension benefits that you have already earned, or that you will not be able to draw them at the point that you originally planned, I can reassure you that this is not the case. The

	statement on this slide is Government policy. *Pension benefits already earned up to the point of transition to the new pension scheme will be protected. Service personnel will be able to draw these benefits at the same age as now and they will be based on their final salary at the date of retirement.* The point about final salary is particularly important to the Armed Forces because it means that any promotions that occur, even <u>after</u> transition to the new scheme, will still earn you additional benefits in accordance with the rules of your original pension scheme. In a couple of slides I will show you some examples of how the protection of your accrued rights will work. [Click]
Slide 12	**ADDITIONAL 10 YEARS PROTECTION** But before I do that, I want to tell you about the <u>Additional 10 year protection rule</u>. This was an offer that the Government made to the public service unions on 2 Nov last year and has since been accepted. The offer will also apply to the Armed Forces and was covered in both of the DINs shown in the bottom right hand corner. The 10 year protection rule means that any Service person within 10 years of their <u>Normal Pension Age</u> on 1 April this year will see no change to their pension or when they can draw it. Effectively, they can remain on their existing pension scheme until they retire. For regular Service personnel, the Normal Pension Age is 55, so the criteria apply to those aged 45 or older this April. Therefore, any Regular Service person with a date of birth on or before 1 April 1967 will be protected. For your information, the Normal Pension Age for the Reserve Forces Pension Scheme is already 60, so any member with a date of birth on or before 1 April 1962 will also be protected. There are two important points I need to get over to you: Firstly, the Normal <u>Pension</u> Age is not the same as the Normal <u>Retirement</u> Age. You will recall that I told you earlier that only 2% of the forces serve through to age 55. So even though your current terms of service may mean that you are within 10 years of retirement that is not the same as being within 10 years of the Normal Pension Age. The second point is that even if you do not fall within the Additional 10 year protection rule, your rights are still protected by Government policy. You will still be able to draw all the benefits you will have earned up to the point of transition, and draw them at the time that you originally intended. [Click]
Slide 13	**EXAMPLES CAVEAT** Every person in this room has slightly different individual circumstances and I will not be able to show you an example which exactly matches your individual position. But I will show you two likely scenarios to demonstrate the principles governing the protection of accrued rights. The DIN shown here has a further 24 examples covering a larger range of scenarios, so you should be able to find something that gives a reasonable approximation to your circumstances. Further information is available on the intranet and internet at the website address shown here. There is an aspiration to create an Accrued Rights Calculator to allow you to derive your own accrued rights.

	[Click]
Slide 14	**EXAMPLE 1 OF- 4 AFPS 75 IMMEDIATE PENSION** **HOW HIS PENSION WOULD LOOK WITHOUT FAFPS**(Build slide) This slide shows the career of an average OF-4 (that is, a Commander, Lieutenant Colonel or Wing Commander) who is a member of AFPS 75. The first graph you can see shows how his income would develop if the changes to the Armed Forces Pension Scheme were not going to happen. This graph shows his salary as he serves beyond the Immediate Pension Point, that is, the 16 year point. [Click] and then exits the Armed Forces with 20 years of service. He would receive an Immediate Pension of around £23,600 per year [Click] and would get a tax free lump sum of around £70,800 (three times the Immediate Pension). [Click] At age 55, his pension will be uplifted by the cumulative Consumer Prices Index since he left the Armed Forces. The Consumer Prices Index, or CPI, is a measure of inflation, or price increases and is used across government. It is currently 3.5%. [Note, the latest data available is from the Office for National Statistics and is as at 17 Apr 2012] [Click] The CPI increase is then applied to his pension every year [Note, the blue dot in the bottom left corner indicates that this slide build is complete] [Click]
Slide 15	**EXAMPLE 1 OF- 4 AFPS 75 IMMEDIATE PENSION** **HOW HIS PENSION WOULD LOOK WITH FAFPS**(Build slide) Now let us look at what would happen to the OF-4 if the new Armed Forces Pension Scheme were to be introduced at the point that he had accumulated 10 years of pensionable service. [Click] Don't forget that this is <u>before</u> he had reached the Immediate Pension Point and also, that it was before he was promoted to OF-4. The first thing you will notice is that the officer stops accumulating his AFPS 75 pension and begins to accumulate a pension under the new scheme. Now please pay close attention to the figures on the right of the screen.

	[Click] You will see that the basic structure of his pension remains unchanged, but the figures have reduced. You will see that the figures have gone down to a pension of around £12,600 a year and a lump sum of around £37,800. When you think about it, this is logical, because these figures represent 10 years of earning an AFPS 75 pension, rather than his original 20 years. It is important for you to realise that this pension is based on his <u>final rank</u> of OF-4, which he had achieved when he left the Services, rather than the rank that he was when the new scheme was introduced. This is because the accrued rights are based on the <u>final</u> salary, rather than the salary at the point of transition. [Click] This part is very important, although his AFPS 75 pension has reduced, he will of course still earn an <u>additional</u> 10 years worth of pension benefits under the new scheme. I cannot tell you exactly what this pension would be worth The orange shapes there are not proportional but are there to show you that he will still earn additional pension after 2015. The new pension has not yet been designed; this is why are consulting; we asking you what you think it should look like. One final point: If you leave the Service after the introduction of the new AFPS, and qualify for an immediate pension from AFPS 75, your accrued rights will still entitle you to apply for Resettlement Commutation before you leave. However, the detail of how this is to be calculated is still under consideration. Further information will be made available in due course. [Click]
Slide 16	**EXAMPLE 2 – OR-6 AFPS 05 EDP** **HOW HIS PENSION WOULD LOOK WITH NO FAFPS** (Build slide) This second example shows a typical OR-6, that is, a Petty Officer or Sergeant who is a member of AFPS 05 and, like the previous example, the initial graphic shows his salary and pension that he would have expected had there been no changes to the AFPS. He initially serves beyond the 18/40 Early Departure point and [Click] then exits the Armed Forces with 25 years of pensionable service. He will be entitled to an Early Departure Payment income of around £7,500 per year and a lump sum of around £36,900. [Click] at age 55 his income will increase to around £9,200 per year [Click] and, just as in the previous example, will have the cumulative Consumer Price Index

	added to the income, and applied for every year thereafter. [Click] at age 65 his full pension 'proper' of around £12,300 will begin to be paid; it too will be increased by the CPI. [Click] and he will receive a second lump sum of around £36,900. [Click]
Slide 17	**EXAMPLE 2 – OR-6 AFPS 05 EDP** **HOW HIS PENSION WOULD LOOK WITH FAFPS** (Build slide) Now, let us look to see what happens if the Future AFPS is brought in at the point at which he has served for 10 years. Note again, that this is before he reaches the 18/40 Early Departure point and occurs whilst he is still an OR-4 [Click] The first thing you will notice is that he stops earning AFPS 05 pension benefits and begins to accrue benefits under the new scheme. Now pay attention to the figures on the right again, but do not get too worried. [Click] You will again notice that the basic structure of his pension remains unchanged. He can still receive the pension benefits at exactly the same time that he was expecting to get them. I expect that you will have also noticed that the figures have gone down considerably; this is because the accrued rights a<u>re based on only 10 years of AFPS 05 pensionable service as opposed to the original 25 years</u>. But again, these are based on his final rank of OR-6, rather than the rank that he was at the point of transition. [Reinforce this point] [Click] All is not lost however, because <u>he has earned 15 years worth of the new pension which will be added to his AFPS 05 pension</u>. As before, I cannot tell you exactly what this pension would be worth. The new pension has not yet been designed, so the orange shapes are there to remind you that the bulk of this NCO's pension will be earned under the new scheme. [Reinforce this point] [Click]
Slide 18	**ACCRUED RIGHTS SUMMARY** That covers accrued rights. To remind you, further information, with more examples, is available at the DIN and websites shown here.

	[Click]
Slide 19	**NEW SCHEME – NEED FOR CHANGE** Now let's turn to the Future Scheme You saw in the second slide of this presentation that the current Public Service pensions are unaffordable. There are two reasons behind this. The first is increased longevity; in other words, we are all living longer. [Click]
Slide 20	**INCREASING LONGEVITY GRAPH** This slide shows that, not only are we living longer, we are consistently failing to forecast the extent to which we are living longer. In 1977, only 35 years ago, the average life expectancy of a UK citizen was around 69 years and everyone broadly expected that figure to increase with time <u>but,</u> the planners believed that the increase would be the grey dot-dash-dot line that you can see at the bottom of the graph. So they believed that by today, the average UK citizen would live to be 70. To remind you, this was only two years after the introduction of AFPS 75, which many of you are still members of. In fact, the current average life expectancy in the UK is shown by the thick black line at the top of the chart and, on this chart, is around 79. You are living proof that the people who designed AFPS 75 were out by 10 years. [Note: Source – taken from the Hutton report (Mar 11) and Office of National Statistics Oct 2011] So, when pension planners have been building pension funds, they have not taken into account the need to pay pensions for increasingly long periods and have not made adequate provision. [Click]
Slide 21	**UK PLC PENSIONS BLACK HOLE** Aside from the longevity problem, there is a wider problem of UK public debt, which in January this year reached one trillion pounds. The MoD pays £1.9 billion pounds to the Treasury each year as our contribution to fund Armed Forces Pensions; and this does not represent the full cost of Armed Forces pensions overall. This £1.9 Billion represents 34% of the total Armed Forces Pay costs and, in the next few years, this will rise to 42%. [Click]
Slide 22	**INTRODUCE HUTTON REPORT** This growing unaffordability problem forced the Government to set up the Independent Public Service Pensions Commission, more commonly known as the Hutton Commission (named after its chairman, Lord Hutton, a former Secretary of State for Defence) which reported in March 2011. The Hutton commission looked at all public service pensions, including the Armed Forces, and, amongst the Commission

	members, was a serving military officer. The Hutton commission applied four principles when examining public service pensions. Can I draw your attention to the first one, that any new scheme must be affordable and remain affordable for the next generation; in other words, sustainable. Some of you may believe that the Government cannot change the terms of your pension. They can. But in accordance with the Military Covenant the Government is determined that any changes to Armed Forces pensions treat Service personnel fairly. However, this does not mean that we can be insulated from the effects of the country's economic situation. These changes affect all Public Servants, including the Armed Forces. The Government accepted all of the recommendations made by the Hutton Commission. [Click]
Slide 23	**HUTTON KEY RECOMMENDATIONS** The Hutton report contained 27 recommendations. The most important to the Armed Forces are:- That the Normal Pension Age for a public servant should be linked to the State Pension Age, which, I will remind you, is slowly increasing. But Hutton recognised the unique physical demands required of the uniformed services and recommended that our Normal Pension Age should only rise to age 60. The second recommendation is that all public service pension schemes should change, to become Career Average Revalued Earnings, or CARE, schemes. I shall explain what a career average scheme looks like in a few minutes. The third recommendation was that lump sums should be made available. Of course, under the current Armed Forces schemes, lump sums are automatic and are protected, but that may not necessarily be the case for pensions earned under the new scheme. Even if lump sums are not automatic you will still have the <u>choice</u> to take a lump sum if you wish to. The fourth recommendation is that the age at which Preserved Pensions can be drawn should be linked to the State Pension Age. This is no surprise and is already the case for AFPS 05 members and AFPS 75 for any service after 2006, but I do want to remind you that the State Pension Age is gradually increasing. The penultimate recommendation is that public servants should receive annual pension benefit statements; work is already in hand to make this happen for the Armed Forces. Finally, Lord Hutton recommended that the management of public service pension schemes should be more formalised and that employ<u>ees</u> should have more say on how their pensions are managed, and this is one of the things that we will be asking you about in the Consultation. [Click]
Slide 24	**REVISIT THE SERVICE LEAVERS CHART** We have been through quite a lot of information so far, so let us revisit one of the earlier slides. We all know that the first principle of the Hutton review was to make public

	service pensions affordable, so let's look at how these groups of people are reflected in the total pension bill. [Click]
Slide 25	**SERVICE LEAVERS CHART WITH PIE CHARTS** [BUILD SLIDE] To remind you, around one third of Service personnel will serve enough time to qualify for an Early Departure Payment or Immediate Pension under the current schemes. [Click] The remaining two thirds of the Service population will either leave before the Early Departure Point and then receive a Preserved Pension when they reach the State Pension Age, or will serve to age 55 and receive a Full Career Pension. [Click] So we can represent those figures in a simple Pie Chart like this. But look what happens when the look at the <u>costs</u> of each group. [Click] The red group, two thirds of the Service population, account for only one third of the overall pension bill. Another third of the pension bill is Early Departure Payments or Immediate Pensions being paid to those Service personnel who have left the Services, but have not yet reached the age to start drawing their full pension. The final third of the pension bill is paid to those Service personnel who received an Early Departure Payment or Immediate Pension, but then reached the age at which they began to draw their full pension proper. So you can see that the distribution of costs within the pensions is not proportional amongst the Service population. The MoD will need to strike the right balance between setting a pension which provides an appropriate level of benefits for all personnel, versus setting the value of an EDP that encourages the retention of the necessary experience, pulls people through their career and ensures that the Service manpower requirement is maintained. Please hold these thoughts until we come to the questions at the end of this presentation, and for the Focus Groups. [Click]
Slide 26	**THE COGS SLIDE** Pension design is a complex business, with many inter-connected factors. This slide shows that changing any one of the factors, or cogs, will have an effect, either up or down, on all the other factors. To focus entirely on any single cog, to the exclusion of others, is dangerous. For example, we could design a pension to maximise the Early Departure Payment, but because all the cogs are inter-connected, it would have a detrimental effect on every other part of the pension machine.

	There are lots of complicated terms here, and we will be looking at some of them over the next few slides. Can I draw your attention to 'CARE' on the left hand side. [Note: Green cogs are those factors which are already fixed, amber cogs are those that will be fixed in the near future through discussions with Government, and red cogs are those factors on which we are consulting.] [Click]
Slide 27	**HOW DOES CAREER AVERAGE WORK – CURRENT SCHEMES** You will recall that the second Hutton recommendation that I highlighted was that public service pension schemes should be CARE schemes, that is, Career Average Revalued Earnings. I shall use the term 'career average' from now on. Under the current schemes, your pension is derived solely by where you get to at the end of your career, as a function of your pensionable service and your final rank or salary. [Note: AFPS 75 takes a representative pay rate based on your final rank, AFPS 05 takes the best 365 days' pay over the last 3 years.] [Click]
Slide 28	**INTRODUCE WO BROWN** Under a Career Average scheme, what is more significant is your path to reach your final rank. This example shows a fictional WO Brown whose path to reaching his rank looked like this. [Click]
Slide 29	**INTRODUCE WO WHITE** Now the fictional WO White was a late starter, who accelerated towards the end of his career to reach the same rank as WO Brown. Assuming both were members of the same <u>current</u> scheme, and had both reached the same rank after the same length of pensionable service, they would both be entitled to the same pension. Under a career average scheme this is not the case; we shall return to Warrant Officers Brown and White shortly. [Click]
Slide 30	**BLUE 'HOW DOES CARE WORK' BUILDER** (Build slide) This slide shows how a career average scheme works. I should point out that these figures are merely hypothetical and are intended only to demonstrate the principle. Supposing you have a salary of £20K per year. [Click]

	In year one, the MoD would pay one seventieth of that salary into your pension pot, so after one year, your pension income would be worth £286 per year. I want to stress 2 things here: Firstly – that one seventieth is hypothetical figure that bears no relation at all to the future scheme. We chose that because it is the accrual rate for the current scheme (AFPS 05). Secondly – that one seventieth is paid for by the MoD, that doe not come out of your salary at all. [Click] The next year, your original pot of £286 still exists. That pension is also increased by an Indexation Rate to account for inflation. This is likely to be an average earnings index but the decision has not yet been made. If you liken your pension pot to be a savings account, then the indexation rate would be the rate of interest paid by the bank each year. Let's assume that in year 2 your salary had increased to £21K per year, [Click] then the MoD would again put one seventieth of this annual salary into your pension pot, which increases it by £300; [Click] This cumulative pension pot is carried forward to the next year, year 3. [Click] Two lots of Indexation occur in this year. Firstly, the original £286 and last year's Indexation are Indexed again. And secondly, the £300 from year 2 in increased by the Indexation rate. [Click] And again, the MoD puts one seventieth of your salary into the pot, this time amounting to an additional £314 [Click] This means that after 3 years, your pension is worth £900 [Click] Plus the cumulative effect of all the Indexation for the previous 3 years. [Click] And even then, this amount is increased again by the Indexation rate. [Click]

Slide 31	**WOs BROWN AND WHITE WERE ACCUMULATING DIFFERENT AMOUNTS** So you can see that, if they were members of a career average scheme, Warrant Officers Brown and White were each growing their pensions by different amounts each year. [Presenters may wish to point the audience to a particular part of the graphic in which there is a clear difference in salaries]. [Click]
Slide 32	**BROWN AND WHITE'S MONEY STACKED UP** So in the long run, you can see that WO Brown, over time, accumulated more into his pension than WO White and will therefore receive a larger pension in retirement. Lord Hutton's view was that your pension should reflect what you had earned during your career, rather than where you finish your career. You should now understand how a career average scheme works. But that is only one of the cogs that goes together to make a pension scheme. [Click]
Slide 33	**TWO TYPES OF COGS** In terms of designing the new scheme, there are two groups of factors or cogs: - Those factors which have been fixed already by Lord Hutton's report. - Those factors which have not been fixed. We are currently discussing these factors with Government and many of them will be fixed by late spring. We are interested in your views about all of these, although this Consultation is concentrating on certain specific elements. [Click]
Slide 34	**THAT WHICH IS FIXED** Firstly, these are the factors which have been fixed. They are, in the main, recommendations from the Hutton Report which the Government has accepted in full and you will be familiar with the list. If you look down to the bottom of the list, you will notice two additional points: Firstly – that the new scheme will include the same ancillary benefits, like Death in Service benefits, that exist in AFPS 05. If we do change these it will be for the better in order to improve them. Secondly, the final sentence states that the new scheme will not require you to pay any form of personal contribution to receive your pension. Let's talk about Contributions for a bit. [Click]
Slide 35	**CONTRIBUTIONS**

	I know there has been some uncertainty about this issue. Currently, no Service person makes a compulsory personal contribution in order to receive his or her Armed Forces Pension. You will not be asked to pay a direct contribution to your pension when the new scheme is introduced. Once the design of the new AFPS has been agreed, the Government will set a cap on the employer's contribution with a view to constraining costs which arise from unforeseen pressures, such as further increases in longevity. If costs rise above the cap in the future due to unforeseen circumstances, the Govt will have to consider the best approach to managing the increasing costs. Service personnel will be fully consulted on any changes. Having said all that, the Government consider that the cost cap will not be exceeded in the next 25 years and has said that there should be no further public service pension reform in this timescale. To remind you, the Government could make no changes without properly consulting you first. [Click]
Slide 36	**WHAT IS NOT FIXED (BUT IS NOT THE FOCUS OF THE CONSULTATION)** There are three factors about which the MoD is currently discussing with Government and will be resolved in the near future. The first is the Accrual Rate, which is a key element of scheme design. You will remember from the explanation of how a career average scheme works that the MoD hypothetically put one seventieth of the salary into the pension pot. That one seventieth was the accrual rate. That was a fictional example of how a new scheme might look and we are discussing with the Government to work out the accrual rate for the Armed Forces. The accrual rate, combined with the value of the EDP will determine the majority of the costs of the new scheme; a more generous accrual rate may result in a less generous EDP replacement and vice versa. Similarly, we are still discussing exactly which rate will be used for the indexation of pensions as you accumulate your 'pot'. We are still discussing the MoD's cost ceiling, which will determine the level of employer contributions. At the moment the MoD pays £1.9 Billion Pounds to the Treasury for Armed Forces Pensions. Now – whilst we are not asking you a specific question on these factors, we would still be interested in your views so please don't hold back. [Click]
Slide 37	**INTRODUCE EARLY DEPARTURE PAYMENT** The final major factor which is not yet fixed, and about which this Consultation is focussed, is the timing and nature of the Early Departure Payment.

	[Click]
Slide 38	**EDP PLACEMENT** To remind you, for AFPS 05 members, the Early Departure Payment is paid for those who serve for a minimum of 18 years and reach age 40, whichever is later. AFPS 75 has a similar arrangement, called the Immediate Pension, paid for those Officers who serve for 16 years from age 21 and for Other Ranks who serve for 22 years from age 18. Since the Normal Pension Age is moving from age 55 to age 60 and as we are all living longer and are expected to live longer, it would not be unreasonable for the qualifying criteria for the future pension EDP to move to the right at the same time, particularly when the average age of new entrants joining the Armed Forces is also increasing. This question is also being considered by a separate study within the MoD called the New Employment Model. I will mention the NEM later. The Armed Forces are unique, no other public service, not even the police or fire fighters have any form of Early Departure Payment. A few slides ago, on the pie chart, I showed you how one third of the money spent on pensions is for Early Departure payments being paid to people who have left Services but have not yet reached age 55. [Click]
Slide 39	**EDP PLACEMENT – GRAPHIC** The diagrams on this slide show the thresholds for an Early Departure Payment or Immediate Pension that exist under the current schemes. The top time-line shows the thresholds in terms of age, the lower set of blocks shows the thresholds in terms of Length of Service. Because of the wide range in which people can join the Armed Forces (for example, into the Infantry from age 16 through to 33) it has become necessary to make the threshold for AFPS 05 a combination of Length of Service and age; it is highly likely that the new scheme will also have this feature. Starting on the timeline from the left, for officers under AFPS 75 the threshold is 16 years of pensionable service from age 21. This gives a minimum age of 37, and you can see that also represented in the top of the white blocks. For Other Ranks under AFPS 75 the threshold is 22 years of pensionable service from age 18. This gives a minimum age of 40 and you can see that represented in the second white block down. For those under AFPS 05, all ranks, the threshold is 18 years of pensionable service and reaching age 40, whichever is later, so this minimum age is 40 assuming the Service person was attested before his 22nd birthday. Currently the average other rank new entrant to the Armed Forces is 21 years old, and the average officer is 26. So, even under the current AFPS 05, that average officer has to give 18 years of pensionable service making him 44 years old before he qualifies for his Early Departure Payment. Similarly, the average other rank has to give 19 years of pensionable service to qualify. The New Employment Model study has also been looking at the possible new thresholds, and the left and right of arcs are shown here on the right of the timeline.

	The longest threshold recommended by the NEM study is 23 years of service and age 45, the shortest is 20 years of service and age 42. The correct placement of the EDP, within these bounds, is a major part of this consultation. [Click]
Slide 40	**EDP – LUMP SUM OR MONTHLY INCOME** The Early Departure Payment consists of a monthly income and a lump sum. It is paid to assist with resettlement and to compensate Service personnel who are required to leave the Armed Forces and are unable to complete a full career. Historical data shows that the vast majority of Service leavers gain employment within 6 months of exit from the Armed Forces, you may wish to consider which of the two elements of the EDP is most important to you. Even if you work when you leave the Forces, do you think this is likely to be at a similar level, or similar salary to your friends in civilian life? Is the EDP monthly income necessary to bring your future income up to a comparable level with your peers outside the Services? Don't forget that, at this stage, we are not talking about the pension that you will get at age 65, we are talking about the Early Departure Payment that you will get at the point that you leave the Services. So would you rather have the lump sum or the monthly income? Or would you be prepared to give up come of your monthly income in order to secure a larger lump sum, or vice versa? [Click]
Slide 41	**SUMMARY** With 4 slides to go, if you only take away 4 points from this presentation, they should be:- Firstly, your pension scheme will change. That change will not take place before April 2015. But rest assured that your rights to the pension you will have earned up to April 2015 are fully protected. The new Armed Forces Pension will remain amongst the very best available in the public or private sector. And finally, that this Consultation will allow you to tell the MoD your views on the design of the new pension. [Click]
Slide 42	**MOD INTENT** So, those are the features that will be designed into the new Pension Scheme and those areas which you could affect. To reassure you, this is the Government's and the MoD's intent. Public Service pensions <u>will</u> remain amongst the best available and the new Armed Forces Pension Scheme <u>will</u> remain amongst the best of the public services. The new scheme may not be as generous as AFPS 75 or AFPS 05, but it will still be better than almost anything you could find elsewhere in the public or private sectors.

	I mentioned the New Employment Model earlier. This is a separate study being undertaken within the MoD into terms and conditions of service and is due to report in September 2012. The Interim Report has already been published and more information is available at the DIB shown in the bottom right hand corner of the screen. We are working closely with the NEM team to ensure a consistent approach. [Click]
Slide 43	**WHAT HAPPENS NEXT?** Let me tell you what will happen next. Some of you will have been nominated (or volunteered) to take part in Focus Groups. Once this presentation has finished you should make your way to the venue at the appropriate time. The first sessions, for XXXXX and XXXX begin at XXXXX hrs. For those of you who have not been selected to take part in Focus Groups, you can complete a questionnaire; ideally online, the website shown here. Please do this as soon as possible, and certainly no later than early May as discussions with the Government are ongoing. The earlier we get your views, the better. As a last resort, if you have no internet access, you could complete a hard-copy questionnaire which can be found at the back page of the Consultation Document. Your HR Administrator should be able to get you a copy. The questions you will be asked to consider are: ● How long do you intend to serve? ● You will be asked to compare the relative importance of EDP Lump Sum with the relative importance of EDP Monthly Income ● You will be asked where you think it would be appropriate to place the Early Departure qualification point ● And finally, you will be asked who you think would best represent the views of Service personnel in the management of the new scheme. Even if you are not personally affected by this change to pensions, we are still interested in your views. The first person who will be completely under the new scheme is probably still at school. Just before I close for questions, let me point you in the direction of the online information. Websites still being worked on, but you can find our site through DII. - [Flick through slides 44-51] [Click]
Slide 44	**FIND INTRANET WEBSITE** These slides signpost SP to the FAFPS Website on the Defence Intranet. [Click]
Slide 45	**FIND INTRANET WEBSITE** These slides signpost SP to the FAFPS Website on the Defence Intranet. [Click]
Slide 46	**FIND INTRANET WEBSITE** These slides signpost SP to the FAFPS Website on the Defence Intranet. [Click]
Slide 47	**FIND INTRANET WEBSITE** These slides signpost SP to the FAFPS Website on the Defence Intranet. [Click]

Slide 48	**FIND INTERNET WEBSITE** These slides signpost SP to the FAFPS Website on the World-Wide-Web [Click]
Slide 49	**FIND INTERNET WEBSITE** These slides signpost SP to the FAFPS Website on the World-Wide-Web [Click]
Slide 50	**FIND INTERNET WEBSITE** These slides signpost SP to the FAFPS Website on the World-Wide-Web [Click]
Slide 51	**FIND INTERNET WEBSITE** These slides signpost SP to the FAFPS Website on the World-Wide-Web [Click]
Slide 52	**QUESTIONS** Before I take any questions, just 3 points: Firstly, more information on Accrued Rights is in the DIN shown here. Secondly, I will take any general question but there may be some things which I want to explore more deeply in the Focus Groups, so I will try to avoid pre-empting those debates. Finally, I'm afraid that I can't answer questions on your own personal circumstances. We should not be having such conversations in front of everyone else in the room. Can I suggest that you approach your HR administrator: he or she will not be a qualified pensions advisor, but can give you general advice and will be able to point you in the right direction. Or in the last resort, you should approach an Independent Financial Advisor.