



Ministry  
of Defence

# **Armed Forces Pension Consultation**

## **New Flexible Service Opportunities for Armed Forces Personnel and their Implications for the Armed Forces Pension Schemes**

**March 2018**

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# FOREWORD

Over the last few years, we have talked extensively about the need to make the Armed Forces an attractive place to work; both to retain personnel and attract recruits. The 2015 Strategic Defence and Security Review committed this government to allow the Armed Forces to work flexibly, better reflecting the realities of modern life. Furthermore, the 2017 Conservative manifesto reiterated our intention to work to attract and to retain the best men and women for our Armed Forces.

On 8 February 2018, we reached an important milestone when the Armed Forces (Flexible Working) Bill received Royal Assent. This means that from April 2019, Regular Service personnel can start applying to serve flexibly and enjoy the benefits this can bring.

The impact of Service life on family and personal life has consistently been the main reason given by personnel who have decided to leave the Armed Forces; so we hope that providing more opportunities for flexible service will alleviate some of these concerns, giving Service personnel more control over their lives. This is a significant step forward, demonstrating that the Armed Forces are a modern employer, able to attract our brightest and best, from all backgrounds, ensuring that we keep our country safe.

To accommodate those wishing to take up flexible service in the future, we need to make adjustments to the Armed Forces Pension Schemes, which were not designed with flexible service in mind. This consultation paper proposes changes that are, in my view, fair and proportionate. They have been designed so that those who take up flexible service will be neither advantaged nor disadvantaged compared to those who choose not to do so. I look forward to reviewing the responses.

**Rt. Hon. Gavin Williamson CBE MP, Secretary of State for Defence**

# INTRODUCTION

1. In 2019, Her Majesty's Government (HMG) will introduce new flexible service opportunities for members of the Regular Armed Forces<sup>1</sup>. This will allow them to reduce their usual, high level of commitment by allowing part-time working and protection from separated service for limited periods.

2. The Ministry of Defence (MOD) is developing policies that will underpin these flexible working opportunities, which will be described collectively as "Flexible Service". This consultation document explains how these new flexible service opportunities will affect a change to the current scheme rules for:

- a. the Armed Forces Pension Scheme (AFPS) 2015
- b. the Armed Forces Pension Scheme (AFPS) 2005
- c. the Armed Forces Pension Scheme (AFPS) 1975
- d. the Armed Forces Early Departure Payments Scheme 2015
- e. the Armed Forces Early Departure Payments Scheme 2005
- f. The AFPS 75 Resettlement Grant Scheme<sup>2</sup>

3. This document is split into four elements. A section that provides an introduction to the flexible service options proposed, followed by sections that examine issues relating to the Armed Forces Pension Schemes.

## Who this consultation is aimed at

4. This consultation applies to the regular UK Armed Forces. The government will consult the list of stakeholders identified in Annex A, but would be interested to hear from other interested parties.

## Duration of the consultation

5. The consultation period begins on 16 March 2018 and runs until 13 April 2018.

## How to respond to this consultation

6. Please send your consultation responses to:

Email: [AFPension-policy@mod.gov.uk](mailto:AFPension-policy@mod.gov.uk)

By post to:

Ministry of Defence  
AF Remunerations - Pensions  
Main Building,  
6<sup>th</sup> Floor Zone M  
Whitehall  
SW1A 2HB

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<sup>1</sup> Armed Forces (Flexible Working) Act 2018

<sup>2</sup> Contained in The Armed Forces (Redundancy, Resettlement and Gratuity Earnings Schemes) (No 2) Order 2010, SI 2010/832

## **Government response**

7. We will aim to publish the government response to the consultation on the GOV.UK website. The consultation principles encourage departments to publish a response within 12 weeks or provide an explanation as to why this is not possible. Where consultation is linked to a statutory instrument responses should be published before or at the same time as the instrument is laid.

## **How we consult**

8. This consultation is being conducted in line with the revised [Cabinet Office consultation principles](#) published in January 2016. These principles give clear guidance to government departments on conducting consultations.

9. We value your feedback on how well we consult. If you have any comments about the consultation process (as opposed to comments about the issues we are consulting on), including if you feel that the consultation does not adhere to the values expressed in the consultation principles or that the process could be improved, please address them to the address at paragraph six.

## **Freedom of Information**

10. Information provided during this consultation, including personal information, may be published or disclosed in accordance with access to information regimes, primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If you want the information you provide to be treated confidentially, please be aware that, in accordance with the FOIA, public authorities are required to comply with a statutory code of practice which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you wish that information to be treated confidentially. If we receive a request for disclosure of that information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

11. MOD will process your personal data in accordance with the DPA and, in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties. This consultation follows the UK government's consultation principles.

## **Flexible Service**

12. The proposals in this consultation document have been developed in accordance with three overriding principles:

- a. Service personnel who take-up the new flexible service opportunities should, where possible, receive no advantage or disadvantage when compared to those who do not;
- b. Any impact on the value of pension benefits for those Service personnel who temporarily reduce their commitment during their Armed Forces career will be proportionate.
- c. The accrued rights of Service personnel will be protected and will not be impacted by a period of flexible service.

13. HMG has committed to modernising the terms of service for the Armed Forces to reflect the realities of modern life. The provisions of the Armed Forces (Flexible Working) Act 2018 will enable regular Service personnel the right to request to serve part-time, and the right to request to restrict their liability for separated service. These proposed changes do not apply to members of Reserve Forces.

19. Regular Service personnel's current commitment is 24 hours a day, 7 days a week, 365 days a year. In all but a very few cases, they are liable for separated service at all times (i.e. they can be deployed away from home at any time for as long as required).

20. These additional flexible service arrangements will only be permitted for defined, and limited, periods of time. We envisage that, at any one time, these periods will be no shorter than three months and no longer than three consecutive years or the end of an assignment, whichever is the sooner and a maximum of four years in a twelve-year rolling period. Those taking up flexible working will see commensurate reductions in pay, with corresponding implications for pensions.

21. We expect that only a limited number of Service personnel will choose to request flexible service. Service personnel will only have the right to request the opportunity to undertake flexible service and such requests will be considered by the Services (not their commanding officer). It will only be possible to change, suspend or terminate the working patterns set out in these arrangements in certain circumstances, which will be set out in regulations, such a national emergency or significant change in circumstances. ).

## **Part-Time Service**

22. Service personnel will initially be able to reduce their liability for duty by either 20% or 40%. For an individual with a routine working pattern of five days working, two days off, this

would equate to one working day (20%) or two working days (40%) with their additional liability for duty on the two rest days being reduced by 20% or 40% as appropriate. Thus, overall, their liability for duty will be reduced by 20% or 40% and their pay shall reduce by the similar amounts.

## **Restricted Separation**

23. The changes will also allow Service personnel to apply to temporarily restrict the amount of time they spend away from their home base, rather than restricting service to a particular area (as specific categories of Army regulars can do now). This will mean that Service personnel will not be separated from their home base for more than 24 hours at a time on more than 35 occasions in any year. However, there is no geographic restriction on where they can be asked to serve while on duty, if this time limit is not breached.

24. The salary package for a regular service person includes an amount known as the “X-Factor”, which is paid to recognise the exigencies of service life, and which is calculated as a percentage of basic pay. At present, the rate of X-Factor payable to most regulars is 14.5%; senior officers receive a tapered rate of X-Factor, and the Military Provost Guard Service rate of 5%. The rate of X-Factor payable to those who restrict their liability to separated service will be reduced by an appropriate proportion, which we will discuss with the Armed Forces Pay Review Board.

## **Combined Part-time Service and Restricted Separation**

25. Service personnel will be able to combine their application for restricted separation with an application for part-time service. In these circumstances, their annual salary based on the reduced rate of X-Factor would be calculated, and then reduced by the applicable proportion for part-time service.

## **Impact on Pension**

26. It is considered reasonable that the salary received by Service personnel undertaking flexible service will be reduced. This will be reflected, as appropriate, in their entitlements under the Armed Forces Pension Schemes and the Early Departure Payment Schemes.

27. Current pension schemes for regular Service personnel were never developed to take account of part-time service or restricted separation. A review of Armed Forces pension legislation has been undertaken to identify areas which may require change. These changes are described in detail in this consultation document.

28. **All formulae and calculations in this document are for illustrative purposes only, and the final actual method of calculation used by the scheme manager may differ. However, the outcome will be the same.**

# **ARMED FORCES PENSION SCHEME 15**

## **Scheme Background**

29. The Armed Forces Pension Scheme 2015<sup>3</sup> (AFPS 15) was introduced for new entrants, including Reservists, who joined the Armed Forces from 1 April 2015 as well as those already serving in the Reserves who had not previously been entitled to an Armed Forces pension. In addition, all members of existing AF pension schemes (Regulars and Reserves) who did not qualify for full protection were transferred compulsorily into the new scheme. These members retain accrued rights in the legacy schemes.

## **Transition Members**

30. If the individual was in Service prior to 1 April 2015 they will have accrued benefits in an earlier Armed Forces Pension Scheme (unless opted out). The accrued rights protection means that those benefits, up to and including 31 March 2015, are guaranteed and the member will be entitled to receive the proportion of benefits arising from their accrued rights at the same time as they would originally have expected to receive them (in accordance with the relevant scheme rules). For those re-joining the Armed Forces, providing there is no break in service of more than five years, the pension will also be linked to final pensionable salary/rank at the date of leaving the services - not the salary/rank at the time of transfer into AFPS 15. These members are known as Transition members.

## **Dependant Pension (spouse, civil partner, eligible partner & children)**

31. A spouse, civil partner or eligible partner of a deceased member is entitled to an immediate pension based on a percentage of the pension that would have been payable to the member. Where there are dependent children, they may also be entitled to a pension based on the value of the member's pension. The introduction of these new forms of service will not affect the rules around who is eligible for a dependant's pension, although the value of the pension will be affected where the member has varied their commitment with one of these new forms of service during their career.

## **Member's Pension**

### **Current Scheme Rules**

32. AFPS 15 is more able to easily accommodate flexible service than either of the legacy pension schemes. Pension benefits are calculated on the basis of Career Average Re-Valued Earnings (CARE). Every year, an amount equal to 1/47th of the annual pensionable earnings for that year is credited to the member's CARE pension 'pot' together with an index

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<sup>3</sup> Armed Forces Pension Regulations 2014 (S.I. 2014/2336)



adjustment<sup>4</sup>. On leaving the Armed Forces, the pension thus accrued will form the basis of the AFPS 15 pension benefit calculation. As such, the scheme is already a good fit for flexible service because the pension earned in each scheme year is directly proportionate to the amount earned in that year.

## Retirement after Reaching Normal Pension Age

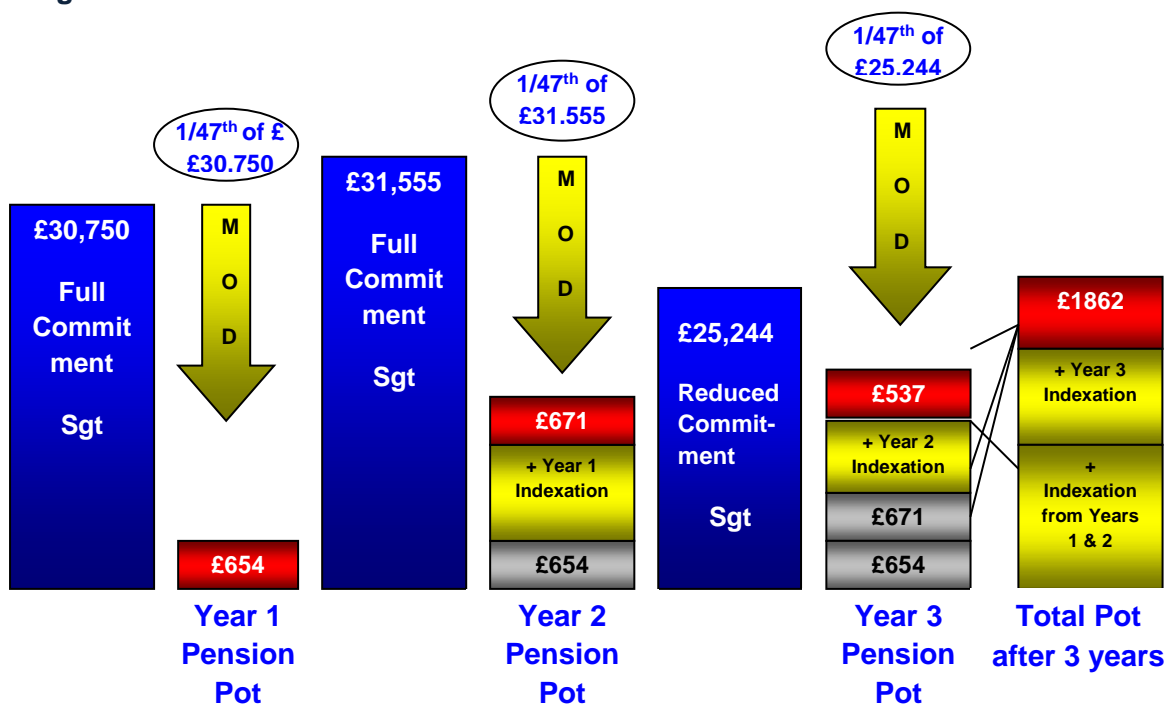
33. A member who serves until age 60 will be entitled to claim a pension immediately. The amount of pension will be the amount of earned pension specified in the member's pension account at the time of retirement.

## Retirement before Reaching Normal Pension Age - Deferred Pension

34. A member with at least two years' qualifying service, who leaves service before the normal pension age is entitled to a deferred pension payable at the deferred pension age (currently linked to state pension age). The amount will be based upon the amount of earned pension in the member's account on the day the member left service.

35. Diagram 1, demonstrates how the CARE scheme would work for a Sergeant who was earning £30,750 in 2015/16 and undertakes either type of flexible service – please note this example is for illustrative purposes only.

**Diagram 1 - AFPS 15 CARE Pot**



<sup>4</sup> The 'CARE pot' starts to accumulate from the first day of paid service and is carried forward each year where it grows slightly to ensure that it tracks inflation and maintains its value. This growth, known as indexation, is based on the Average Weekly Earnings index.

## **Recommendation 1 – AFPS 15 Member’s Pension**

No change to scheme rules is required.

AFPS 15 pension benefits are based on the amount in the CARE pot when the individual retires or leaves service. A member who requests an alternative working pattern that reduces their pensionable earnings will find that this will reduce the amount transferred to their CARE pot for each relevant year.

This approach is proportionate and fair and would apply to both types of flexible service.

## **Resettlement Grant (2015 Scheme)**

### **Current Scheme Rules**

36. The Resettlement Grant 15 (RG 15) is a single fixed lump sum payment<sup>5</sup>. It is payable to Regular members of the Armed Forces only, who leave after 12 or more years’ Qualifying Service, but before reaching the 20/40 Early Departure Payment 15 (EDP 15) point. The RG is intended to help the individual adjust into civilian life. The individual does not have to be a member of an Armed Forces pension scheme to qualify for RG 15<sup>6</sup>.

37. Qualifying Service (for EDP 15 and RG 15 purposes only) means the number of calendar days from the first day of paid service to the last day of paid service but excluding:

- absence without leave;
- service detention;
- service imprisonment;
- unpaid leave.

### **Current Scheme Rules - Part-Time Service and Restricted Separation Service**

38. As currently written, the scheme rules would result in no change to the entitlement to the RG 15, as this is based on calendar days from the first day of paid service to the last. This fits the policy intent for the RG 15, which is to help individuals who have served for more than twelve years to adjust to civilian life. This principle remains relevant, even where an individual has served part-time for a period in their career.

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<sup>5</sup> £10,883 with effect from 1st April 2017, increased each year at the same rate as Armed Forces pay.

<sup>6</sup> A Service Person who opts out of the pension scheme is still entitled to either an RG or EDP.

## **Recommendation 2 – Resettlement Grant 15**

There is no need to change the rules, as the policy intent is that entitlement to the RG should be based on calendar days since joining the Armed Forces, even where the individual has served part-time or restricted their separation for a period.

### **Other Options Considered**

39. We also considered making a pro-rata reduction to the value of the RG 15 to reflect the period of flexible service. However, this was considered to be unnecessary because the value of the RG 15 is a fixed amount, unrelated to salary, age or Rank and even when members are serving part-time, they are still in service.

40. We also considered a pro-rata reduction of the person's Qualifying Service to reflect the period of flexible service. However, although this would be proportionate, it might mean that a service person would need to remain in service beyond the end of their commitment in order to qualify for a RG 15. We do not propose this option as:

- service manning requirements may prevent the extension of a commitment;
- the purpose of the RG 15 is to assist with adjustment to civilian life and this purpose is not materially altered where a person has served part-time for a relatively short part of their career.

## **Early Departure Payment Scheme 2015 (EDP 15)**

### **Current Scheme Rules**

41. The EDP 15 is unique to the Armed Forces; it has two aims

- to retain Regular personnel in service through to at least age 40 with a minimum of 20 years qualifying service, and
- to compensate for the fact that a full career to age 60 is not available to the majority of Regular Service personnel due to the requirements of service life, which is heavily reliant on a younger workforce.

42. It is not available to the Reserves, those who have reached normal pension age or those in receipt of an AFPS 15 ill-health pension. The EDP 15 is not a pension and is payable even if the individual has chosen to opt out of AFPS 15.

43. The EDP 15 comprises a tax-free lump sum and regular monthly income payment paid until State pension age. The EDP 15 is based on the value of the member's deferred AFPS 15 annual pension, as follows:

- the lump sum is the value of the deferred annual AFPS 15 pension multiplied by 2.25; and.

- the monthly income payment is 34% of the value of the deferred annual AFPS 15 pension at point of exit, plus a further additional service allowance (0.85% of the deferred annual pension), for every full year of service after the 20/40 qualification point.

44. An individual who had opted out of AFPS 15 would receive an EDP 15 based on the amount of deferred annual pension they would have been entitled to had they been a member of AFPS 15.

### **Current Scheme Rules - Part-Time Service and Restricted Separation Service**

45. The value of the EDP 15 is based on the amount of the individual's deferred annual pension in AFPS 15, which will depend on the amount which has accumulated in their CARE pot. Accordingly, this already considers any period of flexible service.

46. However, to qualify for an EDP 15, the individual must also have twenty years of qualifying service, and be aged 40 or over. Qualifying service for EDP 15 is defined as the number of calendar days from the first day of paid service to the last day of paid service. This remains the policy intent for entitlement to EDP.

### **Recommendation 3 – EDP 15**

Entitlement to the EDP should remain based on the calendar period in service, and should not be adjusted to reflect a period of flexible service during a career.

### **Other Options Considered**

47. We did consider extending the period of QS for those who had served part-time or with restricted separation by a proportionate period. However, because members of the Armed Forces serve on engagements of specific length, this might well mean that the individual could not serve for the extended period within the remaining period of their engagement. In order to ensure that they qualified for the EDP, their engagement would have to be extended by the requisite period and there is no guarantee that this would be possible in every case. We do not recommend this option because:

- service manning requirements may prevent the extension of a commitment;
- the purpose of the EDP is to assist retention and to compensate for the inability to serve until retirement age and this purpose is not materially altered where a person has served part-time for a relatively short part of their career.

## III Health Pension / Lump Sum

### Current Scheme Rules

48. The AFPS 15 has three levels of ill health award depending on the severity of the medical condition. The EDP 15 Regulations make provision for payment of an ill-health lump sum benefit (Tier 1) to members of AFPS 15, while Tier 2 and Tier 3 awards for more serious conditions provide a pension for life and are provided for in the AFPS 15 regulations.

### Tier 1 - Ill Health Lump sum: incapacity for service in the Armed Forces

49. The EDP 15 Regulations provide for the payment of a one-off lump sum on incapacity grounds. This is payable where the individual is considered unfit for service in the Armed Forces because of physical or mental impairment, but their ability to obtain gainful civilian employment is not significantly impaired. This is known, informally, as a Tier 1 award<sup>7</sup>.

50. Unlike the EDP 15 and RG 15, in order to qualify for an ill-health lump sum Service personnel must be members of AFPS 15, with at least two years' qualifying service. The award is calculated on the basis of 1/8th of Final Pensionable Earnings (FPE) (defined as the best 365 consecutive days' pensionable earnings in the final three years of service) multiplied by the number of years' service in AFPS 15, subject to a minimum value of six months' FPE and a maximum value of two years' FPE (see Example 1).

**Example 1** - An individual joins at age 20 and is medically discharged after two years' service. Final Pensionable Earnings (FPE) equal £30,000. The Tier 1 award is calculated as follows:

$$\frac{\text{£30,000 (FPE)}}{8} \times 2 \text{ (number of years' service)} = \text{£7,500}$$

As £7,500 is less than the minimum of 6 months' pay, the Tier 1 award is increased to **£15,000**.

**Example 2** - An individual joins at age 20 and is medically discharged after 17 years' service. Final pensionable earnings equal £40,000 and the Tier 1 award is calculated as follows:

$$\frac{\text{£40,000 (FPE)}}{8} \times 17 \text{ (number of years' Service)} = \text{£85,000}$$

As this exceeds the maximum of two years pay, the lump sum award is reduced to **£80,000**.

<sup>7</sup> There are two other levels of incapacity in respect of which a monthly income and lump sum are payable under the Armed Forces Pension Regulations 2014 (AFPS 15).

## Current Scheme Rules - Part-Time Service and Restricted Separation Service

51. A member who is serving part-time or with restricted separation when they are discharged with entitlement to a Tier 1 award will have the calculation based on their FPE at date of discharge. This is likely to result in a lower lump sum, because it would be based either on their reduced salary at discharge or a previous full-time salary which might be considerably lower than the full-time equivalent salary at discharge. There would be no credit for potentially many years of full-time service given before the period of part-time service began. Where a member undertakes both types of flexible service their service will be reduced to take account of both limitations on service.

### Recommendation 4 – Tier 1 Ill health

We propose that, where a member has served part-time or with restricted separation,

(1) the period of flexible service should be reflected by an adjustment to the period of service used in the calculation.

(2) the calculation should be based on what would have been the member's Full Time Equivalent earnings (FTEE) during the period.

These two measures will allow for a proportionate reduction to the award, reflecting the period of flexible service.

### Example 3 – Tier 1 Restricted Separation

An individual joins at age 20 and is medically discharged after six years' Service. The first three years were full time service and then the following three years were restricted separation service.

Actual pensionable earnings on discharge were £33,000, based on a reduced rate of X-Factor<sup>8</sup> at 10%, FTEE would have been £34,350, based on 14.5% X-Factor.

Rate of reduction in pay =  $1 - \frac{£33,000}{£34,350} = 3.93\%$

Thus, the notional service reduction for restricted Separation period = 3.93%

Notional reckonable service = 3 years + 3 years x (1-0.0393) = 5.8821

The Tier 1 award is calculated as follows:

$$\frac{£34,350 \text{ (FTEE)}}{8} \times 5.8821 \text{ (number of years' service)} = £25,256$$

This is more than six months of pay and less than two years of pay and so no further adjustment is required.

## Other Options

52. Leave the regulations unchanged. This will affect those who are medically discharged while serving part-time or with restricted separation, or within three years of a period of flexible service and may leave them unfairly disadvantaged relative to those who do not serve part-time or with restricted separation, as it does not take into account service over a whole career.

## Tier 2 - Active (Serving) Members with Significant Impairment of Capacity for Gainful Employment

53. A Tier 2 award is made where the member has suffered a breakdown in health as a result of which capacity for gainful employment is significantly impaired, and is expected to remain so until age 60. An enhanced taxable income is paid for life and the award is made in lieu of an EDP and any other form of AFPS 15 pension. There is no automatic lump sum; instead, there is an option to commute up to 25% of the ill-health pension at a rate of 12:1, so for every £1 of pension given up, £12 of lump sum is generated.

54. The Tier 2 award is the value of the member's pension on their last day of service in the AFPS 15 scheme, plus an enhancement to reflect the loss of an Armed Forces career. The enhancement is calculated by the following formula: 'A' multiplied by 'B'.

'A' is the member's earned pension divided by the number of years and days of AFPS 15 service; and

B is X plus N, where

- X is the sum of all the years and days of AFPS 15 service to date of discharge;
- N is one third of the number of years or part years from the last day of service until normal pension age (the enhancement).

55. Example 4, shows this calculation and a full description is given in the scheme rules (regulation 55).

56. Members of AFPS 15 with accrued rights in one of the legacy schemes (AFPS 75 or AFPS 05) will also have accrued rights to ill-health pensions under those schemes, and their pensions will be calculated using modified formulae. The details of these are set out later in this document, under the relevant legacy scheme.

### Example 4 - Tier 2 award

An individual joins the Armed Forces at age 25 and is medically discharged after 15 years' Service. The total CARE pension is £6,000 pa; the Tier 2 award is calculated as follows:

**A**

**£6000 (CARE pension) = £400**

**15 (number of years' service)**

**N**

$$\frac{60 \text{ (NPA)} - 40 \text{ (Age)}}{3} = 6.67 \text{ years}$$

**X = 15 years**

Total Pension:

**A x B (where B is X + N)**

$$£400 \times (15 + 6.67 \text{ years}) = £8,668 \text{ pa}$$

### **Tier 3 - Active (Serving) Members with Permanent Serious Ill-Health**

57. A Tier 3 award is made where the member is deemed to have suffered a permanent breakdown in health involving incapacity for any gainful full time employment. An enhanced taxable income is paid for life and the award is made in lieu of an EDP and any other form of AFPS 15 pension. There is no automatic lump sum; instead, the member may opt to commute up to 25% of ill-health pension at a rate of 12:1, so for every £1 of pension given up, £12 of lump sum is generated.

58. The Tier 3 award is the value of the member's pension on their last day of service in the AFPS 15 scheme, plus an enhancement to reflect the loss of an Armed Forces career. The enhancement is calculated by the formula: 'A' multiplied by 'B'.

'A' is the member's earned pension divided by the number of years and days of AFPS 15 service; and

B is the greater of

- the number of years or part years' service, up to a maximum of 25 years, which would have remained if the member had continued in the Armed Forces to normal pension age, **or**
- X + N, where X is the sum of all the years and days' service for which amounts of pension were earned; and N is one half of the number of years or part years from last day of service until normal pension age.

Example 5, shows this calculation and a full description is given in the scheme rules (regulation 54).

59. Members of AFPS 15 with accrued rights in one of the legacy schemes (AFPS 75 or AFPS 05) will also have accrued rights to ill-health pensions under those schemes, and their pensions will be calculated using different formulae. The details of these are set out later in this document, under the relevant legacy scheme.



60. A Tier 3 award is subject to a minimum amount based on a guaranteed minimum length of service. This is normally 25 years, but for those who joined the Armed Forces and who would never have been able to serve for 25 years, it is the time between age at joining the Armed Forces and NPA (age 60).

#### **Example 5 - Tier 3 award**

An individual joins at age 30 and is medically discharged after exactly eight years' Service. The total CARE pension is £6,000 pa. The Tier 3 award is calculated as follows:

A

$$\frac{\text{£6000 (CARE pension)}}{8 \text{ (number of years' service)}} = \text{£750}$$

8 (number of years' service)

N

$$\frac{60 \text{ (NPA)} - 38 \text{ (age at exit)}}{2} = 11$$

$$X = 8$$

Total award:

A X B (is the greater of either 25 or X + N)

$$\text{£750} \times (8 + 11) = \text{£750} \times 19$$

19 is less than the guaranteed minimum length of service of 25 years so it is rounded up to 25.

$$\text{£750} \times 25 = \text{£18,750}$$

### **Current Scheme Rules – Part-Time Service and Restricted Separation Service**

61. The value of the member's accrued CARE pot (1/47th of annual pensionable earnings per year) will have already taken account of the reduced earnings during the period of part-time service. The formula to calculate the enhanced pension requires that the total CARE pot be divided by the period of pensionable service, expressed as years and days, to give an average pension over the period of service. As the rules stand currently, the period of pensionable service used to calculate the "average pension" would not be adjusted to reflect the period of flexible service, which would further reduce the value of the pension.

62. Flexible service is only intended to comprise a relatively short, defined part of an entire service career, and it is assumed that all members who serve part-time or restricted separation for a period will revert to full-time service.

## Recommendation 5 – Tier 2 and Tier 3 Ill Health Flexible Service

Flexible service will be for a defined, relatively short period followed by a return to full-time service. The value of the pension is calculated by reference to the CARE pot, and period of service. The CARE pot will remain unchanged; we propose the following changes:

- Scheme service for the calculation of “A” and “X” in regulations 54(2) and 55(2) will be rated down by the relevant percentage for part-time service
- The enhancement will be calculated on the basis that the part-time service ended on the last day of pensionable service and thus no account needs to be taken of it when calculating the remaining years of service.

See example 6, below.

### Example 6 - Tier 2 and Tier 3 Awards – Part Time Service

An individual joined at age 25 and is medically discharged after exactly 15 years’ service. 3 years of service were part-time service with a part-time reduction of 40%, and the remaining 12 years were full-time service. The CARE pot is £5,500.

The number of years’ service to be used in calculating the pension is adjusted to take account of the period of part-time service:

$$X = 12 \text{ years} + 3 \text{ years} \times (1-0.4) = 13.8 \text{ years}$$

Tier 2 award is calculated as follows:

**A**

$$\frac{\text{£5,500 (CARE pension)}}{13.8 \text{ (number of years' service)}} = \text{£399}$$

13.8 (number of years’ service)

**N** – The Enhancement:

$$\frac{60 \text{ (NPA)} - 40 \text{ (Age)}}{3} = 6.67 \text{ years}$$

Total Pension:

$$A \times (X + N)$$

$$\text{£399} \times (13.8 + 6.67 \text{ years}) = \text{£8,168 pa}$$

Tier 3 award is calculated as follows:

A = £399 as above

N is

$$\frac{60 \text{ (NPA)} - 40 \text{ (age at exit)}}{2} = 10$$

Total award:

$$\text{£399} \times (13.8 + 10) = \text{£399} \times 23.8$$

23.8 years is less than the guaranteed minimum length of service period (25 years) so the period is rounded up to 25.

**£399 x 25 = £9,975 per annum**

## **Other Options**

63. Leave the rules unchanged so that when the value of the CARE pot is divided by years of scheme service a lower amount is produced. Since the value of the CARE pot has already been reduced this would be a second reduction.

## **Death in Service Lump Sum Payment**

### **Current Scheme Rules**

64. AFPS 15 provides for the payment of various benefits to a member's dependants. A key benefit is the Death in Service lump sum benefit, which may be payable where an active member dies before leaving pensionable service.

65. The Death in Service lump sum benefit is payable to the member's nominee, or failing a valid nomination, to persons named in strict order of priority in the regulations. It is tax-free and the value is calculated by multiplying the member's FPE by four. Final pensionable earnings is defined as the member's greatest amount of pensionable pay received for 365 consecutive days in the final three years of service. In a case where the member was serving part-time or with restricted separation when they died, or had served in this way in the previous three years, the lower salary paid during this period could result in a significant reduction in the value of the benefit.

66. These new forms of service are intended to be temporary, relatively short periods of flexible service. At the end of the period of flexible service, the individual will revert to a full commitment. We intend that individuals will not be able to serve more than a total of four years in a rolling twelve-year period on these new forms of commitment, with the majority of a service career served on the more standard terms of service.

67. The death in service benefit is an important benefit for our people: by the nature of their service, they may be exposed to more risk than most and it is important that they know their dependants will be looked after should the worst happen. It is important to remember that Service personnel taking advantage of the new forms of service will still be subject to service law, will remain subject to recall under certain circumstances, and may be required to take part in short exercises or operations.

## Current Scheme Rules – Part-Time Service and Restricted Separation Service

68. As set out above, individuals who are serving part-time or with restricted separation may still be required to take part in exercises or short operations. They are subject to recall, and the change to their conditions of service is a temporary one. These new forms of service are not intended to provide for a new type of career in the Armed Forces: a service career will remain, in most cases, a full-time, full-commitment career and those serving in the new ways will return to full service when the arrangement ends.

69. This is different to part-time working in the civilian world, where the change is usually permanent. The examples below demonstrate how the current rules would affect the benefit payable in the case of a Sergeant who was earning £30,750 in 2014/15 and who then undertakes part-time service and dies before returning to full-time service. **Please note these examples are for illustrative purposes only and do not take into account any wage increases or incremental progression.**

### Example 7 – Comparison of Death in Service Benefit

A Sergeant whose Full Time Equivalent Earnings (FTEE) is £30,750, dies in 2018/19 with 17 years' full service, having agreed a part-time commitment in 2016/17. This reduces their commitment by 20%. New Final Pensionable Earnings (FPE) are £24,600.

2015/16	2016/17	2017/18	2018/19
£30,750	£24,600	£24,600	£24,600

Best FPE in last 3 years: £24,600 - x 4 the Death in Service lump sum = £98,400

Best FTEE in last 3 years: £30,750 - x 4 the Death in Service lump sum = £123,000

### Recommendation 6 – AFPS 15 Death in Service

Where the member is serving part-time or with restricted separation at the date of their death, or has served in that way in the three years prior to death, the lump sum should be calculated on the basis of the best consecutive Full Time Equivalent Earnings (FTEE) (the amount that would have been earned had the member not been serving part-time or with restricted separation) in the final three years of service.

This recommendation is based on the following: -

- these new forms of flexible service in the Armed Forces will be temporary variations of a commitment, with the member expected to return to full commitment service at the end of the pre-agreed period. Personnel will not be able to serve part-time and/or with restricted separation for more than a total of four years in a twelve-year rolling period.

- Personnel will remain subject to service law at all times (as with any other regular) and will remain subject to recall to full service either immediately, or on 90 days' notice, in prescribed circumstances.

## **Other Option**

70. Leave the rules unchanged so that the amount of the lump sum benefit will be based on the deceased's FPE. In cases where the deceased had served part-time or with restricted separation in the three years prior to death, this could result in a significantly lower lump sum for dependants, even where the deceased was in active full commitment service when they died.

## **Additional Voluntary Contributions (AVC)**

### **Current Scheme Rules**

71. Members are entitled to make additional voluntary contributions (AVCs) to purchase added pension. AVCs are usually payable monthly, but may be made by lump sum in certain circumstances. The contributions payable under the AVC contract are a fixed sum. As the rules currently stand, a member who has an AVC contract, and who moves to a part-time or restricted separation service commitment will have to continue paying the same amount for their AVCs.

### **Recommendation 7 – AFPS 15 AVC**

We propose that where a member is serving part-time or with restricted separation, the member should have the following options:

- to continue paying the same contribution as before; or
- to suspend their AVC contributions; or
- to reduce their contribution during the period of flexible service and to pay the outstanding contributions (difference between the total sum due for the AVC in the relevant period and the amount paid during that period) within the scheme year after the flexible service ends.

# **ARMED FORCES PENSION SCHEME 2005 (AFPS 05)**

## **Scheme Background**

72. AFPS 05 was introduced on 6 April 2005, under the Armed Forces (Pensions and Compensation) Act 2004, for new entrants to the regular Armed Forces. The scheme is a final salary pension scheme, with rules set out in secondary legislation<sup>9</sup>.

73. Those members of AFPS 05 who will not reach the age of 55 by 1 April 2022, were transferred to AFPS 15 on 1 April 2015, in line with changes made to all public-sector pensions at that time. These Transition members retain the benefits earned (accrued) in the AFPS 05 up to 1 April 2015 and are able to claim those benefits at the age set out in the AFPS 05 rules. The value of the AFPS 05 benefits will be calculated by reference to the member's FPE for the purposes of the AFPS 15 scheme and the number of years of reckonable service in AFPS 05.

74. Those members of AFPS 05 who will reach the age of 55 before 1 April 2022 remained in AFPS 05 and are known as Full Protection members.

## **Dependant Benefits (Spouse, Civil Partner, Eligible Partner & Children)**

75. As with AFPS 15, where a member dies in service, for any reason, a tax-free lump sum of four times their Final Pensionable Earnings (FPE) may be payable (this is dealt with in more detail in the Death in Service Lump sum section).

76. A spouse, civil partner or eligible partner of a deceased member is entitled to an immediate pension, calculated by reference to the member's final pensionable earnings and reckonable service. Where there are dependent children, they may also be entitled to a pension. The introduction of flexible service will not affect the rules around who is eligible for a dependant's pension. However, the value of the pension will be affected where the member has undertaken a flexible service commitment during their career.

## **Member's Pension – AFPS 05**

### **Current Scheme Rules**

77. A serving member of AFPS 05 is entitled to a pension for life and a lump sum if they leave pensionable service on or after reaching the age of 55. The pension lump sum is paid tax-free. A member who leaves the Regular Armed Forces before the normal retirement age (age 55) is entitled to a pension for life and a one-off pension lump sum (normally tax-free), payable at the age of 65 providing they have at least two years' qualifying service.

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<sup>9</sup> The Armed Forces Pension Scheme Order 2005 (SI 2005/438)

78. The annual pension is calculated by multiplying one seventieth of the FPE by the length of their reckonable service. The pension lump sum is three times the value of the annual pension.

### **Reckonable Service**

79. Reckonable service is, very broadly, the period of time in service that a member can count towards their pension.<sup>10</sup> Essentially, a member is in reckonable service for every period in which they are in service in respect of which they receive pensionable earnings for the purposes of the AFPS 05. Accordingly, as members undertaking flexible service will remain in service, with monthly salary payments (pensionable earnings), this broad definition may need amendment for those who serve part-time or with restricted separation in order to reflect the reality of their reduced service for that period.

### **Calculation of Final Pensionable Earnings (FPE)**

80. A member's FPE are the greatest amount of pensionable earnings for 365 consecutive days falling within the last three years of service. The last 365 days of service will normally be the best and, of course, will not require adjustment for inflation.<sup>11</sup> In the case of Transitional members, where their FPE are lower on leaving AFPS 15, than they were on transition from AFPS 05 to AFPS 15. The FPE will be the greatest amount over 365 consecutive days' pensionable earnings in the last three years before the transition.

81. Example 8 shows how FPE is calculated if the best 365 days' pay is in the last 12 months of service. In this example the entire 365 days is at the same rate of pay.

#### **Example 8 – AFPS 05 Pension Calculation**

An individual leaves the Armed Forces on 31 March at age 55 with 39 years' reckonable service (having joined at age 16). Final pensionable earnings were £45,000. Annual pension and Lump sum are:

$$39 \times [\text{£}45,000 \times 1/70] = \text{£}25,071.43 \text{ per annum, paid monthly in arrears and} \\ \text{£}25,071.43 \times 3 = \text{£}75,214.29 \text{ lump sum.}$$

82. Example 9 describes a case in which an adjustment for inflation would be necessary in order to determine the greatest amount of FPE in the last three years of service.

#### **Example 9 – AFPS 05 Pension Adjustment**

An individual left the Regular Armed Forces as a Major. However, 18 months before discharge they had been temporarily promoted to Lt Colonel for three months. Their earnings for the 365 days containing that period, adjusted for inflation, are higher than the

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<sup>10</sup> The rules also provide for other circumstances in which reckonable service can be awarded, such as periods for which assumed pay is received, or where an individual has accrued additional pension by way of a transfer of pension.

<sup>11</sup> For the purposes of determining the greatest amount of final pensionable earnings only, any amount earned before the last 365 days of service is adjusted for inflation. This adjustment is disregarded for all other purposes.

last 365 days. Thus, their FPE would be based on the 365 days containing the period during which they were promoted.

## **Current Scheme Rules – Part-Time Service**

### **Full Protection Members**

83. As set out above, the annual rate of pension is calculated using the following formula:

1/70th FPE multiplied by Reckonable Service (in years).

84. Anyone who leaves service during a period of part-time service, or within three years of that part-time service, will have their pension calculated by reference to the reduced salary received during this period. The ability to “look back” over the last three years may not make much difference as incremental pay or a promotion may mean that the earlier full time salary is considerably lower.

85. Service personnel will only be able to serve part-time for relatively short, defined periods in a whole career. At present, we envisage that any one period of part-time service will have a maximum length of three years, or the end of the assignment, while the total combined period of part-time and restricted separation service will not exceed four years in a rolling twelve-year period.

86. It is therefore proposed that where an individual has served part-time, the calculation of their FPE should be based on FTEE, rather than their actual earnings. However, in calculating the amount of pension, an adjustment will be made to their reckonable service, to reflect the period of part-time service:

### **Transition Members (former members of AFPS 05, now in AFPS 15)**

87. These members stopped accruing reckonable service in AFPS 05 when they were transferred to AFPS 15 on 1 April 2015. When calculating their accrued benefits under AFPS 05, it is the reckonable service actually accrued in the AFPS 05 scheme which will be relevant. This will be unaffected by the adjustment to reckonable service which we propose above for full protection members of AFPS 05, as the period of part-time service will take place while they are members of AFPS 15.

88. However, the operation of the final salary link means that a member’s AFPS 05 pension is based on their FPE in the AFPS 15 scheme. Accordingly, a lower salary in the final three years of service in AFPS 15 will have an impact on the value of their accrued AFPS 05 pension. We consider this would be a disproportionately adverse impact, given that all of the AFPS 05 service would have been full-time. It is therefore proposed that the calculation of the member’s FPE for the purposes of the final salary link will be based on FTEE in the final three years of service.



## **Recommendation 8 – AFPS 05 Member’s Pension Part Time Service**

### **AFPS 05 Full Protection members**

- the member’s reckonable service will be reduced in proportion to total service to reflect the period of part-time service.
- the calculation of FPE for those who have served part-time during their career should be amended so that this is based on the best FTEE for 365 consecutive days in the final three years of service.

### **Example 10 – Part Time Service Reduction Formula**

A member has been in service for 15 years. The first 11 years were full time service, then the member served part-time for two years, reducing their service by 20%, followed by the final two years in full time service.

The reckonable service allowing for the part-time reduced periods is

$$11 \text{ years} + [2 \text{ years} \times (1-0.2)] + 2 \text{ years} = 14.6 \text{ years.}$$

### **Transition Members**

We propose that the calculation of FPE for the purposes of determining the amount of the accrued AFPS 05 pension should be based on FTEE in the final three years of service. The member’s reckonable service in AFPS 05 is not reduced.

### **Other options considered**

89. We considered whether the issue might be more simply resolved by increasing the period of the “look back” to five years rather than three. This would include a period of pay on full-time service, but would not take account of the effect of incremental pay or promotions. We also considered making no change, on the basis that individuals will choose to serve part-time and will do so understanding the effect this may have on their pensions.

### **Current Scheme Rules – Restricted Separation Service**

90. A period of restricted separation service will also represent a reduction in reckonable service, even though the member will still serve full-time. This is because they will no longer be available for service on an unlimited basis, unlike other regulars. It is not as straightforward to account for the impact of this reduction in service on reckonable service as it is where members are serving part-time, because the member is still serving full-time.

91. Pensionable earnings includes the X-Factor element of basic pay. Most personnel receive the full rate of X-Factor, which is currently 14.5%. However, officers of the rank of OF5 and higher do not receive the full rate of X-Factor. OF5 receive 75%; OF6 receive 50%; OF7 and OF8s receive 25% and OF9s receive 0% X-Factor. In addition, members of the Military Provost Guard Service, who already limit their liability for separated service in a slightly different way, receive X-Factor at a rate of 5%.

92. We propose that Service personnel who limit their liability for separated service should have the X-Factor element of their pay reduced for the relevant period. We are in discussion with the Armed Forces Pay Review Body in this regard, but no decision has yet been made<sup>12</sup>.

### **Full protection members**

93. We have set out above how the final pension amount is calculated under AFPS 05. As with part-time service, we considered how to reflect the reduction in service when calculating pensions. Again, we consider that the calculation should be based on the FTEE for the final three years of service, with the reduction in service accounted for by an adjustment to the reckonable service. This adjustment will be proportionate to the reduction in pay as a result of the expected reduction in the X-Factor rate.

**NOTE:** where a member undertakes part-time service and also restricted separation service, their salary will be reduced to take account of both reductions in service. The reduction in X-Factor will be applied first, followed by the reduction of either 20% or 40% for part-time service, as shown in the example below:

### **Transition Member**

94. Again, the position is similar to those transition members who serve part-time. Their reckonable service for the purposes of calculating their accrued pension under AFPS 05 will be unchanged. The impact of their period of reduced service will be reflected in their AFPS 15 CARE pot. The formula to calculate the service reduction is:  $1 - (1 + \text{reduced rate of X-factor}) / (1 + \text{normal rate of X-factor})$ .

95. However, the final salary link between AFPS 15 and AFPS 05 will mean that a reduced salary in the final three years of service in AFPS 15 will result in a reduced pension under the AFPS 05.

## **Recommendation 9 – AFPS 05 Member’s Pension - Restricted Separation**

### **Full Protection member**

As with part-time service, we propose the following:

1. Members’ FPE should be based on FTEE in the final three years of service; and
2. Reckonable service should be adjusted to account for the period during which there was a reduction in service. This reduction would be calculated by translating the service reduction for the period as follows: if X-Factor reduction resulted in a decrease in

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<sup>12</sup> For illustrative purposes only, we have assumed that X-Factor for those who limit their liability for separated service will be 10%. This is purely to allow for examples to show how we envisage the pensions of those who serve in this way would be affected under our proposals.

pensionable earnings of 4% then reckonable service would be reduced by 4% (See example 11).

### **Example 11- AFPS 05 Restricted Separation Reduction**

A member has been in service for 10 years and is a full protection member of AFPS 05. The first seven years were full time service, then the member served with restricted separation for the final three years.

- Full-time equivalent pay is £36,000, including an X-Factor element at a rate of 14.5%.
- Actual pensionable earnings were £34,585, including an X-Factor rate of 10%<sup>13</sup>.
- Rate of reduction in pay =  $1 - £34,585/£36,000 = 3.93\%$
- Notional reckonable service is  $7 + [3 \times (1 - 3.93\%)] = 9.882$  years.
- The member's accrued AFPS 05 pension is  $(1/70 \times 36,000) \times 9.882 = £5,082$  per annum.
- The member is also entitled to a lump sum of 3 x AFPS 05 pension.

### **Transition Members**

We propose that the calculation of FPE for the purposes of determining the amount of the accrued AFPS 05 pension should be based on FTEE in the final three years of service. The member's reckonable service in AFPS 05 is not reduced.

## **Other Options**

96. The following options were considered:

- Make no change. The whole pension could be based on lower final earnings
- Base the pension on the member's greatest 365 consecutive days FPE in the best 365 consecutive days in the last three years. It could be argued that the decision to undertake flexible service is voluntary and, provided that the limitations of flexible service is made clear to the member, it is their decision.

## **Resettlement Grant 2005 (RG05)**

### **Current Scheme Rules**

97. RG 05 is a single fixed lump sum payment<sup>14</sup>. It is payable to Regular members of the Armed Forces only, who leave after 12 or more years' relevant service, but before reaching their 18/40 Early Departure Payment (EDP) point<sup>15</sup>. It is now only payable to those who are full protection members of the AFPS 05 or those who would have been such full protection members had they belonged to an Armed Forces pension scheme at all.

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<sup>13</sup> This is an illustrative figure to show how the calculation can be applied.

<sup>14</sup> £10,883 in 2017/18.

<sup>15</sup> To receive an EDP the individual must have completed at least 18 years' relevant service and be aged 40 or over. This is known as the 18/40 point. See EDP section for additional information.

98. As currently written, the scheme rules would result in no change to the entitlement to the RG, as this is based on periods of paid service. This fits the policy intent for the RG, which is to help individuals who have served for more than twelve years to adjust to civilian life. This principle remains relevant, even where an individual has served part-time or with restricted separation for a period in their career.

### **Recommendation 10 – Resettlement Grant 05**

Entitlement to the RG should remain based on the current rules, which will not be adjusted to account for the period of flexible service.

### **Other Options**

99. We considered whether the service person's relevant service should be reduced in proportion to their reduction of service. This would have the effect of requiring them to serve for a longer period to acquire the necessary period of 12 years' relevant service. We do not propose this option as:

- service manning requirements may prevent the extension of a commitment;
- the purpose of the RG is to assist with adjustment to civilian life and this purpose is not materially altered where a person has served part-time for a relatively short part of their career.

### **Early Departure Payment 2005 (EDP 05)**

100. The EDP 05 rules are contained in secondary legislation<sup>16</sup>. The EDP 05 is similar in principle to the EDP 2015 scheme discussed earlier. However, EDP 05 aims to retain Regular personnel through to at least age 40 and after a minimum of 18 years Relevant Service (known as the 18/40 point). It is paid to compensate for the fact that a full career to age 55 is not available to the majority of Regular Service personnel. It is not available to: the Reserves; those who have reached the age of 55; or those in receipt of an ill-health pension. The EDP is not a pension and can still be claimed if the individual has chosen to opt out of AFPS 05.

### **Current Scheme Rules**

#### **Full Protection Members**

101. The EDP 05 scheme provides a tax-free lump sum and a regular income stream from date of discharge until the deferred pension age of 65. The regular EDP payment comprises a basic amount and an additional service allowance. When the individual reaches 55, the basic amount is enhanced by multiplying it by 1.5.

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<sup>16</sup> The Armed Forces Early Departure Payments Scheme Order 2005 (S.I. 2005/437).

The basic amount is: Number of years' relevant service divided by 140 and then multiplied by the member's final relevant earnings

The additional service allowance is:

Multiply 3.3334% of the basic amount by (N minus X);

N is the number of years' relevant service, and X is the greater of either 18, or the number of years' relevant service the member was entitled to count when he reached the age of 40.

102. The EDP lump sum is  $\frac{3}{70}$ <sup>th</sup>s of the member's final relevant earnings, multiplied by the length of member's calculation service<sup>17</sup>.

### Transition Members

103. Transition members with entitlement to an EDP in both EDP 05 and EDP 15 will receive payments from both schemes provided they meet the qualifying criteria. In such cases, the number of years' relevant service for the purposes of calculating the EDP 05 is the number of years' relevant service before the member transferred to AFPS 15.

#### Example 12 – AFPS 05 Transitional Member leaves after 20 years' service

Member of AFPS 05, rank OF3 with six years' reckonable service in AFPS 05. They enlisted at age 20 and leave after completing 20 years' service at age 40. They are entitled to benefits under both EDP 05 and EDP 15 schemes, in proportion to their service in AFPS 05 and AFPS 15. Their FPE are £58,025.04.

EDP 15 Calculation		
Deferred pension payable at SPA	£20,958.32	CARE Pot
EDP 15 income on exit	£7,125.83	A member is eligible for EDP 15 from the 20/40-year point. The basic amount of EDP 15 on exit is 34% of the deferred annual AFPS 15 pension at SPA. No additional service allowance is payable as the member has not served a full year beyond the 20-year service point.
EDP 15 lump sum on exit	£47,156.22	The EDP 15 tax free lump sum on exit is the deferred annual AFPS 15 pension at SPA multiplied by 2.25.
EDP 05 Calculation		

<sup>17</sup> Calculation Service is defined in the Armed Forces Early Departure Payments Scheme Order 2005 (S.I. 2005/437) article 5.

EDP 05 income on exit	£2,486.79	The amount is the number of years' relevant service (or number of years before transition date) divided by 140 times the Final Relevant Earnings [6/140 x 58,025]
EDP 05 lump sum on exit	£14,920.72	3/70ths of final relevant earnings multiplied by the length of person's calculation service
EDP 05 income payable at age 55	£3,730.18	The EDP 05 income increases at age 55

## **Current Scheme Rules - Part-time Service and Restricted Separation Service**

104. Relevant service is defined, broadly speaking, as any period after 6 April 2005<sup>18</sup> during which the person is in service as a member of the Armed Forces, and in respect of which they receive pensionable earnings for the purposes of AFPS 05.

105. Part-time regulars and those who limit their liability for separated service will have their annual rate of pay reduced by a proportionate amount, and this reduced annual rate will then be divided into twelve equal amounts to ensure that personnel receive the same amount each month. Accordingly, there will never be a period in which they have not received pensionable earnings and thus the way in which relevant service is calculated for the purposes of EDP 05 will not take account of any periods of flexible service.

106. The question of how we calculate relevant service in relation to the EDP arises in two contexts: for the EDP

1. eligibility– when does the person reach the 18-year point; and
2. calculation of the value of the EDP elements.

### **Eligibility for EDP – the 18-year point**

107. Under the current rules, full protection members serving part-time or restricted separation for a period will accrue relevant service towards their 18-year point as they would if they gave full service. Thus, they will reach the 18-year point on the 18th anniversary of their entry into service in the Armed Forces.

108. We do not propose to change how relevant service is calculated for the purposes of reaching the 18-year point. This is because members of the Armed Forces serve on engagements of specific length, which might well mean that the individual could not serve for the extended period within the remaining period of their engagement. In order to ensure that they qualified for the EDP, their engagement would have to be extended by the requisite

<sup>18</sup> Other periods and types of service may count towards relevant service and where this may be the case, the wording of article 4 of the EDP Order 2005 should be checked carefully.

period and there is no guarantee that this would be possible in every case. As with EDP 15 we do not propose to choose this because:

- service manning requirements may prevent the extension of a commitment;
- the purpose of the EDP is to assist retention and to compensate for the inability to serve until retirement age and this purpose is not materially altered where a person has served part-time for a relatively short part of their career.

### **Calculation of the EDP Value**

109. There are two elements to the monthly EDP 05 payment: the basic amount and the additional service allowance. Both of these amounts are calculated by reference to the individual's final relevant earnings and relevant service. Final Relevant Earnings are defined in the rules, and are essentially the equivalent of FPE in AFPS 05. Personnel who serve part-time and who leave service within three years of ending their part-time arrangement will have the reduced salary during that period taken into consideration when their final relevant earnings are assessed.

110. In the case of Transition Members, when calculating their EDP 05 basic amount, relevant service is the number of years' relevant service before 1 April 2015. However, for the purposes of calculating the additional service allowance, relevant service is service in the Armed Forces, Armed Forces and thus includes service before and after the transition to AFPS 15.

111. The current rules provide that, in effect, relevant service for the purposes of assessing eligibility for the EDP and the value of the EDP itself will be calculated on the basis of calendar years in service, as set out above.

112. In addition, the amount of the EDP 05 is based on final relevant earnings, and the operation of the final salary link ensures that the basic amount is calculated by reference to earnings in the last three years of service in the Armed Forces, rather than in AFPS 05. This means that the amount of the EDP 05 payment could be reduced if it is based on the earnings while the member was serving flexibly.

## **Recommendation 11 – EDP 05**

### **Full Protection Members**

We propose that:

- (1) Relevant service for the purposes of considering an individual's entitlement to an EDP, and for calculating the additional service allowance, should not be adjusted to account for part-time or restricted separation service;

- (2) Relevant service for the purposes of calculating the basic amount of EDP and the EDP lump sum should be reduced proportionately to account for the period of flexible service;
- (3) Final Relevant earnings should be based on the best 365 consecutive days' FTEE in the final three years of service in the Armed Forces.

### **Transitional Members**

We propose that:

- (4) Relevant service for the purposes of considering an individual's entitlement to an EDP, and for calculating the additional service allowance, should not be adjusted to account for part-time or restricted separation service;
- (5) Final Relevant earnings should be based on the best 365 consecutive days' FTEE in the final three years of service in the Armed Forces.

### **Other Options**

113. The following options were considered:

- Leave the regulations unchanged. This would ensure that individuals would be eligible for the EDP at the same point as full-time regulars, but the link to final relevant earnings could reduce the amount of the EDP, where the individual retires within three years of serving part-time or with restricted separation. This could unfairly disadvantage these individuals relative to those who have never served part-time or restricted separation, as this would not take into account the full service given for the bulk of their service career.
- Amendment to the rules so that periods of part-time or restricted separation service would not be relevant service for the purposes of determining when they have reached the 18-year point, and are thus eligible for the EDP.
- A pro-rata reduction of the individual's relevant service, for the purposes of determining when they have reached the 18-year point and are thus eligible for the EDP. This would require the individual to serve for longer. However, because members of the Armed Forces serve on engagements of specific length, this might well mean that the individual could not serve for the extended period within the remaining period of their engagement. In order to ensure that they qualified for the EDP, their engagement would have to be extended by the requisite period and there is no guarantee that this would be possible in every case.



## ILL HEALTH PENSION / LUMP SUM

### Current Scheme Rules

114. As with the AFPS 15, the AFPS 05 provides for three levels of ill health award, depending on the severity of the medical condition. The EDP 05 Order provides for the payment of a lump sum in the least severe cases (Tier 1). The AFPS 05 Order provides for the payment of pensions for life in the case of more serious conditions, known as Tier 2 and Tier 3 awards.

### Tier 1 - Ill Health Lump sum: incapacity for service in the Armed Forces

115. The EDP 05 Order provides for payment of a one-off lump sum on incapacity grounds to members of the AFPS 05 only. This is payable where the individual is considered unfit for the Armed Forces because of physical or mental impairment but their ability to obtain gainful civilian employment is not significantly impaired and is known as a Tier 1 award. Unlike with EDP and Resettlement Grants, Service personnel must be members of AFPS 05 to qualify for a Tier 1 award.

116. Full Protection member – The award is calculated on the basis of 1/8<sup>th</sup> of the final relevant earnings (the best 365 consecutive days in the last three years of relevant service) multiplied by the number of years' calculation service<sup>19</sup>. Where the award would be less than one-half of the final relevant earnings, it is rounded up to six months and where the award would be greater than 24 months' final relevant earnings, the award will be capped at 24 months' final relevant earnings.

**Example 13** - An individual joins at age 20 and is medically discharged after two years relevant Service. Final Relevant Earnings (FRE) equal £30,000, and the Tier 1 award is calculated as follows:

$$\frac{\text{£30,000 (FRE)} \times 2 \text{ (number of years' service)}}{8} = \text{£7,500}$$

As £7,500 is less than the minimum of six months' pay, the Tier 1 award is increased to **£15,000**.

**Example 14** - An individual joins at age 20 and is medically discharged after 17 years' relevant service. FRE equal £40,000, the Tier 1 award is calculated as follows:

$$\frac{\text{£40,000 (FRE)} \times 17 \text{ (number of years' Service)}}{8} = \text{£85,000}$$

As this exceeds the maximum of two years pay, the lump sum award is reduced to **£80,000**.

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<sup>19</sup> The Armed Forces Early Departure Payments Scheme Order 2005 (S.I. 2005/437), article 5.

117. Transitional member – A Tier 1 award for transition members is calculated by reference to service in both pension schemes. The Tier 1 award will be calculated as usual for EDP 05. However, the six month and two year parameters for the amount are not applied when calculating the amount due under the EDP 05 scheme. The EDP 05 amount will then be added to the amount calculated under EDP 15 (service after 1 April 2015), and at that point the minimum and maximum parameters will be applied, where relevant.

### **Current Scheme Rules – Part-Time Service and Restricted Separation Full Protection Members**

118. A member who is serving part-time and/or with restricted separation when they are discharged with entitlement to a Tier 1 award will have the calculation based on their FRE at date of discharge. This is likely to result in a lower lump sum, because it would be based either on their reduced salary at discharge or a previous full-time salary which might be considerably lower than the FTE salary at discharge. There would be no credit for potentially many years of full-time service given before the period of flexible service began.

#### **Example 15 – Full Protection Member**

A member has been in service for 10 years and is a member of AFPS 05. The first seven years were full time service, then the member restricted separation for the final three years. The member's full-time equivalent pay is £36,000 based on an X-Factor of 14.5%.

Actual pensionable earnings £34,585 based on an example rate of 10% X-Factor<sup>20</sup> due to restricted separation.

- Rate of reduction in pay =  $1 - £34,585/£36,000 = 3.93\%$
- Therefore, notional service reduction for restricted separation period = 3.93%
- Notional reckonable service is  $7 + 3 \times (1 - 3.93\%) = 9.882$  years
- Tier 1 lump sum =  $9.882 / 8 \times 36,000 = £44,469$ .

As this is greater than six months' salary and less than two years' salary it is not adjusted further.

#### **Transition Members**

119. The relevant service element of calculation service under EDP 05 does not include any service after 1 April 2015. Accordingly, for transition members, the Tier 1 award would be calculated based on relevant service up to this date.

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<sup>20</sup> This is an illustrative figure to show how the calculation can be applied.

## **Recommendation 12 – EDP 05 Ill Health - Tier 1**

We propose that the EDP 05 legislation is amended to ensure that where a member has served part-time and/or with restricted separation, and is then medically discharged with a Tier 1 award:

(1) for full protection members, the relevant service element of their calculation service will be adjusted to reflect the period of flexible service, and.

(2) for both full protection and transition members, the final relevant earnings will be based on Full Time Equivalent earnings.

These two measures will ensure a proportionate reduction to the Tier 1 award, reflecting the relevant reduction in service.

## **Other Options**

120. The other options considered were:

- Leave the regulations unchanged. However, depending on the circumstances, this could mean that a member is unfairly advantaged or disadvantaged.
- A member could be unfairly disadvantaged where they are discharged during a period of flexible service and thus their award is based on a temporarily lower salary, rather than taking into account a much longer period of full-time service.
- A member could be unfairly advantaged where they are medically discharged several years after a period of flexible service and no adjustment is made to their service to reflect that period.

## **Tier 2 and Tier 3 Ill-Health Pensions – AFPS 05**

121. Members of AFPS 05 who suffer a more significant degree of ill-health may be entitled to an ill health pension. The value of this pension is available for those whose injuries are more severe and for whom a Tier 1 lump sum award is not appropriate. The value of the ill health pension is calculated by reference to the member's FPE and reckonable service, with an enhancement to the reckonable service element.

## **Tier 2 - Active Members of AFPS 05 with Significant Impairment of Capacity for Gainful Employment**

122. If discharged with a condition that is not deemed to leave the individual permanently incapable of gainful employment, although their employment prospects are deemed to be significantly impaired, the member will be awarded a pension lump sum and a taxable ill-health pension for life.

123. The amount of the annual pension is calculated by multiplying 1/70th of the final pensionable earnings by the reckonable service, plus one third of the further reckonable service they could have counted if they had remained a member until the age of 55 (the enhancement). The pension lump sum will be three times the annual Tier 2 pension. No further pension benefits are payable at pension benefit age.

#### **Example 16 - Tier 2 pension calculation**

A person aged 25 with FPE of £28,000 who is medically discharged under Tier 2 after eight years' reckonable service would receive a taxable ill-health pension based on 18 years' reckonable service (eight years' actual service + one third of the 30 years remaining until normal retirement age of 55).

	Before Enhancement	After Enhancement
Pension	£3,200	£7,200
Lump sum	£9,600	£21,600

### **Tier 3 - Active Members with Permanent Serious Ill-Health**

124. Where a member is discharged on the basis of permanent ill-health which is so serious as to render them permanently incapable of any further full-time employment, they will be awarded an ill-health pension for life, plus a lump sum. This is known as a Tier 3 pension.

125. The amount of the annual Tier 3 pension will be calculated by taking 1/70th of the FPE and multiplying it by whichever is the greater of the reckonable service plus half the further reckonable service they could have counted had they remained in service to the age of 55, or 20 years. They will also receive a pension lump sum of three times the annual pension. No further pension benefits are payable at pension benefit age.

#### **Example 17 - Tier 3 pension calculation**

A person aged 24 with FPE of £21,000 who is medically discharged under Tier 3 after four years' reckonable service will receive a taxable ill-health pension based on 20 years' service. The formula delivers a total of 19 ½ years' service (four years' actual service + half the 31 years remaining until normal retirement age of 55) but as this is below the guaranteed minimum 20 years is used in the calculation.

	Normal Pension	Tier 3
Pension	£1,200	£6,000
Lump sum	£3,600	£18,000

### **Current Scheme Rules: Tier 2 and Tier 3 – Part-Time Service**

126. The member's pension is calculated by reference to their FPE and reckonable service and could provide a much lower pension for someone who was serving part-time at the date of discharge or in the years shortly before discharge, even if this represented only a short period in their overall service career.

## Transition Members:

127. The member's entitlement to an ill-health pension is assessed on the basis of the criteria set out in AFPS 15. However, the pension is calculated by taking into account the proportion of benefits attributable to AFPS 05 and AFPS 15 respectively. The AFPS 05 portion of the pension will generally be calculated by reference to FPE at date of discharge, rather than the date of transition to AFPS 15. If a member is discharged while serving part-time or shortly after such a period of reduced service, their pension is likely to be reduced.

128. The formulae to calculate the enhanced ill-health pension payable to members with service in AFPS 05 and AFPS 15 have been modified to reflect the need to apportion service between the two schemes.

### **Example 18 - AFPS 05/15 Transition Member without FES service - Tier 3 Ill Health**

An OR7 aged 45 has 10 years' service in AFPS 05, and 10 years' service in AFPS 15. The final pensionable salary is £38,000, and total AFPS 15 CARE pot is £7,500. They are assessed as incapable of any gainful full-time employment until at least age 60 and therefore is entitled to tier 3 ill-health benefits in both AFPS 05 and AFPS 15.

#### **AFPS 05 benefits**

AFPS 05 pension is  $1/70^{\text{th}}$  of the FPE as at date of discharge multiplied by N.

'N' is the sum of (1) years of reckonable service in AFPS 05 and (2) X multiplied by Y;

X is equal to the member's years of reckonable service in AFPS 05, divided by the total of the member's years of reckonable service in AFPS 05 and pensionable service in AFPS 15.

$$X = 10 / (10 + 10) = 10 / 20 = 1/2$$

Y is the greater of -

- half of the further reckonable service they would have been able to count under AFPS 05 if they had remained in the scheme from date of ill health retirement to age 55; and
- 20, minus the total of the member's years of reckonable service in AFPS 05 and years of pensionable service in AFPS 15.

$$Y = (55 - 45) / 2 = 5 \text{ years}$$

$$N = \text{AFPS 05 Reckonable Service} + (X \times Y) \text{ which is } 10 + (1/2 \times 5) \text{ which } = 12.5 \text{ years}$$

$$\text{AFPS 05 pension} = (1/70 \times £38,000) \times 12.5 = £6,786 \text{ per annum}$$

The member is also entitled to a lump sum of 3 x AFPS 05 pension.

#### **AFPS 15 benefits**

The AFPS 15 pension is 'A' multiplied by 'B'

A is the member's retirement earned pension divided by the sum of (1) all the years up to the last active scheme year (or part years) and (2) in the last scheme year, the number of days as a member of AFPS 15.

**B** is the sum of (1) the member's pensionable service under the scheme and (2) X multiplied by N.

**X** is equal to the member's years of pensionable service in AFPS 15 divided by the total of the member's years of reckonable service in AFPS 05 and pensionable service in AFPS 15;

**N** is the greater of

(1) half of the further pensionable service which the member would have been able to count under the AFPS 15 if the member had remained in accruing service from the date of ill health retirement until age 60 and

(2) the lesser of

- a. 25 minus the total of the member's years of reckonable service AFPS 05 and pensionable service in AFPS 15; and
- b. the further pensionable service which the member would have been able to count under AFPS 15 if the member had remained in AFPS 15 from the date of ill health retirement until age 60.

$$X = 10/20 = 1/2$$

$$N = (60 - 45)/2 = 7.5 \text{ years}$$

$B = \text{AFPS 15 Pensionable Service plus } (X \times N), \text{ which} = 10 \text{ plus } (1/2 \times 7.5), \text{ which} = 13.75 \text{ years}$

$$A = £7,500 / 10 = £750$$

$$\text{AFPS 15 pension} = £750 \times 13.75 = £10,313 \text{ per annum}$$

## **Recommendation 13 – AFPS 05 Tier 2 or Tier 3 - Part Time Service**

### **Full Protection Member, Tier 2 and Tier 3**

Part-time service will be for a defined, relatively short period followed by a return to full-time service. The value of the pension is calculated by reference to the member's FPE, reckonable service and years left to serve from date of discharge to retirement age. It is recommended that:

- AFPS 05 pension is calculated on the basis of the best consecutive 365 days FTEE in the final three years of service;
- reckonable service is reduced in proportion to the period of part-time service;
- the period between the date of discharge and date the member turns 55 is deemed to be full-time service.

### **Transition Member**

There is no need to adjust the member's reckonable service in AFPS 05. The period of part-time service will occur while they are a member of AFPS 15. Their service in AFPS 15 will be adjusted to reflect the period of reduced service in that scheme. It is recommended that:

- the AFPS 05 pension is calculated on the basis of the best consecutive 365 days FTEE in the final three years of service;
- The period between the date of discharge and date the member turns 55 is deemed to be full-time service.

### **Example 19 - AFPS transition member with Part time service**

An OR7, aged 45 has 10 years' reckonable service in AFPS 05, and 10 years' pensionable service in AFPS 15. They have taken FES for the last three years in AFPS 15, reducing service by 40%. They are assessed as incapable of any gainful full-time employment until at least age 60 and are therefore entitled to Tier 3 ill-health benefits in both AFPS 05 and AFPS 15.

- Pensionable pay is £22,800; FTEE is £38,000.
- AFPS 15 CARE pot is £6,600.
- The AFPS 15 pensionable service allowing for the part-time period of service is  
 $7 \text{ years} + 3 \text{ years} \times (1 - 0.4) = 8.8 \text{ years}$
- Total reckonable and pensionable service =  $10 + 8.8 = 18.8$

### **AFPS 05 Benefits**

Benefits =  $(1/70 \times £38,000) \times (N) 12.6596 = £6,872 \text{ per annum}$

- $N = (\text{AFPS 05 reckonable service}) \text{ plus } (X \text{ times } Y) = 10 + (5 \times 10/18.8) = 12.6596 \text{ years}$
- X is years' reckonable service in AFPS 05 divided by the total of the member's years of reckonable service in AFPS 05 and pensionable service in AFPS 15.
- Y is the greater of either: half of the member's reckonable service from ill health retirement to age 55 or 20 minus (years of reckonable service in AFPS 05 and pensionable service in AFPS 15).
- The member is also entitled to a lump sum of 3 x AFPS 05 pension.

### **AFPS 15 Benefits**

Pension is  $A \times B$

A is  $(\text{CARE pension divided by years' service}) = £6,600 / 8.8 = £750$

B = member's pensionable service in AFPS 15 plus (X multiplied by N); X is years of pensionable service in AFPS 15 divided by reckonable service in AFPS 05 and pensionable service in AFPS 15; N is the greater of (1) half of the further pensionable service had the member remained to age 60, and (2) the lesser of (a) 25 minus years' reckonable service in

AFPS 05 and pensionable service in AFPS 15, and (b) the further pensionable service in AFPS 15 had the member remained to age 60.

For this example, N is:  $(60 - 45)/2 = 7.5$  years

- $X \times N = 8.8/18.8 \times 7.5 = 3.5106$
- Tier 3 pension =  $A \times B = 750 \times (8.8 + 3.5106) = \text{£}9,233$  per annum

### **Other Option Considered:**

129. Making no change which could result in medically discharged personnel who happened to have been serving part-time when they left service, or shortly before, receiving a lower ill-health pension, because of a short-term variation to their terms of service.

### **Current Scheme Rules – Restricted Separation Service, Tier 2 and Tier 3 Full Protection Member**

130. Although the impact may be less severe for most of those on restricted separation, the implications will be similar to those described above for part-time service. The ill health pension will be based on the member's reduced FPE.

#### **Transition Member:**

131. The ill-health pension of transition members is apportioned between AFPS 05 and AFPS 15, and is based on a calculation which takes into account FPE and length of service. As any reduction of service will take place while the member is in AFPS 15, their service will be adjusted when calculating the AFPS 15 portion of the pension. The reckonable service for AFPS 05 purposes is not adjusted because this service was fixed on the date of transition. However, the operation of the final salary link will mean that the FPE will be based on the final three years of service. If the member has served with restricted separation in that period, their FPE may be lower, and thus their ill-health pension will be lower.

132. The calculation of the AFPS 15 part of the ill-health pension will already have taken that reduction of service into account because the accrued CARE pot will be lower. If the AFPS 05 part of the pension is also based on the lower earnings, this would represent a double penalty, and would not reflect the fact that the AFPS 05 pension was accrued when the member was serving full-time.

### **Recommendation 14 - AFPS 05 Ill health Tier 2 or Tier 3 - Restricted Separation**

#### **Full Protection Member, Tier 2 and Tier 3**

Restricted separation service will be for a defined, relatively short period followed by a return to fully-deployable service. The value of the pension is calculated by reference to the



member's FPE, reckonable service and years left to serve from date of discharge to retirement age. It is recommended that:

- the AFPS 05 pension is calculated on the basis of the best consecutive 365 days FTEE earnings in the final three years of service;
- reckonable service is reduced in proportion to the period of restricted separation service;
- the service between date of discharge and the date the member turns 55 will be deemed to be fully-deployable service.

### **Transition Member**

There is no need to adjust the member's reckonable service in AFPS 05. The period of restricted separation service will occur whilst they are a member of AFPS 15. Their service in AFPS 15 will be adjusted to reflect the period of reduced service in that scheme. It is recommended that:

- the AFPS 05 pension is calculated on the basis of the best consecutive 365 days Full Time Equivalent pensionable earnings in the final three years of service;
- the service between date of discharge and the date the member turns 55 will be deemed to be fully-deployable service.

### **Example 20 – Full Protection Member Tier 2 and Tier 3**

A member has been in service for 10 years, is age 46 and is a full protection member of AFPS 05. The first seven years were full time service, then the member restricted separation for the final three years. The member's full-time equivalent pay would be £36,000 based on an X-Factor of 14.5%. The member has been assessed as entitled to tier 2 or tier 3 ill-health benefits.

Actual pensionable earnings £34,585 based on an example rate of 10% X-Factor<sup>21</sup> due to restricted separation.

- Rate of reduction in pay =  $1 - £34,585/£36,000 = 3.93\%$
- Notional reckonable service is  $7 + 3 \times (1 - 3.93\%) = 9.882$  years

#### **Tier 2**

Tier 2 award is calculated as follows:

$$N = 9.882 + [(55 - 46) / 3] = 12.882 \text{ years}$$

$$\text{AFPS 05 tier 2 ill health pension} = [36,000 / 70] \times 12.882 = £6,625$$

The member is also entitled to a lump sum of 3 x AFPS 05 pension.

#### **Tier 3**

Tier 3 award is calculated as follows:

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<sup>21</sup> This is an illustrative figure to show how the calculation can be applied.

$N = \text{the greater of } 9.882 + [(55 - 46) / 2] \text{ or } 20 = \text{greater of } 14.382 \text{ or } 20 = 20 \text{ years}$

$\text{AF05 tier 3 ill health pension} = 36,000 / 70 \times 20 = \text{£}10,286$

The member is also entitled to a lump sum of 3 x AFPS 05 pension.

### **Other Option:**

133. Making no change which could result in medically discharged personnel who happened to have been serving part-time when they left service, or shortly before, receiving a lower ill-health pension, because of a short-term variation to their terms of service.

## **DEATH IN SERVICE LUMP SUM**

### **Current Scheme Rules**

134. AFPS 05 provides for the payment of various benefits to a member's dependants. A key benefit is the Death in Service lump sum benefit, which may be payable where an active member dies before leaving pensionable service.

135. The Death in Service lump sum benefit is payable to the member's nominee, or failing a valid nomination, to persons named in strict order of priority in the regulations. It is tax-free and the value is calculated by multiplying the member's FPE by four. FPE are defined as the member's greatest amount of pensionable pay received for 365 consecutive days in the final three years of service. In a case where the member was serving part-time or with restricted separation when they died, or had served in this way in the preceding three years, the lower salary paid during this period could result in a significant reduction in the value of the benefit.

136. These new forms of service are intended to be temporary, relatively short periods of flexible service. At the end of the period of flexible service, the individual will revert to a full commitment.

137. The death in service benefit is an important benefit for our people: by the nature of their service, they may be exposed to more risk than most and it is important that they know their dependants will be looked after should the worst happen. It is important to remember that Service personnel taking advantage of the new forms of working will still be subject to service law, will remain subject to recall under certain circumstances, and may be required to take part in short exercises or operations.

### **Current Scheme Rules – Part-Time Service and Restricted Separation Service**

#### **Full Protection Member**

138. As set out above, individuals who are serving part-time or with restricted separation may still be required to take part in exercises or short operations. They are subject to recall,

and the change to their conditions of service is temporary one. These new forms of service are not intended to provide for a new type of career in the Armed Forces: a service career will remain in most cases, a full-time, full-commitment career and those serving in the new ways, will return to full service when the arrangement ends.

139. This is different to part-time working in the civilian world, where the change is usually permanent. The examples below demonstrate how the current rules would affect the benefit payable to in the case of a Sergeant who was earning £30,750 in 2015/16 and who then undertakes part-time service and dies before returning to full-time service. **Please note these examples are for illustrative purposes only and do not take into account any wage increases or incremental progression.**

#### **Example 21 – AFPS 05 Death in Service Lump Sum**

Sgt on full-time salary of £30,750. They die 2018/19 with 17 years' full service, the best FPE in last three years is £30,750 and the Death in Service lump sum is (x 4) = £123,000

2015/16	2016/17	2017/18	2018/19
£30,750	£30,750	£30,750	£30,750

#### **Example 22 – AFPS 05 Death in Service Lump Sum**

Sgt on full-time salary of £30,750, undertakes part time flexible service reducing earnings by 40% for three years. When they die in 2018/2019, the new FPE is £18,450. They have 17 years' service, three years of which was part-time service. The Death in Service lump sum is FPE x 4 = £73,800

2015/16	2016/17	2017/18	2018/19
£30,750	£18,450	£18,450	£18,450

#### **Transition Member**

140. The Death in Service lump sum is paid under the AFPS 15 scheme and there is no entitlement to this benefit under the AFPS 05 scheme.

#### **Recommendation 15 – AFPS 05 Death in Service**

Where the member has a period of flexible service, the lump sum should be calculated on the basis of the best 365 consecutive days' FTEE in the final three years of service.

This recommendation is based on the following: -

- Unlike part-time employment in the civilian world, part-time and restricted separation service in the Armed Forces will be a temporary arrangement, and the member will be expected to return to full-time/ fully-deployable service at the end of the pre-agreed period. Personnel will not be able to serve part-time or with restricted separation for more than a total of four years in a twelve-year rolling period.

- personnel serving part-time or with restricted separation will remain subject to service law at all times (as with any other regular) and will remain subject to recall to full service either immediately, or on 90 days' notice, in prescribed circumstances.

### **Other Option:**

141. Leave the rules unchanged so that the amount of the lump sum benefit will be based on the deceased's actual FPE. In cases where the deceased had served part-time or with restricted separation in the three years prior to death, this could result in a significantly lower lump sum for dependants even where the deceased was in active full commitment service when they died.

## **ABATEMENT**

### **Current Scheme Rules**

142. It is long-standing HM Treasury policy that a public-sector pensioner, who is re-employed in the same service from which they receive their pension, should not be financially advantaged as a result. The effect of this is that the pensioner cannot earn more from a combination of salary and Armed Forces pension in their new employment than they were receiving when they left service. In order to ensure that this is the case, their pension will be reduced as necessary in accordance with the following formula:

- the annual amount of pension plus the member's basic rate of pay on the first day of further service, minus
- the member's rate of pay on last day of service for which pension is paid (adjusted for inflation).

### **Current Scheme Rules - Part-Time Service and Restricted Separation Service**

143. If a member with an AFPS 05 Pension is re-employed in regular service, the amount of the pension abatement is calculated and applied on the first day of the further service. This amount is not re-assessed unless the member is re-employed in another post or the post is re-graded. Accordingly, there would be no re-assessment of the abatement if the member's earnings reduce due to flexible service. Over time, this operates to the advantage of the pensioner.

### **Recommendation 16 – AFPS 05 Abatement**

The abatement amount should be reassessed at the beginning of a period of part-time service or restricted separated service, and again when the member returns to a full commitment. This will mean the amount of the abatement decreases during the period of reduced service. However, this will also mean that the abatement will be reassessed again when the flexible

service arrangement ends, and could potentially increase significantly. This is a risk for the member to consider when requesting flexible service.

### **Example 23 – AFPS 05 Abatement**

In 2010 member is re-employed, Pension is £15,000; new salary is £30,000; Former salary was £50,000. The Abatement calculation is  $(£15K + £30K) - £50K = -£5K$ ; therefore, no abatement because the member is not earning more than their former salary

In 2020 member takes flexible service, their pension is £17,000; salary is £40,000; Former salary was £50,000; Abatement is  $(£17K + £45K) - £55K$  (adjusted for inflation) = £7,000; the abatement has increased from £0 to £7,000.

### **Other Option**

144. Make no change so that the pension abatement is not re-calculated. This option is not recommended because, in cases where the member's pension is abated, their earnings would be less and they would continue to receive a reduced pension and in some cases, no pension at all if there is full abatement.

## **Additional Voluntary Contributions– Buying Additional Pension**

### **Current Scheme Rules**

145. Members are entitled to make additional voluntary contributions (AVCs) to increase their reckonable service by an additional period, in order to obtain an increased pension. AVCs are usually payable monthly, but may be made by lump sum in certain circumstances. The contributions payable under an AVC contract are a fixed percentage of the member's pensionable earnings for the time being, which cannot be less than 0.01% or more than 15% of the member's pensionable earnings. As the rules currently stand, a member who has an AVC contract, and who moves to a part-time or restricted separation service commitment will also find that their AVCs reduce proportionately. However, the purpose of the AVC contract is to purchase additional reckonable service, which is not affected by the new forms of flexible service.

### **Recommendation 17 – AFPS 05 AVC**

We propose that where a member is serving part-time or with restricted separation, the member should be able to either:

1. pay the AVC contribution based on FTEE for the time being; or
2. pay their AVC contribution at the reduced rate based on their actual pensionable earnings, on the basis that this will reduce the amount of additional reckonable service purchased.

### **Serving Part-Time and with Restricted Separation Concurrently**

146. Members can undertake part-time and restricted separation service at the same time. Throughout this consultation document we have recommended a proportionate reduction in reckonable service in respect of each form of service. If a member undertakes both new forms of service, a reduction for each will be applicable. Initially, the reduction for restricted separation service will be calculated, and thereafter, the reduction of 20% or 40% for part-time service will be applied.

# ARMED FORCES PENSION SCHEME 75

## Scheme Background

147. The Armed Forces Pension Scheme 1975 (AFPS 75) was closed to new members from 5 April 2005 when the AFPS 05 scheme was introduced. AFPS 75 is only for members of the Regular Armed Forces.

148. The AFPS 75 is not, strictly speaking, a final salary pension scheme, except as regards the pensions paid to more senior officers. In the case of senior officers at the rank of OF7 (Rear Admiral / Major General / Air Vice-Marshal) and above, pension is calculated by reference to their actual FPE, rank and reckonable service. However, in the case of personnel below the rank of OF7 the design of the scheme is based on the ‘band of brothers’ principle<sup>22</sup>. The pension is paid at a representative rate for their rank, multiplied by their reckonable service, rather than on their actual FPE. The maximum length of reckonable service in AFPS 75 is 34 years for officers after the age of 21 and 37 years for other ranks after the age of 18.

149. In 2006, regular Service personnel who had been already serving on 5 April 2005 were given a one-off opportunity to transfer their service from AFPS 75 to AFPS 05. Those who took up this offer have no accrued rights in the AFPS 75 scheme.

150. Members of AFPS 75 who will not reach age 55 by 1 April 2022, were transferred to AFPS 15 on 1 April 2015, in line with changes made to all public-sector pensions at that time. These transition members retain the benefits earned (accrued) in the AFPS 75 up to 1 April 2015 and are able to claim those benefits at the age set out in the AFPS 75 rules..

151. The introduction of flexible service will have several effects on the current AFPS 75 pension scheme. These are described in the following section along with our proposals to change the scheme rules to mitigate against any unintended advantage or adverse consequences from flexible service.

## Dependant Benefits (Spouse, Civil Partner, Children)

152. After the death of an active member, a Short-Term Family Pension equal to the basic rate of pay is paid for 13 weeks to the spouse/partner. This may be increased to 26 weeks if there are any eligible children. The basic pay and thus the short-term family pension will be lower, where the member dies whilst undertaking flexible service.

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<sup>22</sup> Everyone who retires at the same rank with the same overall length of service will receive the same pension regardless of differences in individual rates of pay. Some groups also receive a pension supplement, which recognises their higher pay; this applies to Doctors, Dentists, Nurses, professional aviators and clearance divers. Members of the permanent cadre Special Forces receive a pension from rates unique to their pay structure.

153. A dependant's pension is a proportion of the pension which would have been payable to the member. It will be affected by any changes which affect the member's pension. However, the introduction of flexible service should not have any other impact on dependants' pensions.

## Member's Pension

### Summary of Current Rule Entitlements

154. Members of the scheme accrue qualifying service and reckonable service, which are defined slightly differently. These terms are explained in the glossary.

155. An immediate pension is payable to members in the following circumstances:

- the member retires after 16 years' qualifying service<sup>23</sup> from age 21 for officers and 22 years' qualifying service from age 18 for other ranks, or
- the ill-health condition is met.
- Where the member has completed the minimum two years' qualifying service in the scheme but leaves before acquiring entitlement to an immediate pension they will be entitled to a preserved pension, which is paid from the age of 60 for service before 6 April 2006, or from the age of 65 for service after this date.

156. The AFPS 75 scheme has three types of member and different rules apply to each:

- Senior Officers, OF7 to OF10 (Rear Admiral /Major General / Air Vice Marshall to Admiral of the Fleet / Field Marshal / Marshal of the Royal Air Force);
- Other Officers, OF1 to OF6 (Sub Lieutenant / Lieutenant / Flying Officer to Commodore / Brigadier / Air Commodore);
- Other Ranks OR1 to OR9 (Able Rate/Private/Aircraftman to Warrant Officer).

### Full Protection members of AFPS 1975

157. **Senior officers** – The pension is based on a percentage of final pensionable pay, (defined as the greatest amount earned for 365 consecutive days within the last three years of pensionable service); the relevant percentage (set out in a pension code table 'Annual Rates of Service Retired Pay'<sup>24</sup>); and years of reckonable service at date of discharge.

158. **Other Officers and other ranks** - receive benefits based on a representative rate for their final pensionable rank and length of reckonable service. Those with the same rank and same number of years of reckonable service are normally awarded the same pension, because the pension is based on a representative pay rate for the rank (including X-Factor).

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<sup>23</sup> In order to qualify after 16 years qualifying service officers also have to have served at least five years as officers. Officers can qualify after 22 years served after the age of 18.

<sup>24</sup> <https://www.gov.uk/government/publications/tri-service-pension-codes-april-2017>.



Special Forces have their own representative rates whereas medical and dental officers, nurses, aviators and clearance divers receive pension supplements in addition to their representative rate.

159. Officers who complete at least 16 years qualifying service and leave before the expiry of their commitment, are awarded pension at Premature Voluntary Retirement (PVR) rates, whereas those who leave after 16 years and complete their commitment, are awarded pension at Compulsory Rates.

### **Transition Members with accrued rights in AFPS 1975**

160. The rules for calculating these member's AFPS 75 pension were amended as follows:

- a. Senior Officers - If the member's FPE are lower on leaving AFPS 15 than they were on transition from AFPS 75 to AFPS 15, then FPE will be the greatest amount over 365 consecutive days' pensionable earnings in the last three years before the transition to AFPS 15.
- b. Other officers - the rules calculate pension in different ways, this depends on whether the member is entitled to PVR rates or Compulsory rates<sup>25</sup>; and whether they had passed their immediate pension point (after 16 years qualifying service). The amount of pension is calculated by one of the formulae below<sup>26</sup> and the pension code in force on their final day of service in the Armed Forces.
  1. Member leaves after immediate pension point but with less than 16 years' reckonable service in AFPS 75 and compulsory rates apply.
    - The relevant pension code rate on compulsory retirement for same rank and number of whole years' reckonable service in AFPS 75; multiply by the representative rate of pay on the day they leave service; divide by the representative rate for a member of same rank with exactly 16 whole years' reckonable service in AFPS 75.
  2. Member leaves after immediate pension point with 16 years or more reckonable service in AFPS 75 and compulsory rates apply.
    - The relevant pension code rate on compulsory retirement for same rank and number of whole years' reckonable service in AFPS 75; multiply by the representative rate of pay for the day they leave service; divide by the

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<sup>25</sup> Officers who are permitted to leave the Armed Forces at their own request, after reaching the immediate pension point but before completing their commission are paid PVR rates of pension. This is lower than the Compulsory Retirement pension rates.

<sup>26</sup> (see paragraph 41 of Schedule 3 to the AFPS 75 Rules (inserted by SI 2015/568))

representative rate of pay for a member of same rank with the same number of whole years' reckonable service in AFPS 75.

3. Member leaves after immediate pension point but with less than 16 years' reckonable service in AFPS 75 and compulsory rates of retirement do not apply, instead premature voluntary rates apply.

- The relevant pension code rate for same rank and number of whole years' reckonable service in AFPS 75 on compulsory rates; multiply by the representative rate of pay for the day they leave service; divide by the representative rate for a member of same rank with exactly 16 whole years' reckonable service in AFPS 75; multiply the result by the fraction resulting from A divided by B (see below),
- **A** is the pension code rate for premature retirement at same rank with the total number of whole years' reckonable service in AFPS 75 and pensionable service AFPS 15 on the day the member leaves service.
- **B** is the pension code rate for compulsory retirement at same rank with the total number of whole years' reckonable service in AFPS 75 and pensionable service AFPS 15 on the day the member leaves service.

4. Member leaves after immediate pension point with 16 years or more reckonable service in AFPS 75 and compulsory rates of retirement apply do not apply.

- The relevant pension code rate for same rank and number of whole years' reckonable service in AFPS 75 on compulsory rates; multiply by the representative rate of pay for the day they leave service; divide by the representative rate for a member who has the same number of whole years reckonable service in AFPS 75; multiply the result by the fraction resulting from A divided by B.
- **A** is the pension code rate for premature retirement at same rank with the total number of whole years' reckonable service in AFPS 75 and pensionable service AFPS 15 on the day the member leaves service.
- **B** is the pension code rate for compulsory retirement at same rank with the total number of whole years' reckonable service in AFPS 75 and pensionable service AFPS 15 on the day the member leaves service.

161. **Other Ranks** – The amount of pension for a member who leaves after reaching their immediate pension point and who is not discharged for misconduct, incapacity, unsuitability

or inefficiency is the amount in the pension code for their rank and number of whole years' reckonable service in AFPS 75 on the day the member leaves the Armed Forces.

162. If the member is discharged on grounds of misconduct, incapacity (not an ill health pension) unsuitability or inefficiency within their own control, the pension is:

- the amount in the pension code for the rank and number of years' reckonable service in AFPS 75 on the day the member leaves the Armed Forces; multiplied by the fraction resulting from A divided by B.
- **A** is the amount in the pension code for lower rates of service pension for the member's rank and total number of whole years' reckonable service in AFPS 75 and pensionable service in AFPS 15 on the day they leave the Armed Forces.
- **B** is the amount in the pension code for a person of the member's rank and whole years reckonable service in AFPS 75 and pensionable service in AFPS 15 on the day they leave the Armed Forces.

## **Current Scheme Rules – Part-time Service**

### **Full Protection Members**

163. **Senior Officers** – The member's pension is calculated by reference to their reckonable service and FPE on leaving service. Where a member serves part-time for a period, this is viewed as a reduction in service for that period, and we consider it fair that this should be reflected in the pension paid for that period. Under the current rules, reckonable service will not be affected where a member serves part-time, and thus the pension will only be reduced if the best FPE in the final three years continues to reflect the lower earnings from part-time service. This would not be a fair outcome and recommendations are made to adjust this.

164. **Other Officers and Other Ranks** – The member's pension is calculated by reference to their reckonable service and final rank on leaving service. Where a member serves part-time for a period, this is viewed as a reduction in service for that period, and we consider it fair that this should be reflected in the pension paid for that period. Under the current rules, reckonable service will not be affected where a member serves part-time, and thus their pension will suffer no reduction to reflect the reduction in service. This would not be a fair outcome and recommendations are made to alter this.

### **Transition Members – Accrued rights to AFPS 75 pension**

165. **Senior Officers** – Members' reckonable service in AFPS 75 is fixed. However, because of the final salary link their AFPS 75 retirement benefits could be reduced if they retire while on flexible service.

166. Other Officers and Other Ranks – Members’ reckonable service in AFPS 75 is fixed. The accrued AFPS 75 pension is generally based on the member’s rank on their last day of service in AFPS 15, but in some cases their pensionable service in AFPS 15 will also be considered.

## **Recommendation 18 – AFPS 75 Member’s Pension - Part Time Service**

### **Full Protection Members**

#### **Senior officers –**

Part-time service will be for a defined, relatively short period followed by a return to full-time service. The value of the pension is calculated by reference to the member’s FPE, reckonable service and relevant percentage. It is recommended that:

- the pension is calculated on the basis of the best consecutive 365 days FTEE in the final three years of service.
- the member’s reckonable service be reduced in proportion to the period of part-time service.

**Other Officers and Other Ranks** - Part-time service will be for a defined, relatively short period followed by a return to full-time service. The value of the pension is calculated by reference to the member’s final pensionable rank and reckonable service. It is recommended that:

- the pension be determined by reference to the pension code for rank and unadjusted reckonable service. The reckonable service is then adjusted proportionately to reflect the period of part time service and the pension amount is rated down accordingly.

### **Example 24 – AFPS 75 Pension Calculation with Part Time Service**

OF4 Member has been in service for 18 years. The first 12 years were full time service, then the member takes part time FS, they reduce their service by 40% for three years, followed by three years of full time service.

The reckonable service allowing for the part-time reduced periods is

12 years + [3 years x (1-0.4)] + 3 years = 16.8 years.

OF4 pension code for 18 years = £22,814

Rated down for part-time service =  $16.8/18 \times £22,814 = £21,293$

### **Transition Members**

**Senior Officers** - The member’s reckonable service in AFPS 75 would not be affected by part-time service, all of which would take place under AFPS 15. However, the operation of the final salary link may well result in a lower pension where the member retires while serving part-time or within three years of such a period. Therefore, a rule change to calculate FPE on

the basis of FTEE (similar to that for full protection senior officers) is considered an appropriate change.

**Other Officers and Other Ranks** - No change is required. The member's reckonable service in AFPS 75 is fixed and not affected by part-time service, all of which will be accounted for in AFPS 15. Their AFPS 75 pension is calculated by reference to the pension code in force on their last day of service for members with their pensionable rank and reckonable service in AFPS 75.

### **Other options**

167. Increase the look back on the member's greatest 365 consecutive day's FPE in the best 365 consecutive days from three years to four years. This would pick up the member's pay before they began serving part-time. However, the amount may be lower than using the FTEE basis for calculation if they have been promoted or been in receipt of incremental pay during that period.

### **Current Scheme Rules - Restricted Separation Service**

168. We envisage that the X-Factor element of pay for those who serve with restricted separation will be reduced from the current level of 14.5% of basic pay (for most regulars) to a lower rate. This is still to be discussed with the Armed Forces Pay Review Body.

### **Full Protection Members**

169. **Senior Officers** – The member's pension is calculated by reference to their reckonable service and FPE on leaving service. Where a member serves with restricted separation for a period, this is viewed as a reduction in service for that period, and we consider it fair that this should be reflected in the pension paid for that period. Under the current rules, reckonable service will not be affected where a member reduces their service, and thus their pension will only reflect the reduction in service if they leave service within three years of the end of the period of flexible service.

170. **Other Officers and Other Ranks** – Under the current rules if a member leaves the Armed Forces whilst on flexible service (including retirement and medical discharge) their whole pension would be calculated using a pension code based on the lower rate of X-Factor.

### **Recommendation 19 – AFPS 75 Member's Pension - Restricted Separation**

**Senior Officers** – Restricted separation service will be for a defined, relatively short period followed by a return to full-time service. The reduction in salary as a result of serving with restricted separation can be translated into a notional service reduction. The value of the pension is calculated by reference to the member's FPE, reckonable service and relevant percentage. It is recommended that:

- the pension is calculated on the basis of the best consecutive 365 days FTEE in the final three years of service.
- the member's reckonable service will be reduced in proportion to the period of restricted separation service.

### **Example 25 - Senior Officers Restricted Separation**

A member has been in service for 30 years and has rank OF7. The first 25 years were full time service, then the member took restricted separation commitment for two years, followed by three years of full service.

During the period of restricted separation, the member had actual pensionable earnings of £115,284, based on an-X-factor of 10%. Their FTEE during that period would have been £120,000. Their current FPE (having returned to full service) are calculated as £135,000.

Rate of reduction in pay for period of restricted separation =  $1 - £115,284 / £120,000 = 3.93\%$ .

Notional service reduction for restricted separation period = 3.93%

Notional reckonable service allowing for the restricted separation is 25 years + [2 years x (1 – 0.0393)] + 3 years = 29.9214 years

OF7 pension percentage for 30 years' service = 45.4%

Full time pension would be 45.4% x £135,000 = £61,290 per annum

Pension rated down for restricted separation =  $£61,290 \times 29.9214 / 30 = £61,129$  per annum

The member is also entitled to a lump sum of 3 x AFPS 75 pension.

**Other Officers and Other ranks** – As above, restricted separation will be for a defined, relatively short period followed by a return to full-time service. The reduction in salary as a result of serving with restricted separation can be translated into a notional service reduction. The value of the pension is calculated by reference to the member's final pensionable rank and reckonable service. It is recommended that:

- the pension be determined by reference to the unadjusted pension code for rank and reckonable service. The reckonable service is then reduced proportionately to reflect the period of restricted separation service and the pension is rated down accordingly.

### **Example 26 – Full Protection Other Officer - Restricted Separation**

A OF4 member has been in service for 18 years. The first 12 years were full time service, then the member took a restricted separation commitment for three years, followed by three years of full service.

During a period of flexible service, the member had actual pensionable earnings of £71,092 due to restricted separation. Their FTEE would have been £74,000.

Rate of reduction in pay =  $1 - \frac{£71,092}{£74,000} = 3.93\%$

Notional service reduction for restricted separation period = 3.93%

Notional reckonable service allowing for the restricted separation is

12 years + [3 years x (1-0.0393)] + 3 years = 17.8821 years.

OF4 pension code for 18 years = £22,814

Rated down for restricted separation working =  $17.8821/18 \times £22,814 = £22,665$

### Transition Members

**Senior Officers** – The member's reckonable service in AFPS 75 would not be affected by a period of restricted separation service. However, the operation of the final salary link may well result in a lower pension where the member retires while with restricted separation service or shortly after such a period. Therefore, a rule change to calculate FPE on the basis of FTEE (similar to that proposed for full protection senior officers) is considered an appropriate change. The FTEE would be calculated taking into account the rate of X-Factor that the member would have received during the period, had they not served with restricted separation. The period of separated service will be reflected in the member's AFPS 15 pension.

**Other Officers and Other Ranks** – The member's reckonable service in AFPS 75 is fixed and not affected by restricted separation service, all of which will be accounted for in AFPS 15. The member's pension should be calculated using the relevant pension code for their final day of service, based on the full rate of X-Factor.

### Other Options

171. The following options were also considered:

- For transition members, senior officers maintain the link to actual FPE but this would reduce the whole pension and not just the pension attributable to the short period of a restricted separation commitment.
- For other officers and other ranks (including transitional other ranks and other officers), apply a pension code calculated with the lower rate of X-Factor. This would reduce the member's whole pension and not just the pension attributable to the short period of a restricted separation commitment.

### Resettlement Grant 75 (RG 75)

172. The RG 75<sup>27</sup> is a single fixed lump sum payment for Officers or Other Ranks<sup>28</sup>. It is payable to Regular members of the Armed Forces only, who leave after nine years or more

<sup>27</sup> The Armed Forces (Redundancy, Resettlement and Gratuity Earnings Schemes) (No. 2) Order 2010, SI 2010/832.

<sup>28</sup> Officers £15,503 and Other Ranks £10,596 with effect from 1st April 2017, increased each year at the same rate as Armed Forces pay.

reckonable service for Officers and 12 or more years' reckonable service for Other Ranks. RG 75 is not paid if the member is entitled to an immediate pension, an EDP, or an AFPS 15 pension. The individual does not have to be a member of the AFPS 75 in order to qualify for the RG 75<sup>29</sup>.

### **Current Scheme Rules**

173. Senior Officers, Other Officers - All active officer members of AFPS 75 have served more than nine years in AFPS 75, so have already passed the point at which they are entitled to claim an RG 75.

174. Other Ranks - All active members have served more than 12 years in AFPS 75, so have already passed the point at which they are entitled to claim a RG 75.

175. Transition Members - Senior Officers, Other Officers and Other Ranks: The Resettlement Grant is payable under the EDP 15 scheme rules.

### **Recommendation 20 – Resettlement Grant 75**

Because all members already have an entitlement to a Resettlement Grant, undertaking a period of flexible service will have no effect on this entitlement.

## **Immediate Pension – AFPS 75**

### **Current Scheme Rules**

176. A member is entitled to leave the Armed Forces with an immediate pension if they have:

- Officers – 16 years' qualifying service from the age of 21.
- Other Rank – 22 years' qualifying service from the age of 18 (reduced to 18 years' qualifying service if the reason for leaving is redundancy)

177. A definition of qualifying service is in the glossary. In the case of Transitional members, qualifying service is the combined total of service in both AFPS 75 and AFPS 15.

### **Current Scheme Rules – Part-Time Service and Restricted Separation Service**

178. Qualifying service is used to calculate the point at which the member becomes entitled to claim an immediate pension. It has no bearing on the value of the pension, which is determined by reference to reckonable service.

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<sup>29</sup> A Service Person who opts out of the pension scheme (AFPS 75) is still entitled to a RG.



## **Full Protection Members**

179. Senior Officers, Other Officers and Other Ranks – Members will continue to accrue qualifying service in AFPS 75 until they leave the Armed Forces. Part time service and restricted separation would not reduce their qualifying service as this is currently defined.

## **Transition Members - Senior Officers, Other Officers and Other Ranks**

180. A period of flexible service would not result in a reduction in their qualifying service, as currently defined by the scheme rules.

## **Recommendation 21 - AFPS 75 immediate Pension**

### **All members**

Qualifying service for the purposes of considering an individual's entitlement to an immediate pension should not be adjusted to account for either part-time or restricted separation service.

Reckonable service, which is used to calculate the basic amount of the immediate pension should be reduced proportionately to account for the period of part-time or restricted separation service, using the methods set out in Recommendations 18 and 19;

## **Other Options**

181. We did consider extending the period of qualifying service for those who had served flexibly by a proportionate period. However, because members of the Armed Forces serve on engagements of specific length, this might well mean that the individual could not serve for the extended period within the remaining period of their engagement. In order to ensure that they qualified for the immediate pension, their engagement would have to be extended by the requisite period and there is no guarantee that this would be possible in every case. We do not recommend this option because:

- service manning requirements may prevent the extension of a commitment;
- the purpose of the immediate pension is to assist retention and to compensate for the inability to serve until retirement age and this purpose is not materially altered where a person has served part-time for a relatively short part of their career.

## **III Health Pension – AFPS 75**

### **Current Scheme Rules**

182. Members of AFPS 75 who leave the Armed Forces early because of ill-health or injury may be entitled to a service ill-health pension and lump sum. This is known as a Service Invaliding pension and is calculated on the basis of rank and reckonable service, with a separate pension code at an enhanced rate.

## Full Protection Members

183. Senior Officers – There is a pension code containing invaliding rates of pension for senior officers. However, where a senior officer has reached their immediate pension point and their pension, if calculated in the normal way using FPE would be higher than the Service Invaliding pension, then they will receive the higher pension.

184. Other Officers and Other Ranks - Invaliding rates of pension are contained in the pension code tables<sup>30</sup> for Officers “Regular Officer Retired Pay and Lump Sum” and for other ranks – “Other Ranks Pension benefits”. If the member was medically discharged beyond their immediate pension point, and their immediate pension would produce a higher pension than the Service Invaliding pension rate, they would be entitled to that higher pension.

## Transition Members

185. Where a member is discharged with entitlement to an ill-health pension, their benefits will be apportioned between those which accrued under AFPS 75 and those which accrued under AFPS 15. As set out above, where a member is medically discharged after reaching their immediate pension point under the AFPS 75 rules, an immediate pension will be payable if the value exceeds that of the service invaliding pension. In summary:

- Transition members have accrued rights to benefits in AFPS 75 and AFPS 15. Broadly speaking, the ill-health criteria set out in AFPS 15 (Tier 2 and 3) or EDP 15 (Tier 1) must be met in order to qualify for an ill-health award;
- The amount of the benefits payable in respect of the accrued rights in AFPS 75 are determined in each case by the Defence Council, with HM Treasury approval.
- The benefits payable in respect of AFPS 15 service are calculated using a modified AFPS 15 formula which takes into consideration reckonable service in AFPS 75 and pensionable service in AFPS 15, as well as the pensionable service which the member could have expected to have if they had not been discharged.
- Where a member is discharged on Tier 1 grounds, but has also qualified for an EDP 15, they will receive the EDP 15 instead of the AFPS 15 Tier 1 lump sum. The AFPS 15 section on EDP explains how an EDP is calculated.

186. Where a transition member serves part-time or with restricted separation, their AFPS 15 CARE pot for that period will be based on their earnings during the period-

### Example 27: Transition Member Tier 1

Member of AFPS 75, rank OR9, transfers to AFPS 15 on 1 April 2015 with 17 years’ qualifying service. They enlisted at age 20 and are medically discharged at age 42 on 31

<sup>30</sup> <https://www.gov.uk/government/publications/tri-service-pension-codes-april-2017>

March 2020, with a total of 22 years' qualifying service. The member is discharged on the grounds of incapacity, meeting the criteria for a Tier 1 award under AFPS 15. The AFPS CARE pot is £5,000.

- The member receives a pension for life in respect of their AFPS 75 service, the value of which is determined by the Defence Council, with HM Treasury approval.
- The member is also entitled to an AFPS 15 Tier 1 award in relation to their service in AFPS 15. However, as they have also qualified for an Early Departure Payment 15 (EDP 15), the EDP 15 benefits will be paid instead of the AFPS 15 Tier 1 award (see AFPS 15 EDP section of this document).

#### **AFPS 15 benefits - Tier 1/EDP 15:**

The member has qualified for a EDP 15, which will be paid instead of a Tier 1. , EDP benefits are awarded<sup>31</sup>. These are calculated as follows:

- $\text{EDP income} = 34\% + [(\text{number of full years beyond EDP point} \times 0.85\%)] \times \text{AFPS 15 CARE pot}$
- $= [34\% + (2 \times 0.85\%)] \times £5,000 = £1,785$

The EDP income is payable until the scheme pension age, at which point the AFPS 15 deferred pension becomes payable.

$\text{EDP lump sum} = 2.25 \times \text{AFPS 15 pension pot} = £11,250$

#### **Example 28 Tier 2**

Member of AFPS 75, rank OR9, transfers to AFPS 15 on 1 April 15 with 17 years' service. They enlisted at age 20 and are medically discharged on 31 March 2020 at age 42, with a total of 22 years' service. They are entitled to an AFPS 15 Tier 2 ill-health pension. The AFPS 15 CARE pot is £5,000.

- The amount of the ill-health pension payable in respect of the AFPS 75 service is determined in each case by the Defence Council, with HM Treasury approval.
- A Tier 2 AFPS 15 ill-health pension consists of an entitlement to an immediate pension, and the option to exchange part of the pension for a lump sum. The AFPS 15 pension is enhanced to reflect that the member is unable to serve until normal retirement age, using a modified formula which takes account of service in both schemes (see below).

$\text{AFPS 15 Benefits for Tier 2} = A \times B$

$A = £5,000 \text{ (CARE pension)} / 5 \text{ (number of years' service in AFPS 15)} = £1,000$

$$N = \frac{60 \text{ (NPA)} - 42 \text{ (Age)}}{3} = 6$$

$$X = 5/22$$

$$B = \text{number of AFPS 15 years} + (X \times N)$$

$$B = 5 + (5/22 \times 6) = 6.3636 \text{ years}$$

AFPS 15 Tier 2 Pension:

$$£1,000 \times 6.3636 \text{ years} = £6,364 \text{ pa}$$

## Current Scheme Rules – Part-Time Service

### Full Protection Members:

187. **Senior Officers, Other Officers and Other Ranks** - Members will continue to accrue qualifying service and reckonable service until they leave the Armed Forces. Under the current rules, service will not be adjusted to reflect a period of part-time service.

### Transition Members

188. Reckonable service in AFPS 75 will not be affected by a later period of part-time service while a member of AFPS 15 and the impact of such service will be dealt with under the rules of the AFPS 15 and EDP 15 schemes.

## Recommendation 22 – AFPS 75 Ill Health - Part Time Service

### Full Protection Members

**Senior Officers, Other Officers and Other Ranks** – The member's pension will be calculated using the current invaliding pension code on their last day of service and their unadjusted reckonable service, with the resulting pension then rated down to reflect the period of part-time service (see example below).

### Example 29– AFPS 75 Ill Health Pension with Part Time Flexible Service Reduction

An OR4 member has been in service for 15 years. The first 12 years were full time service, then the member serves part time (40% reduction) for two years, followed by one year of full time service.

The reckonable service is  $12 \text{ years} + [2 \text{ years} \times (1-0.4)] + 1 \text{ year} = 14.2 \text{ years}$ .

OR4 invaliding pension code for 15 years = £8,094

Rated down for part-time working =  $14.2/15 \times £8,094 = £7,662$

### Transition Members

**Senior Officers** – There is no requirement to reduce the members AFPS 75 reckonable service because this service was fixed when the member transitioned in April 2015. However,

if the member has passed their immediate pension point, and their pension, if calculated using FPE would be higher, then pension is paid at the higher amount. As flexible service is for a short period in a service career, it would be unfair for the final salary calculation to link to actual FPE and we consider that the FTEE should be used when calculating the FPE.

**Other Officers and Other Ranks** – There is no requirement to reduce the members AFPS 75 reckonable service because this service was fixed when the member transitioned in April 2015.

### **Example 30 - Ill Health for Transitional Member: Tier 1 and Tier 2**

Member of AFPS 75, rank OR9, transfers to AFPS 15 on 1 April 2015 with 17 years' qualifying and reckonable service. They enlisted at age 20 and are medically discharged on 31 March 2020, at age 42, with a total of 22 years' service in the Armed Forces. They served part-time for three years, dialled down by 20%. The AFPS 15 CARE pot is £4,400.

#### **AFPS 75 pension:**

The amount of pension payable in respect of the AFPS 75 service is determined in each case by the Defence Council, with HM Treasury approval.

#### **AFPS 15 benefits - Tier 1 award:**

As the member has served more than 20 years in the armed forces, they are eligible for EDP 15. Accordingly, EDP 15 benefits are awarded, rather than the Tier 1 lump sum. The benefits are calculated as follows:

$$\begin{aligned}\text{EDP income} &= [34\% + (\text{number of years beyond EDP point} \times 0.85\%)] \times \text{AFPS 15 CARE pot} \\ &= [34\% + (2 \times 0.85\%)] \times £4,400 = £1,571\end{aligned}$$

The EDP income is payable until SPA at which point the AFPS 15 deferred pension becomes payable.

- EDP lump sum = 2.25 x AFPS 15 pension pot = £9,900

#### **AFPS 15 benefits - Tier 2 ill-health pension**

AFPS 15 Tier 2 pension = A x B

$$A = \frac{£4,400 \text{ (CARE pension)}}{4.4 \text{ (number of years' AFPS 15 service - adjusted)}} = £1,000$$

$$N = \frac{60 \text{ (NPA)} - 42 \text{ (Age)}}{3} = 6$$

$$X = 4.4 / 21.4$$

$$B = \text{number of AFPS 15 years} + [X \times N]$$

$$B = 4.4 + [4.4 / 21.4 \times 6] = 5.6336 \text{ years}$$

AFPS 15 Tier 2 Pension:

**£1,000 x 5.6336 years = £5,634 pa**

## **Current Scheme Rules – Restricted Separation Service**

### **Full Protection Members**

189. **Senior Officers** – The X-Factor for senior officers is tapered. The member's pension will be based on an ill-health pension code at the lower rate of X-Factor or, if higher, the immediate rate of pension based on FPE and reckonable service, as set out above.

190. **Other officers and Other Ranks** - The member's pension will be calculated using the current invaliding pension code on their last day of service and then the resulting pension rated down for the notional service reduction due to the period of restricted separation service.

### **Transition Members**

191. Under the current rules, where a Transition member is medically discharged while serving with restricted separation, the final salary link will mean that their accrued rights pension in AFPS 75 will be calculated using pension codes incorporating the lower rate of X-Factor, whether these are the ill-health codes or the normal codes. In the case of senior officers, their FPE at the lower rate of X-Factor may be used, as explained above. This would disadvantage the member whose entire pension would be reduced because of the temporary, short-term period of restricted separation service.

## **Recommendations 23– AFPS 75 Ill Health - Restricted Separation**

### **Full Protection Members**

#### **Senior Officers –**

The member's pension will be calculated using the current invaliding pension code on their last day of service and their unadjusted reckonable service, with the resulting pension then rated down to reflect the period of restricted separation service.

**Other Officers and Other Ranks** - The member's pension will be calculated using the current invaliding pension code on their last day of service (based on their unadjusted reckonable service), and then rated down to reflect the notional reduction for the period of restricted separation service.

### **Example 31: Full Protection Member with Restricted Separation Service**

Member of AFPS 75, rank OR9 leaves on ill-health terms at age 52 with 22 years of service. The first 19 years were full time service and for the last three years they served with restricted separation.

Accordingly, on discharge, their actual pensionable earnings were £45,153, due to the reduction in the rate of X-Factor (assumed to be 10% for the purpose of this example). Their Full Time Equivalent earnings would have been £47,000.

- Rate of reduction in pay =  $1 - \frac{£45,153}{£47,000} = 3.93\%$
- Notional service reduction for restricted separation period = 3.93%
- Notional reckonable service taking into account the restricted separation is:  
 $19 \text{ years} + [3 \text{ years} \times (1 - 0.0393)] = 21.8821 \text{ years}.$
- OR9 invaliding pension code for 22 years = £15,388
- Rated down for restricted separation service =  $21.8821/22 \times £15,388 = £15,306$

### **Transition Members**

**Senior Officers** – The amount of pension payable in respect of the AFPS 75 service is determined in each case by the Defence Council, with HM Treasury approval.

**Other Officers and Other Ranks** – The amount of pension payable in respect of the AFPS 75 service is determined in each case by the Defence Council, with HM Treasury approval.

### **Example 32 – Transition Member who passed their immediate pension point before transition to AFPS 15 with Restricted Separation Service**

Member of AFPS 75, rank OF2 transfers to AFPS 15 on 1 April 15 with 17 years' service. They enlisted at age 21 and are medically discharged at age 43, with a total of 22 years' service. They committed to restricted separation service for three years while a member of AFPS 15, and remain on the reduced commitment at date of discharge.

The AFPS 15 pension pot is assumed to be £4,800. Their actual earnings are £44,680 and full-time equivalent earnings are £46,508.

- Rate of reduction in pay =  $1 - \frac{£44,680}{£46,508} = 3.93\%$

AFPS 15 pensionable service, adjusted to reflect the notional reduction in service is

- $2 \text{ years} + [3 \text{ years} \times (1 - 0.0393)] = 4.8821 \text{ years}$

Total service in the Armed Forces =  $4.8821 + 17 = 21.8821$

### **AFPS 75 benefits**

- The amount of pension is determined by the Defence Council, with HM Treasury approval.

### **AFPS 15 - Tier 1 / EDP 15:**

As the member is eligible for EDP 15, EDP benefits are awarded rather than the Tier 1 lump sum. The benefits are calculated as follows:

EDP income = [34% + (number of years beyond EDP point x 0.85%)] x AFPS 15 CARE pot

$$= 34\% + (2 \times 0.85\%) \times £4,800 = £1,714$$

The EDP income is payable until SPA at which point the AFPS 15 deferred pension becomes payable.

- EDP lump sum = 2.25 x AFPS 15 pension pot = £10,800

#### **AFPS 15 Tier 2 pension:**

$$\text{AFPS 15 Tier 2 pension} = A \times B$$

$$A = £4,800 \text{ (CARE pension)} / 4.8821 \text{ (number of years' AFPS 15 service)} = £983$$

$$N = (\text{NPA} - \text{Age}) / 3 = (60 - 43) / 3 = 5.6667$$

$$X = \text{AFPS 15 service} / \text{total service in AF} = 4.8821 / 21.8821$$

$$B = \text{number of AFPS 15 years} + (X \times N)$$

$$B = 4.8821 + (4.8821 / 21.8821 \times 5.6667) = 6.1464 \text{ years}$$

AFPS 15 Tier 2 Pension:

$$£983 \times 6.1464 \text{ years} = £6,042 \text{ pa}$$

### **Other option**

192. The other options considered are:

- a. Pay members a pension without any reduction of reckonable service to account for flexible service. This would be effectively be an enhancement to their reckonable service and would be unfair to other members who have worked a full commitment.
- b. For restricted separation, we could create a new pension code that uses reduced rates of X-Factor. However, this new pension code would only apply for members whose last day was on a flexible service commitment. The pension code would reduce the member's whole pension, instead of the period of flexible service. However, members who ended flexible service before their last day of service would receive an enhanced because their pension would not reduce in proportion to their reduced service.

## **Death in Service Lump Sum Payment – AFPS 75**

### **Part-Time Service and Restricted Separation Service**

#### **Full Protection Members**

193. If a member dies in service, regardless of cause, the pension scheme may pay a lump sum to the member's spouse, civil partner, child or estate. The value of this is equivalent to three times their representative rate of pay at date of death, based on whole years of reckonable service.



## **Transition Members**

194. The death in service grant for transition members is paid under the rules of AFPS 15.

## **Current Scheme Rules – Part-Time service and Restricted Separation Service**

195. **Senior Officers, Other Officers and Other Ranks** – There will be no effect on the lump sum for OR ranks and the OF6 rank. The amount of the representative rate is flat and does not take account of the member's years of reckonable service. For all other officers, the amount of their representative rate increases with each year of service up to a maximum at 34 years.

## **Recommendation 24 – AFPS 75 Death in Service**

### **Full Protection Members**

#### **Senior Officers, Other Officers and Other Ranks –**

Where the member is undertaking flexible service at the date of their death, or has undertaken flexible service prior to death, the lump sum should be calculated in accordance with the current rules, on the basis of the full time equivalent representative rate of pay, with no adjustment to the member's reckonable service. In other words, the lump sum payable in these circumstances will not be reduced as a result of the period of flexible service.

This recommendation is based on the following: -

- unlike part-time employment in the civilian world, flexible service in the Armed Forces will be a temporary arrangement, and the member will be expected to return to full service at the end of the pre-agreed period. Personnel will not be able to serve flexibly for more than a total of four years in a twelve-year rolling period.
- Personnel serving part-time or with restricted separation will remain subject to service law at all times (as with any other regular) and will remain subject to recall to full service either immediately, or on 90 days' notice, in prescribed circumstances.

## **Other Options**

196. Reduce the reckonable service for the purposes of calculating the lump sum, but this would only apply to those ranks where the representative rate of pay varies with years of reckonable service.

## **Membership of Another Occupational Pension Scheme**

### **Current Scheme Rules - Part-Time Service and Restricted Separation Service**

197. AFPS 75 rules prohibit an active member from also belonging to another occupational pension scheme.

#### **Full Protection Members Senior Officers, Other Officers and Other Ranks**

198. It is possible that a member could use a period of part-time service to prepare for future employment outside the Armed Forces, by obtaining civilian employment on the days that they have dialled down. The current rules would prevent the member from joining an occupational pension scheme in relation to that employment.

#### **Transition Members Senior Officers, Other Officers and Other Ranks.**

199. These individuals are now active members in AFPS 2015 and thus this particular prohibition does not apply.

### **Recommendation 25 – AFPS 75 Membership of Another Occupational Pension Scheme**

The rules are amended to allow membership of another occupational pension scheme.

#### **Other option**

200. No change – However this is an old rule that is no longer relevant in other public service pension schemes. There is no requirement to maintain the restriction in AFPS 75.

## **Abatement – AFPS 75**

### **Current Scheme Rules**

201. It is long-standing HM Treasury policy that a public-sector pensioner, who is re-employed in the same service from which they receive their pension, should not be financially advantaged as a result. The effect of this is that the pensioner cannot earn more from a combination of salary and Armed Forces pension in their new employment than they were receiving when they left service. In order to ensure that this is the case, their pension will be reduced as necessary in accordance with the following formula:

- the annual amount of pension plus the member's basic rate of pay on the first day of further service, minus
- the member's rate of pay on last day of service for which pension is paid (adjusted for inflation).

## **Effect of Part-Time Service or Restricted Separation**

202. **Full Protection Members – All Ranks.** Pensioner members re-employed in regular service will not see any change to their pension abatement. The pension abatement is calculated and applied on the first day of the further service. There is no re-assessment of the abatement except when the member changes rank.

203. **Transition members – All Ranks.** Abatement of the accrued rights AFPS 75 pension will be applied as above. The AFPS 15 pension, when paid is not abated.

### **Recommendation 26 – AFPS 75 Abatement**

The abatement amount should be reassessed at the beginning of a period of part-time service or restricted separation service, and again when the member returns to a full commitment. This will mean the amount of the abatement decreases during the period of reduced service. However, it will also mean that the abatement is reassessed again when the flexible service arrangement ends, and could potentially increase significantly.

#### **Example 33 – AFPS 75 Abatement**

In 2010 a member was re-employed; their Pension was £15,000; new salary is £30,000; and former salary was £50,000; The Abatement calculation is  $(£15K + £30K) - £50K = -£5K$ ; therefore, no abatement because the member is not earning more than their former salary

In 2020 the member moves to part-time service, their pension is now £17,000; salary is £40,000; and the former salary remains £50,000, but an inflation increase is applied for the comparison.

Abatement calculation is  $(£17K + £45K) - £55K$  (adjusted for inflation) = £7,000. The member's abatement has increased from £0 to £7,000. This is a risk for the member to consider when requesting flexible service. It is as appropriate to re-calculate the abatement as it was to reduce any abatement in place.

## **Other Options**

204. Make no change so that the pension abatement is not re-calculated. This option is not recommended because the member's earnings would be lower and they would continue to receive a reduced pension and in some cases, no pension at all if there is full abatement.

## **Additional Voluntary Contributions (AVC)**

### **Current Scheme Rules**

205. Members are entitled to make additional voluntary contributions (AVCs) to increase their pension benefits. In AFPS 75, AVCs can be used to purchase the following options.

- Additional reckonable service - The member is purchasing year(s) of reckonable service that are in addition to the service they would give otherwise.

- Benefits on an enhanced basis – The member's pension is calculated using their pensionable earnings, rather than the representative rate. This is limited to those who are earning more than the representative rate for their rank and reckonable service.
- Increased pension for survivor - Enhanced pension for dependant survivor (the enhancement is the difference between the amount that would have been paid and 4/9<sup>ths</sup> of the member's representative pay).
- Enhanced death in service lump sum - The death in service lump sum increases to the greater of either:  
     four times the representative rate, or  
     four times annual pensionable earnings at date of death

206. AVCs are usually payable monthly, but may be made by lump sum in certain circumstances. The contributions payable under an AVC contract are a fixed percentage of the member's pensionable earnings for the time being, which cannot be less than 0.01% or more than 15% of the member's pensionable earnings. As the rules currently stand, a member who has an AVC contract, and who moves to flexible service will also reduce their AVCs proportionately. However, the purpose of the AVC contract is to purchase additional pension benefits, most of which are not affected by the new forms of flexible service.

207. **Transition Members** – Members are able to continue payments towards their additional reckonable service AVC. The other AVCs were ceased on transition. This is because AFPS 15 provides comparable benefits to those being purchased.

208. In addition, where a member has been seconded then it is possible for them to make a lump sum contribution to preserve the pension benefits they would have earned during the period of the secondment

## **Recommendation 27 – AFPS 75 AVC**

For each type of AVC contract under AFPS 75, the following changes to the rules are recommended:

### **(1) Additional reckonable service –**

- a. pay the AVC contribution on the basis of FTEE for the time being; or
- b. pay their AVC contribution at the reduced rate based on their actual pensionable earnings, on the basis that this will reduce the amount of additional reckonable service purchased.

**(2) Benefits on an enhanced basis** – the contributions should remain linked to pensionable pay.

**(3) Increased pension for survivor –**

- a. pay the AVC contribution on the basis of FTEE for the time being; or
- b. allow the member to cease this AVC.

**(4) Enhanced death in service lump sum -**

- a. pay the AVC contribution on the basis of FTEE for the time being; or
- b. allow the member to cease this AVC.

**Other Options**

19. Maintain the AVC link with pensionable earnings. However, this would result in the member underpaying for their increased pension benefits.

**Serving Part-Time and with Restricted Separation Concurrently**

20. Members can undertake both forms of flexible service (part-time and restricted separation service) at the same time. Throughout this consultation document we have recommended proportionate adjustments in relation to each form of service, taken separately. However, where a member undertakes both forms of flexible service, the relevant adjustments for each form of service will need to be made. Initially, the reduction for restricted separation service will be calculated, and thereafter, the reduction of 20% or 40% for part-time service will be applied.

# GLOSSARY

**Abatement** - When a pension which is already in payment is reduced on re-joining the Armed Forces. This applies to legacy pensions only; the AFPS 15 pension rules contain no provisions for abatement.

**Accrual Rate** - The rate at which pension benefits accrue for each scheme year. Each scheme is different in design and accrual rate.

**Armed Forces Pension Scheme 2015 (AFPS 15)** - The pension scheme for Regular and Reserve Service personnel who joined the Armed Forces after 1 April 2015, and for those Service personnel who were already in Service on that date and did not qualify for full protection membership of the legacy schemes.

**Armed Forces Pension Scheme 2005 (AFPS 05)** - The pension scheme for Regular Service personnel who joined the Armed Forces from 6 April 2005, and from 6 April 2006 for Regular Service personnel who elected to transfer from AFPS 75 as a result of the Offer To Transfer. AFPS 05 closed to new members from 1 April 2015, and the only active members now in the scheme are those with full protection membership.

**Armed Forces Pension Scheme 1975 (AFPS 75)** - The pension scheme for Regular Service personnel which was introduced in April 1975 and closed to new entrants from 6 April 2005. There are still active members of AFPS 75.

**Career Average Revalued Earnings (CARE) Scheme (AFPS 15)** - A CARE pension scheme is one which provides pension benefits which are directly proportionate to pensionable earnings received throughout a career.

**Commutation** - When a member gives up part of the pension income in return for a tax-free lump sum.

**Deferred Pension** – If a member has vested in the pension scheme but leaves the Armed Forces before reaching the AFPS Normal Pension Age (age 60 in AFPS 15 and age 55 in AFPS 75 and AFPS 05) they can claim a deferred pension. The deferred pension can be paid without deduction at:

AFPS 15 - State Pension Age;

AFPS 05 - age 65;

AFPS 75 age 60 for service before 5 April 2006 and age 65 for service after this date.

**Dependants** - A scheme members spouse, civil partner, eligible partner or eligible children.

**Early Departure Payment (EDP) 2005** - A payment made to Service personnel who leave the Regular Armed Forces before age 55, after a minimum of 18 years qualifying service AND who are at least age 40.

**Early Departure Payment (EDP) 2015** - A payment made to Service personnel who leave the Regular Armed Forces before age 60, after a minimum of 20 years qualifying service AND who are at least age 40.

**Final Pensionable Earnings (FPE)** - The greatest amount that is the member's total pensionable earnings in the best 365 consecutive days of their final three years of service.

**Full Time Equivalent Earnings (FTEE)** – This is the full rate pensionable earnings the member would have received had they not taken flexible service.

**Indexation** - Annual increase in pension value in line with inflation.

**Member** - An individual who has joined an AFPS and is earning benefits under the scheme (active member), or has a deferred pension under the scheme (deferred member), or is receiving a pension from the scheme (pensioner member).

**Opting Out** - Occurs when an individual chooses not to become a member of an AFPS, or chooses to leave the scheme, if already a member.

**Qualifying Service AFPS 75** - is the aggregate of every –

- Period in which the member receives pensionable earnings except when the member was absent without leave; or is treated as having received assumed pay (this includes statutory maternity/paternity/adoption pay; or unpaid leave which the Defence Council/Secretary of State has directed shall be treated as assumed pay).
- Period in which member was on unpaid leave;
- Period during which member was on loan to an organisation and was required to be an active member of a pension scheme open to members of that organisation;
- Period immediately before 4 January 2011, which the member was entitled to count as qualifying service under any former provisions of the scheme.

**Qualifying Service AFPS 05** Is the aggregate of the following periods:

- the period in which the member is in service and received pensionable earnings and/or is treated as receiving assumed pay,
- is seconded to NATO or the UN etc.,
- has aggregated a period or prior service that they are entitled to count
- transferred service from AFPS 75 (applies only to Gurkhas)

- transferred service from the Gurkha pension scheme
- a person whose service was gratuity-earning service before its terms were changed and who meets the conditions (that is they have surrendered all rights to a gratuity in consideration for membership of the scheme), or has re-paid the gratuity with interest.
- in respect of an accepted transfer into the scheme if the rights accrued in the other scheme count as qualifying service for the purpose of the AFPS 05 rules.

**Qualifying Service AFPS 15** - Is the aggregate of the following periods:

- any period after 1 April 15 that the member is an active member of the scheme;
- if a transfer value payment or a cash transfer has been accepted in, a period equal to the person's period as an active member in that scheme;
- for a transition member with continuity of service, the person's continuous period of pensionable service under a connected scheme on or before 31 March 2015 (unless the person has a gap in pensionable service exceeding five years).

The following are not qualifying service

- any pensionable service in which the person's rights are extinguished
- any pensionable service by a person under a connected scheme in respect of which the person's rights under that scheme are extinguished;
- any period of service during which the member opts not to join the AFPS 15 scheme;
- any period of service from the point when an active member opts out from the AFPS 15 scheme until any future point when they opt back in;
- any period of unauthorised absence;
- any period of unpaid leave where the person is not receiving assumed pay;
- any period of detention;
- any period of imprisonment.

If a member ceases to be eligible for active membership for a period of five years or more and subsequently re-joins qualifying service starts from the first day of new service. In determining the period for which the person ceases to be eligible any period the member was in pensionable public service is to be disregarded.

**Qualifying Service EDP 15** – means the number of calendar days from the first day of paid service to the last day of paid service but excluding the following periods:

- absence without leave



- service detention
- imprisonment
- unpaid leave

Periods of qualifying service separated by five years or less are to be aggregated. However, periods of qualifying service separated by more than five years cannot be aggregated.

**Pension Code (AFPS 75)** - Each rank has a representative rate of pay for pension. From this rate a pension is calculated for the member's reckonable service so that at 34 years for officers and 37 years for other ranks the amount of pension is 48.5% of the representative rate. Pension Codes also exist to calculate ill health rates of pension.

<https://www.gov.uk/government/collections/tri-service-pension-codes>

**Reckonable Service (AFPS 05 and AFPS 75)** - Reckonable Service is paid Service which is used to calculate the amount of a Scheme member's pension. The value of any pension benefits transferred in from another scheme increases the Service which is used to calculate the value of the pension as does a credit resulting from the purchase of Added Years. It does not include Reserve service.

AFPS 05 - This starts from the first day of full paid Service in the Armed Forces, but may not exceed 40 years. For those who transferred to AFPS 05 as a result of the Offer to Transfer, their Service under AFPS 75 will count towards reckonable Service.

AFPS 75 – Is every period of service as an officer after the age of 21, or other ranks after age 18 for which the member received pensionable earnings. The maximum reckonable service is 34 years for an officer and 37 years for other ranks.

**Relevant Service 05 EDP Order** - This is the aggregate of the following periods:

- any period after 6 April 2005, during which the member is in service as a member of the Armed Forces and receives pensionable earnings or is treated as receiving assumed pay;
- any period on secondment to the UN, NATO etc.;
- any service before 6 April 2005 in which they were eligible to be an active member of AFPS 75, but was not a member a member in respect of that service. The AFPS 75 service having been entitled to count under the AFPS 75 to AFPS 05 under the 'Offer to Transfer'.
- Service a member was entitled to transfer from the Gurkha pension scheme under the scheme rules;

- Service in AFPS 75 before 6 April 2005 that was not part of the offer to transfer, the member has exercised their option to aggregate that period of service with current service in AFPS 05 and no payment has been received in respect of a pension under AFPS 75 in respect of that period of service. For the assessment of entitlement to a RG this point does not apply.

**Resettlement Grant (RG) (AFPS 05 and AFPS 15)** - A lump sum payable to Regular Service personnel who do not qualify for an EDP or ill-health benefits but who have completed more than 12 years' service.

**Full Protection** - full protection is the protection awarded to individuals who, as of 1 April 2012, had ten years or less to serve to reach their Public Service Pension Scheme's Normal Pension Age. Individuals with full protection remained in their existing pension scheme and did not transfer into AFPS 15. In the case of AFPS 75 and AFPS 05, it is those members who would reach the age of 55 on or before 1 April 2022.

**Vesting Period** - The period of two calendar years' service (excluding periods of unauthorised absence, unpaid leave, service detention and imprisonment) required before a member will be eligible to receive any pension benefits (other criteria may apply).

**EXPERT CONSULTATION – CONSULTEES**

- 1 The Royal British Legion
- 2 The Soldiers, Sailors, Airmen and Families Association
- 3 The Confederation of British Service Organisations
- 4 The British Limbless Ex-Service Men's Association
- 5 The three Forces Family Federations (Royal Navy, Army and Air Force))
- 6 The Independent Medical Expert Group
- 7 The Veterans Advisory and Pensions Committee
- 8 The War Widows' Association
- 9 The Forces Pension Society
- 10 Armed Forces Pension Schemes, Pension Board
- 11 Armed Forces Pension Schemes, Scheme Advisory Board
- 12 The Pension Regulator
- 13 The Armed Forces Pay Review Body
- 14 The Services Insurance and Investment Advisory Panel
- 15 The White Ensign Association