

# **THE NEW ARMED FORCES PENSION SCHEME**

## **FREQUENTLY ASKED QUESTIONS (FAQs)**

*This FAQs document is for guidance only and does not cover every circumstance. The information below is correct as of November 2012 and further updates will be promulgated as more details become available.*

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## **A. Who is affected?**

### **Am I affected by the changes to the current Armed Forces Pension Schemes? Do I need to read this?**

You may be affected if you are still serving in the Armed Forces when the new pension scheme is introduced (which won't be before April 2015).

This includes members of the Armed Forces Pension Schemes 1975 and 2005 (AFPS 75 and AFPS 05), including the Military Provost Guard Service, as well as members of the Non-Regular Permanent Staff (NRPS), Full Time Reserve Service 1997 pension scheme (FTRS 97), Reserve Forces Pension Scheme (RFPS) and the Gurkha Pension Scheme (GPS).

The Gibraltar Regiment Pension Scheme is subject to review and further details will be published in due course.

### **Will I have to change to the new pension scheme when it is introduced?**

Transfer to the new scheme will be compulsory (unless exempt through transitional protection – see below). This is in line with Government policy for all new public service pension schemes.

### **I am due to leave the Services before April 2015, what happens to me?**

You will be completely unaffected.

### **I've heard mention of protection for certain groups, what does this mean?**

The Government has offered transitional protection for those within ten years of their respective scheme's Normal Pension Age (NPA) on 1 April 2012. AFPS 75, AFPS 05 and FTRS 97 (Full Commitment) have a NPA of 55. RFPS, FTRS 97 (on Limited or Home Commitment) and NRPS have a NPA of 60.

This means if you are a member of AFPS 75, AFPS 05 or FTRS 97 (FC) and were aged 45 or over on 1 April 2012, you will stay on your current pension scheme and your benefits will be unaffected.

If you are a member of the RFPS (including those on Additional Duties Commitment), FTRS 97 (on LC or HC) or NRPS and were aged 50 or over on 1 April 2012, you will remain in your current pension scheme and your benefits will be unaffected.

### **How did this transitional protection agreement come about?**

This transitional protection was a Government decision for all public service schemes.

### **Isn't this transitional protection more about Senior Officers looking after themselves?**

No – the Government offered this protection to those personnel who were nearest to their Normal Pension Age and therefore with less time to adjust their financial plans to reflect the changes to their pension scheme. Approximately 7,800 Officers and 7,000 Other Ranks benefit from transitional protection, but they did not ask for it and were not involved in any of the discussions or decisions which led to the Government's offer. MOD could remove transitional protection completely, but neither MOD, nor any service person, would gain anything from such a decision.

### **I am covered by Transitional Protection, but want to transfer to the new scheme. Can I do this?**

No – if you are covered by Transitional Protection you will remain on your current scheme until you exit the Armed Forces. You have no legal right to be able to choose your pension scheme in order to maximise your benefits.

### **I am covered by Transitional Protection, but want to serve to age 60, can I do this?**

Possibly. Although Terms of Service (ToS) and pension are linked, they are not inseparable so it may be possible to remain on your current scheme and serve to age 60 (as can happen now, although it is unusual). The three Services are still working out how to change ToS to reflect the changes to the Early Departure Payment point and the Normal Pension Age, and more detail will follow as soon as possible. A lot will depend on whether the Services need your skills and whether you can still contribute to the generation of military capability.

### **Other public service schemes have offered further protection to those with just over 10 years left to their ten-year Normal Pension Age – any plans to do the same for the Armed Forces?**

No. MOD has decided not to extend this protection for the Armed Forces (for example for those aged 40-45). If we were to extend this protection, MOD would need to fund this from within, which would mean reducing benefits for all Service personnel without transitional protection.

### **My current Terms of Service do not allow me to serve to age 55, will I get 10 years' protection working back from my retirement date?**

No. Transitional protection is tied to your pension scheme's Normal Pension Age, not your personal retirement age. While you may have an earlier Normal **Retirement** Age (NRA), the Armed Forces pension schemes have a Normal **Pension** Age (NPA) of 55 for Regulars and FTRS(FC) and 60 for all other Reservists. The setting of the NRA is based on operational requirements for each Service or specialism, and forms part of Terms of Service (ToS). Future ToS are being considered by the single Services, but until any changes are made, you will still have to leave your Service at your NRA.

**I read somewhere that this new scheme will be ‘One Scheme for All, including Reservists’. I’m a Reservist, does this mean I will get a pension under the new scheme?**

Possibly. As currently happens, those Reservists who sign up to a Full Time Reserve Service Commitment or an Additional Duties Commitment (part-time) or those who are mobilised for a period of service, may choose to have this period counted in the new scheme. Under the new scheme such service will qualify for pension benefit, but a Reservist, along with Regulars, will not qualify for a Deferred Pension until they have completed the requisite cumulative 2 years’ qualifying service.

**I’m a Reservist, why don’t I receive a pension for attending training on Man Training Days?**

Currently, when undertaking Man Training Days (i.e. attendance at drill nights, weekend training and annual continuous training), Reservists do not accrue benefits under the existing Reserve pension scheme, but are instead contracted into the State Second Pension Scheme. This will continue to be the case in the new scheme. Although the Bounty is not paid as a direct substitute for pensions, it is part of a Reservist’s overall remuneration package. A study by the Government Actuary’s Department showed that the vast majority of Reservists were better off receiving the Bounty than they would be if they were members of the Reserve Forces Pension Scheme. We could consider the option of allowing all Reservists to join the new scheme, but at the same time, would remove entitlement to the Bounty. This would reduce significantly a Reservist’s overall remuneration, as 28 days worth of the new pension scheme per year would certainly be worth far less than the annual bounty.

## **B. When will change happen?**

**When will the new Armed Forces Pension Scheme be introduced?**

The new Armed Forces Pension Scheme will be introduced from April 2015. The Government recognises that the unique nature of the Armed Forces schemes means it might take a little longer than other schemes to reach a final design, but all new public service pension schemes are planning to come into effect from April 2015.

## **C. What happens to my current pension?**

**What about the pension I have built up prior to transferring?**

The Government has said the benefits you have already built up in your existing pension scheme (known as ‘accrued rights’) will be protected. Accrued rights vary from scheme to scheme, but the value of pension benefits earned, up to the introduction of the new scheme, will be protected. This includes, where applicable, the Immediate Pension, Early Departure Payments and Lump Sums. These benefits will remain payable at the time they were expected to be paid, linked to your final pensionable pay/rank at the point of leaving the Services, not the salary and rank at the time of transfer to the new scheme. (See **DIN 2012DIN01-063** and **DIN 2012DIN01-0175** on the Defence Intranet for more information and examples.)

## **I am in a different pension scheme, what about me?**

Accrued rights for the pension schemes covering the Non-Regular Permanent Staff, Full Time Reserve Service 1997 and Reserve Forces are explained in ***DIN 2012DIN01-0175*** (available on the Defence Intranet). Accrued rights for the Gurkha Pension Scheme will be published later in the year. The Gibraltar Regiment Pension Scheme is subject to review and further details will be published in due course. This FAQs document will be updated as soon as further details are known.

## **I am a member of AFPS 75. Can I still apply for Resettlement or Life Commutation as an accrued right?**

Yes. If you are currently a member of AFPS 75, then you have accrued rights to the rules of that scheme, so you will be able to apply for resettlement or life commutation for the AFPS 75 portion of your pension (see ***DIN 2012DIN01-0175*** on the Defence Intranet).

## **Does the introduction of the new pension scheme affect Resettlement Grants (sometimes informally referred to as 'half pensions')?**

No. It is true that some of the booklets for the pension current schemes make reference to Resettlement Grants, but in reality the two packages are unrelated. The 9 years' service (for Officers in AFPS 75) and 12 years' service (for Other Ranks in AFPS 75 and all ranks who are members of AFPS 05) Resettlement Grants are not being reviewed as part of the changes to the new pension scheme.

## **I get a pension supplement – will this be an accrued right?**

Yes – see ***DIN 2012DIN01-0175*** on the Defence Intranet.

## **When will the online Pensions Calculator reflect these changes?**

A revised Pensions Calculator, incorporating both accrued rights and benefit entitlements under the new scheme, will be developed once the final design of the new scheme is agreed. On current planning assumptions, it is anticipated that a revised calculator will be on line in 2013.

## **D. Why change?**

### **An updated Armed Forces Pension Scheme was introduced in 2005 -- why do we have to change again?**

Public Service pensions are becoming increasingly unaffordable as people are living longer (in 1970 the life expectancy of a 60 year old was a further 18 years, this has risen to 28 years)<sup>1</sup>. The cost of public service pensions has risen by more than a third over the last ten years to £32 billion in 2008/2009. Change has to be introduced to ensure public service pensions, including Armed Forces' pensions, will be affordable and sustainable in the long term: fair to both existing Service personnel and future generations, as well as for taxpayers who ultimately meet the costs.

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<sup>1</sup> Statement by the Chief Secretary to the Treasury, Rt Hon Danny Alexander MP, on Public Service Pensions 20 Dec 2011 (see link to the **CST's Statement at the end**)

### **Didn't the introduction of AFPS 05 address the affordability issue?**

The move to AFPS 05, in 2005, was not driven by a need to reduce costs, but was intended to bring the previous main pension scheme (AFPS 75) up to date with changes to society and the law (for example AFPS 05 moved Officers and Other Ranks onto common pension terms).

### **Don't we have a shorter life expectancy than civilians and therefore receive our pension for a shorter time?**

The opposite is true. Predicting life expectancy is complex and depends on a number of factors, but in general, those who have been members of the Armed Forces tend to live a little longer than their civilian counterparts:

- A UK male who was aged 60 in 2010 would generally have a life expectancy of 86 years and a similar female would have a life expectancy of 88 years.
- A retired male Officer who was aged 60 in 2010 would have a life expectancy of 90 and a similar female would have a life expectancy of 92.
- A retired male Other Rank who was aged 60 would have a life expectancy of 87 and a similar female would have a life expectancy of 90.

The increases in life expectancy are likely to continue.

### **Why not just make the change for those who join the Armed Forces after 2015?**

Government policy is that the new public service pension schemes apply to all personnel from 2015 unless they are covered by Transitional Protection. There is a need to constrain pension costs and restricting the changes only to those who join the new scheme will not deliver the required reductions in spend.

### **What is the legal framework for closing down existing Armed Forces Pension Schemes?**

The Government introduced a Public Service Pensions Bill in September 2012 to replace existing schemes with new public service schemes, to be in place from 2015.

### **I have heard people talk about the 'Hutton Review', what was it exactly?**

In 2010, the Government invited Lord Hutton of Furness (former Secretary of State for Defence, and former Minister for Work and Pensions) to conduct a review of public service pensions, including the Armed Forces' pension schemes. The Independent Public Service Pensions Commission (IPSPC) final report was published in March 2011. It set out the case for change and made 27 recommendations to the Government for the future management of public service pensions. The Government accepted Lord Hutton's recommendations as the basis for discussion. Lord Hutton made it clear that a distinction should be drawn between the Armed Forces (and other uniformed services – the police and firefighters) from others in the public services due to the unique nature of their service. The Government accepted his recommendation in this respect.

## **E. What is my new pension going to be?**

### **I know very little about what my new pension will look like?**

You should have already read the Outline Scheme Design (OSD) document for the new Armed Forces Pension Scheme which MOD published on 31 Jul 12 (*see link to **OSD document at the end***). The document was designed to outline the design of the new scheme, not describe in detail how the changes affect those currently serving. Additionally, a short explanatory video has been produced to accompany the OSD document (*see link to **OSD video at the end***). Accrued rights to existing pension benefits earned prior to the introduction of the new scheme are discussed in Section C above.

You should also read the Final Agreement document which was published at the same time that the final scheme agreement was announced in Parliament on 16 Sep 12 (*see link to **Final Agreement document at the end***).

Accrued rights to existing pension benefits earned prior to the introduction of the new scheme are discussed in Section C above.

### **How soon will I start feeling the affects of the new scheme?**

Unless you are covered by Transitional Protection (*see Section A above*), you will be automatically enrolled in the new scheme in 2015. Your accrued rights to your existing scheme are however fully protected and therefore current serving personnel will not feel the **full** effects of the new scheme. The earliest the full effects will be felt is 2035 (i.e. those who join the Armed Forces after 2015 and leave at the new scheme's EDP point after 20 years' service).

### **Will the career average earnings scheme reflect my service prior to 2015?**

No. The new scheme won't start until Apr 2015, so the first year's pensionable salary to be taken into account for your new pension will be for the tax year 2015-2016. Therefore, almost all currently serving personnel will start their career average earnings pension scheme on the highest salary which they will have earned in their career up to that point.

### **If the new EDP point is 20 years' service, will I have to serve 20 years beyond 2015 (i.e. to 2035) to draw that EDP, or will my service under the current schemes count?**

Under the new scheme, pensionable service will be counted from your first day of paid service, including any service prior to transfer to the new scheme. For example, if you joined the Armed Forces in 2000, you would have accrued 15 years of service at the point of transition to the new scheme (Apr 2015), then you will only have to serve another 5 years to qualify for an EDP under the new scheme. This is particularly good news for current members of AFPS 75 because, for the first time, your service prior to age 18 (for Other Ranks) and age 21 (for Officers) will be count towards your EDP qualification.

## Will my pension still be worth having when compared to other Public Service pensions?

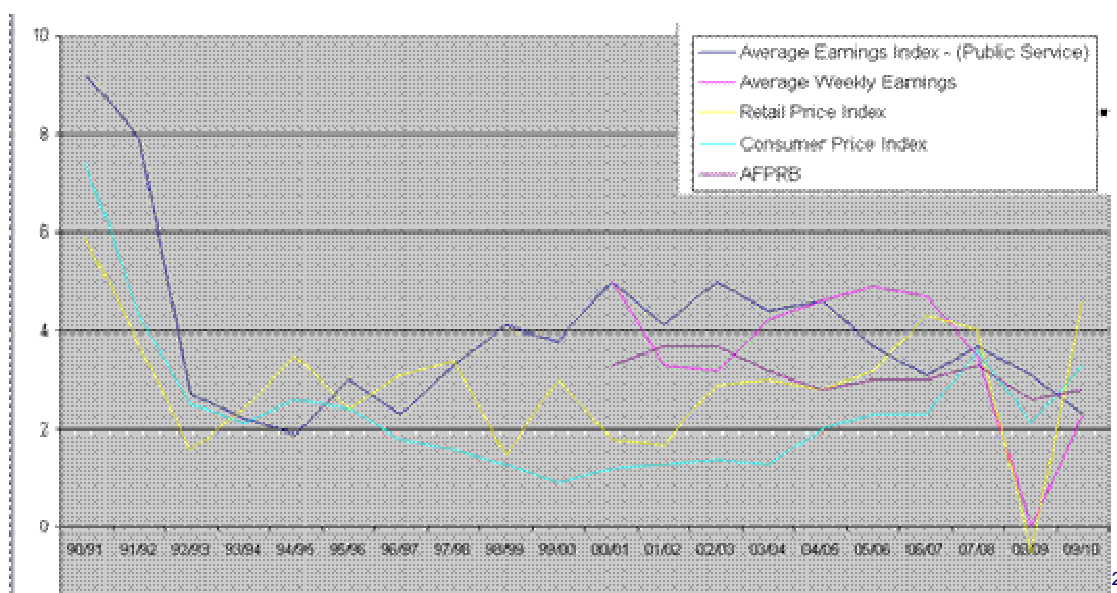
Although the current costs are becoming increasingly unsustainable, in the main due to increasing life expectancy, the Government has confirmed that public service pensions will remain among the best available. MOD is committed to ensuring the new Armed Forces Pension Scheme remains amongst the best of these schemes. The new scheme will remain a defined benefit scheme, which means it will keep a guaranteed level of pension – calculated as a fraction of your salary, not an uncertain amount based on investment returns. The pension scheme will also continue to provide valuable additional benefits for you and your family such as ill-health pensions and payments after your death.

## How much will my new pension be worth?

The actual reduction for individuals will vary considerably with individual circumstances. It would be reasonable to say that the average Service person, with 9 years' service will be no worse off under the new scheme. Junior Service personnel will be slightly better off under the new scheme, whilst more senior Service personnel will be slightly worse off.

## Will uprating my pension pot by Average Earnings ensure that my pension maintains its spending power? Would CPI not be a better measure?

Building a pension is a long term process. Clearly the UK economy is in an unprecedented period of change; no one can forecast which index will be greater in the medium to long term. But between 1990 and 2010, Average Earnings outpaced the CPI for 18 of those 20 years. Taking this into account, the Independent Public Service Pensions Commission, the Government Actuary's Department and MOD all consider that, in the long term, Average Earnings will provide the best level of pension indexation for Service personnel.



Look forwards, the Office for Budgetary Responsibility's forecast for Whole Economy Average Weekly Earnings pay growth from 2015 is 4.5%<sup>3</sup>:

<sup>2</sup> Source Office of National Statistics

<sup>3</sup> Office for Budgetary Responsibility "Economic and Fiscal Outlook" dated Nov 2011 (see link to the **OBR** at the end)



**The OSD document, published on 31 July, said I had an opportunity to comment on the design of the new scheme until 7 Sep. Why was this all done at such a rush?**

The OSD document was published as soon as possible after agreement had been reached between the Government and MOD on the outline design of the new scheme. MOD wished to give the Armed Forces a further period of 6 weeks to consider the proposals and make comments. The overall design of the new Armed Forces Pension Scheme will be agreed in September. This challenging timescale was set by the Government for all new public service schemes, to coincide with a Public Service Pensions Bill which was laid before Parliament in September. Don't forget that the Initial Consultation ran from 29 March to 31 May and received over 17,500 responses from Service personnel.

**My current Terms of Service (ToS) mean I will have to exit the Armed Forces before I qualify for the EDP under the new scheme**

The three Services are already looking at future ToS and, as a priority, transitional arrangements to the new scheme for existing personnel to examine the potential to extend Terms of Service to enable Service personnel to serve to the new EDP threshold. Further information will be published as soon as it becomes available.

**My Service/trade/branch/profession promotes more slowly than others, won't a career average earnings pension disadvantage me?**

It is a military truism that there will always be someone whom you perceive to be better off than yourself. You will often find that some trades/branches promote more slowly at some ranks, but then catch up or even overtake later. The single Services recognise this as a Terms of Service issue. However, even in the future some trades/branches will require longer training or promotion patterns to support operational effectiveness.

**I'm on an FTRS contract and my current pension is abated, will this stop under the new scheme?**

Abatement of pension benefits will be abolished under the new scheme. However, that will not affect the abatement of your current pension, which was earned under a previous scheme. We have established accrued rights to the pension benefits which Service personnel have (and are) earning under their current schemes; those rights include a commitment from the Government to adhere to the rules of those schemes, including abatement rules. So whilst the change to the new scheme will not affect your current abatement, it will stop abatement of any pension you earn under the new scheme, and it will benefit the Service person who follows you.

**Various documents state that I do not pay a contribution towards my pension – isn't my salary abated by the AFPRB to pay for my pension?**

You do not make a direct contribution towards your pension benefit and this will continue in the new scheme. Every 5 years or so the independent Armed Forces Pay Review Body (AFPRB) compares the value of Armed Forces pensions with that of civilian occupational pension schemes; this relative comparison is taken into account during the AFPRB's assessment of broad pay comparability. Nothing is actually deducted from military pay (no 'abatement' or 'adjustment' is made), but the relative value is included as part of pay comparability considerations. So whilst the pension is used as one of the comparators between civilian and military, it is one of several factors in a complex calculation and there is **no direct reduction in the Service salary** because of this comparison.

The AFPRB has been kept fully informed of the changes to military pensions and will take this into account when making its pay recommendations in future.

**I've seen press reports where the Defence Secretary mentions there are plans to help Service personnel get on the housing ladder by letting us borrow against our pension pots – what does this mean?**

**During the consultation, 71% of respondents said they intended to use their EDP towards house purchase.** Work is being conducted separately through the New Employment Model programme to explore further ways of assisting Service personnel with home ownership. This aspect of work will take some time. Service personnel will be consulted during policy development and fully informed once the policy is settled.

## **F. Where can I find out more?**

### **Can I ask questions?**

If you think we have overlooked a policy issue, you can email the Future Armed Forces Pension Scheme Team (*see the link to the **Group Mailbox** below*). These FAQs will be regularly updated as further detailed issues are finalised and in response to queries and feedback. **The FAFPS team are not financially accredited to give specific individual advice; should you feel this is what you need, you should contact an independent financial adviser.**

### **Where can I find out more about the new scheme?**

#### Final Agreement:

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PersonnelPublications/Pensions/FutureAFPS/FinalAgreement.htm>

#### New Armed Forces Pension Scheme Homepage

<http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/FindOutAboutTheFutureArmedForcesPensionScheme.htm>

#### Outline Scheme Design document

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/ConsultationsandCommunications/PublicConsultations/TheNewArmedForcesPensionSchemeFinalConsultation.htm>

#### Outline Scheme Design video

<http://www.youtube.com/watch?v=ZYnErQN46h8>

#### Initial Consultation Document

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/ConsultationsandCommunications/PublicConsultations/TheNewArmedForcesPensionSchemeInitialConsultation.htm>

Group Mailbox: [dcdspers-pcv-fafpsmailbox@mod.uk](mailto:dcdspers-pcv-fafpsmailbox@mod.uk)

#### Chief Secretary to the Treasury's Statement

<http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm111220/debtext/111220-0001.htm#11122052000003>

Office for Budgetary Responsibility (OBR) "Economic and Fiscal Outlook" dated Nov 2011

[http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO\\_web\\_version138469072346.pdf](http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO_web_version138469072346.pdf)