Ministry of Defence

A New Armed Forces Pension Scheme

Final Agreement

16 October 2012

The new Armed Forces Pension Scheme: Final Agreement

1. This document sets out the Final Agreement on the main parameters for the new Armed Forces Pension Scheme to be introduced from April 2015. This sets out the Government's final position, which will form the basis for detailed implementation.

Main scheme design parameters

2. The main parameters of the new scheme design are set out below:

   a. Members will continue making no contributions;

   b. A pension calculated on Career Average Revalued Earnings (CARE);

   c. An Early Departure Payment (EDP) Scheme, available to members who leave before Normal Pension Age (NPA), on completion of 20 years Service having reached a minimum age of 40 years, comprising an annual income of at least 34% of the value of the deferred pension and a tax-free lump sum of 2.25 times the value of the deferred pension. Service personnel will also have the option to convert their total EDP lump sum into additional monthly income payments.

   d. A NPA of 60 and a Deferred Pension Age (DPA) linked to the State Pension Age (SPA);

   e. A pension accrual rate of $1/47^{th}$ of pensionable earnings each year;

   f. Revaluation of active members' benefits will be in line with average earnings;

   g. Pensions in payment and deferred benefits to increase by CPI;

   h. The option to convert pension income into a tax-free lump sum at transfer rate of £12 lump sum for £1 per annum pension income up to HM Revenue & Customs limits;

   i. The option for scheme members to pay Additional Voluntary Contributions calculated on an actuarially fair basis;

   j. Abatement will not apply to service in the new scheme. Abatement rules for the current schemes will remain unchanged;

   k. No maximum service and no upper age limit for the earning of benefits;

   l. Members transferring between public service schemes to be treated as having continuous Service;

   m. Members rejoining after a period of deferment of less than 5 years can link new Service with previous Service;

   n. Early retirements from age 55, with benefits to be actuarially reduced;

   o. EDP monthly income ceases at the Deferred Pension Age, when it will be replaced by the deferred pension in full;

   p. Ill-health, death and survivors' benefits (ancillary benefits) based on those currently provided in AFPS 05;

q. No additional transitional arrangements beyond the Government's 10 year promise; and

r. An employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks.

Detailed scheme rules will be published in due course.

Transitional and Protection Arrangements

3. There will be full protection for accrued rights for all members as follows:

a. All benefits accrued under final salary arrangements will be linked to the member's final salary when they exit service, in accordance with the rules of the member's current scheme as follows:

- The Armed Forces Pension Scheme 2005;
- The Armed Forces Pension Scheme 1975;
- The Reserve Forces Pension Scheme;
- The Full Time Reserve Service Pension Scheme 1997 (Full Commitment and Limited or Home Commitment);
- The Non-Regular Permanent Staff Pension Scheme.

b. Members will be able to access their benefits from these schemes when they expected to do so based on current rules.

4. There will be transitional statutory protection for qualifying existing members, as follows;

a. All active scheme members who, as at 1 April 2012, had ten years or less to their current Normal Pension Age, will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire or leave the Armed Forces.

Arrangements for specific groups which require more work (e.g. members of the Gurkha Pension Scheme and Gibraltar Regiment Pension Scheme) will be announced in due course.

Equalities Impact Analysis

5. The design of the new scheme has been the subject of the Equalities Impact Analysis which has been published on the Future Armed Forces Pension Scheme (FAFPS) team website. Equality issues will continue to be considered as part of the implementation process for the new scheme.

Scheme Costs

6. This agreement also covers arrangements for an Employer's cost cap and a 25 year guarantee (see **Annex A**). A scheme costing has been published on the FAFPS team website.

ANNEX A

Employer Cost Cap and 25-year protections

Employer Cost Cap

1. An employer Cost Cap will be introduced to cover unforeseen events and trends that significantly increase scheme costs. The employer Cost Cap is intended to provide backstop protection to the taxpayer. This means that changes to contribution rates due to 'member costs' will be controlled by the Cap. Financial cost pressures, including changes to the discount rate, will be met by employers. The employer Cost Cap will be symmetrical with a 'floor' and 'ceiling', so that if reductions in member costs fall below a floor, members' benefits will be improved.

2. The Cost Cap will include the impact of changes in costs, such as actual or assumed longevity, changes to career paths, or the age and gender mix of the workforce. The cap will control the risk associated with the past and future service costs of all active members of the new schemes (including any service these members have in the old schemes), all deferred and pensioner members in the new schemes, and the costs of providing transitional protection to active members in the old schemes. Changes in actual and assumed price inflation and the discount rate will be excluded from the Cost Cap.

3. Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the ceiling or below the floor, there will be a period of consultation before changes are made to bring costs within the Cap. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.

4. The buffer will set a ceiling of 2% above and a floor set 2% below the employer contribution rates calculated following a full actuarial valuation ahead of the planned introduction of the new scheme in 2015. Caps will not be based on cost ceilings.

25-year protections

5. On 2 November 2011 the Chief Secretary to the Treasury set out to Parliament a deal on public service pensions that is fair and sustainable, and one that can endure for 25 years. To give substance to this, the Government has included provisions within the Public Service Pensions Bill, introduced to Parliament on 13 September, to ensure a high bar is set for amendments to the core elements of these schemes.

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