

ANNUAL REPORT 2019-20

for the year ended 31 March 2020

**To the Minister for Personnel & Veterans on
the Armed Forces Pension Schemes**

Robert Branagh

Chair, Armed Forces Pension Board

Executive Summary

Welcome to this fifth annual report on the Armed Forces Pension Schemes (AFPS). I am pleased to report that we have continued to build on last year's strong foundations as the body charged with assisting the Scheme Manager in administering the schemes, or in laymen's terms, assisting with the oversight and governance of the Armed Forces Pension Schemes.

The Board continues to meet every quarter and reviews the quality and quantity of the pension's administration service provided by our colleagues at DBS Veterans UK, (DBS), who act as the Scheme Authority. Primarily serviced from its Glasgow operation, they continue to provide a quality service to our members with relatively few formal complaints. DBS attend our Board meetings and continue to enjoy a transparent and collaborative approach to dealing with core business issues, projects or on areas of improvement.

The Pensions Regulator (tPR) states that 'good administration is the bedrock of a well-run scheme'. That's why it's so important that the Scheme has the right people and processes in place to ensure high-quality administration. Making sure we have good quality member data (including personal email address, home address and date of birth), is key to the smooth running of the Scheme too. If you need to update your details, do let DBS Vets know as soon as you can.

This year we have seen much more engagement with the Pensions Regulator as they become more interested in public sector pensions, having become involved initially following the 2015 legislative changes. We, along with a small number of other well run schemes have been chosen to engage more directly with tPR on how good public service schemes should be run and managed and we have spent considerable time working with them to help them understand our ways of working, our systems and controls and of course, all the various stakeholders who provide the service to you the members. I am particularly pleased to report that tPR shared our views that, whilst always being able to do more, we are indeed a large very well run and managed pension scheme.

Although there is much detailed content on the work undertaken on your behalf in the body of this report, it would be remiss of me not to mention that at the end of this reporting period, we saw the advent of the Covid-19 pandemic hit. Whilst our thoughts go out to the many colleagues who have been impacted by this, we have had to ensure that the pension service continued to support our 1.2 million members and I am pleased to confirm that we have managed to do this.

Some of the bigger governance reviews we might like to have undertaken, such as the enhancement of training and development for example, have been deferred. As will be reported in next year's report, however, we continue to meet as a Board every quarter, albeit virtually not in person, and continue to receive excellent support from MoD and DBS in carrying out our responsibilities.

As this is the fourth report produced for AFPS, I very much welcome any feedback or comments on its contents. I would like to thank all of those involved in making the AFPS a success this year and look forward to balancing the priorities above and maintaining a high level of service to members next year.

Introduction

1. Lord Hutton's Independent Public Service Pensions Commission (IPSPC) Report in 2011 outlined key recommendations for the reform of all public service pension schemes. This led to the enactment of primary legislation, ratified under the Public Services Pension Act 2013 (PSPA 13), and Scheme specific secondary legislation under the Armed Forces Pension Scheme 2015 (AFPS 15). The new pension schemes system has now been operating in the public sector for five years.
2. Lord Hutton's overarching principles were that public service employees and taxpayers should expect public service pensions to be:
 - i. designed to protect the taxpayer from rising costs, through a 'cost cap' mechanism;
 - ii. fair and sustainable for future generations, with elements protected for a period of time (such as the extent to which the pension is on a career average (i.e. not a final salary) pension scheme, or members' contribution rates); and
 - iii. subject to better governance and greater transparency for members. For the Armed Forces, this was through the establishment of a Pensions Board to ensure member interests are protected, and more recently with the Pensions Regulator providing independent oversight of all schemes.
3. AFPS 15 is a Career Average Re-valued Earnings pension scheme which replaced the earlier final salary scheme. It is a non-contributory, defined benefit scheme which has been designed in accordance with the PSPA 13 and was launched on 1 April 2015. AFPS 15 increased the normal pension age from 55 to 60 and linked the deferred pension age to the State Pension age. It retained the Early Departure Payment (an income stream and tax-free lump sum designed to compensate individuals for the early age at which they leave the Armed Forces), ill-health benefits and dependents' benefits schemes.
4. There are two main legacy pension schemes for members of the regular Armed Forces: The Armed Forces Pension Scheme 1975 (AFPS 75), which closed to new entrants on 6 April 2005; and the Armed Forces Pension Scheme 2005 (AFPS 05), which was introduced thereafter and closed to new recruits on 31 March 2015. Further pre-AFPS 15 schemes still exist; therefore, management and oversight of the current pensions systems remains complex.

Fuller details can be found at <https://www.gov.uk/government/publications/armed-forces-and-reserve-forces-pension-schemes-guidance-booklets>.

Pension Governance

5. Lord Hutton's report identified a perceived separation between those responsible for the governance of public service pension schemes and those delivering the benefits. Additionally, he highlighted a lack of member involvement in the analysis and decision-making process. The PSPA 13 introduced a framework designed to ensure better governance and greater transparency, including the oversight of all public service pension schemes by the Pensions Regulator, (tPR). The PSPA 13 mandated a formal Governance Structure specifically for Public Service pensions, with two new roles and two new boards. I believe the Pension Board continues to adequately meet the aspirations of the Hutton Report and the legislative environment we now operate in.

6. Roles:

- i. **Responsible Authority.** The PSPA 13 specifies that the Secretary of State for Defence (S of S) must be the Responsible Authority. The Responsible Authority has the power to make and amend Scheme Regulations.
- ii. **Scheme Manager.** The Scheme Manager is responsible for managing and administering the AFPS. S of S appointed themselves the Scheme Manager but delegated the management of the AFPS to two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager.

7. Boards:

- i. **Scheme Advisory Board.** The Scheme Advisory Board has responsibility for providing advice on the desirability of changes to the schemes when required to do so by the Responsible Authority. Chaired by the Permanent Under Secretary, the Scheme Advisory Board will only be required to make decisions on major changes to the scheme design, and as such, it sits by exception. It has authority to make recommendations to the S of S on major changes to the Scheme rules and is advised, amongst others, by the Pension Board and HM Treasury. The Chair of the Pension Board is a member of the Scheme Advisory Board.
- ii. **Pension Board.** The Pension Board was borne out of the PSPA 13, following the mandate for a governance structure specific to public service pensions. The Board is responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to governance and administration, as well as, requirements imposed by the Pension Regulator. S of S appointed Robert Branagh as the Non-Executive Chair of the Pension Board in January 2015, and he was reappointed for a second three-year term in January 2018.

8. The AFPS is supported by Defence Business Service Veterans UK (DBS (Vets)). DBS Vets have delegated authority to deliver pension administration through a contractual arrangement covered later in this report. This arrangement includes agreement on governance, audit, and pension reporting. Specific groups, such as the Audit Risk Committee (ARC), have been established to provide objective advice and support in the areas of risk, control, governance process and associated assurances. Overall governance arrangements and that of day to day management control remain in place and effective. The following measures support this governance:

- SSCL Q&A team carry out 100% check on all awards processed.
- Monthly checks carried out by Mil Pers Contract Performance Monitoring Team (CPMT) 50-75 checks per month.
- Monthly checks carried out by Armed Forces Pension Scheme (AFPS) Assurance Team (AT) on awards made by both the contractor and MOD Authority staff. (75 checks per month).
- Annual programme of checks carried out by Defence Internal Auditors (DIA) average 6 per year.
- Annual check by National Audit Office (NAO).

9. During FY 2019/20 Substantial Assurances were awarded for Financial Management Information, Pension on Death – Death in Service and Annual Allowance. There were also 2 limited Assurance for Manage Payment to the Children of Deceased SP and Award Immediate Pension and/or Terminal Benefits. The positive result and additional Assurance measures in place contributed to DIA awarding AFPS an overall Substantial Assurance for 2019/20.

10. I am pleased to report that the 2019/20 Armed Forces Pension Scheme financial statement was certified by the Controller and Auditor General with an unqualified audit opinion without modification¹. As Chair of the Pensions Board, I have a standing invitation to and regularly attend the DBS Audit and Risk Committee where the accounts and wider scheme assurance are currently monitored and overseen.

11. We continue to deliver on all three schemes including AFPS 15, AFPS 75 and AFPS 05. For members, the annual Benefit Information Statements (BIS) are issued under business as usual with a review underway on a range of pension communications which includes further improvement of the BIS.

¹ A copy of this year's accounts can be found on the Gov.uk website at; https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936546/CCS05_20627968-001_AFPS_ARA_2019-20_Web_Accessible.pdf

The Pension Board

12. **Pension Board Membership.** There are currently 15 members (including the Chair) and a small number of attendees are invited in an advisory capacity. The make up of the Pension Board has been maintained to ensure the interest of the Scheme's beneficiaries and stakeholders are represented, with seven employee representative and seven employer representatives. Details on the composition of the Pension Board (along with the Terms of Reference) are at Annex B.

13. **Financial cost.** There is a direct cost in running the Pension Board, ranging from fees for the Non-Executive Chair, training, and development for Pension Board members, to travel and subsistence costs for those attending Board business. A breakdown can be found below:

Direct Costs 2018/2019 (Approx.)	Cost
Non-Executive Chair	£ 13,000
Training and development	£0
Travel and subsistence costs	£ 3,500
Total	£ 16,500

14. **Meeting attendance and training.** During the period, the Pension Board has met four times. The Pension Board is committed to complying with the statutory duty of monitoring its training needs to ensure a better understanding of Armed Forces Pension Schemes. Training and continuous learning and development are key elements to this, aiding the effectiveness of the Board. Consequently, all Pension Board members have completed the Pension Regulator Public Service Toolkit, which provide the foundations for a stronger understanding of pensions to allow them to appropriately discharge their responsibilities as a Board. A record of training undertaken by Board members sits at Annex C.

15. **Conflicts of interest.** No Conflicts of Interest have arisen in the year. All members are required to confirm this annually in writing.

16. **Defence Internal Audit (DIA) and the Pension Board.** DIA is responsible for providing the Permanent Under Secretary and Defence Audit Committee with an independent, objective assurance on the effectiveness of MOD's systems of governance, risk management and internal control. An audit was included in their 2018/19 programme of work to contribute to that assurance. It reviewed the control framework that is in place to manage the risks associated with People – Overarching Governance and Oversight of Armed Forces Pension Scheme (AFPS). The framework of controls in place to ensure effective overarching Governance and Oversight of AFPS were established and found to be working as intended. These included:

- a. **Tone at the Top.** The Pension Board (PB) Terms of Reference dated 3 July 2015 set out expectations for PB business. There was no evidence indicating that behaviour had breached the tone expected for PB business. This had been evidenced during DIA attendance at the July 2016 Pension Board meeting and the Boards' ToR were also reviewed again as part of this audit and found to be fit for purpose during this scheme year.
- b. **Communication.** In line with tPR's requirements for good scheme governance, key PB information had been published on the Defence Intranet. This included PB Terms of Reference (TOR), Annual Reports, and PB Forward Plans. The PB Annual Reports are also published on GOV.UK and the Forces Pension Society internet pages. Separately, there was effective communication at both working and senior levels between AFPS Policy Team/Pay Colonels/DBS about DIN production and policy interpretation.
- c. **PB Governance.** The most recent PB TOR continues to set out the composition of the Pension Board and is subject to periodic review. This latest audit also confirmed that the tenure of PB members was in line with best practice; the TOR clearly outlined PB roles/responsibilities; and it included requirements for good scheme governance as highlighted by tPR.
- d. **The PB forward work plan focused on strategic matters and was reviewed regularly.** There was an effective induction procedure in operation for new PB members; Management Information (MI) requirements of PB were regularly reviewed; MI was challenged at PB meetings; and performance reports covered key AFPS activity. PB meetings were minuted, with actions allocated to specific PB members; and all outstanding actions were considered at subsequent meetings until they were closed.
- e. **Policy/Delivery Team Boundaries/Responsibilities.** The boundaries between AFPS Policy Team and DBS Vets UK Delivery Team were clearly documented and subject to periodic review; as were the responsibilities of both teams. The process by which AFPS Policy was interpreted by DBS Vets UK was evidenced and AFPS Assurance Team were in the process of reviewing all MOD Authority Instructions (MAI).

Pension Board areas of interest.

Since its inception, the Pension Board has concentrated on a number of areas, principally:

17. **Review of DBS Veterans performance.** Key performance indicators (KPIs) are used to monitor the performance of DBS Veterans. This is to ensure appropriate service delivery for all pension scheme members. In addition to monitoring routine administration, we continue to monitor other professional advisors, such as the Government's Actuary Department (GAD).

In addition, the AFPS Authority Assurance team continue to address routine aspects of pension administration. During the scheme year, the team quality assured 1,364 awards, focusing on the following areas:

Audit programme	75
Internal Case Work Assurance	111
Q&A check sheet	958
Equiniti Paymaster reconciliations	50
Validations for tax-exemption	170
Total	1,364

The total amount of assurance checks represents 23% of total casework referred from the contractor.

18. **Guaranteed Minimum Pension.** DBS is fully engaged with HM Treasury and HMRC regarding the end of contracting out pension arrangements and Guaranteed Minimum Payment (GMP) reconciliation exercise. HMRC have provided AFPS with the majority of their data which AFPS are analysing and preparing for payment rectification.

19. **Communication to members.** The Pension Board continues to monitor closely the development of this important area of business. Communicating pension's information to members is a key element of any pension scheme and we know this has a clear impact on morale and retention of Service Personnel. Whilst the AFPS remains a good quality, low cost scheme with a communications package that is in line with legislation, it is recognised there is room for improvement. A significant amount of progress has been made on further improving communications over the last year. The Veterans UK website has been overhauled with the help of veterans and their families. Finding your way around the website is now much simpler and the language used is hopefully easier to understand too.

20. One of these website hubs is called 'Help and support when a Veteran or Service Person dies'. It is aimed at those who have suffered a bereavement and brings together everything needed, including forms, information about money that might be available and details of wellbeing support.

21. The new 'Help and Welfare for Veterans and those leaving the Armed Forces' hub sets out the support available for those moving to civilian life and those who are already veterans.

22. The Veterans UK social media channels continue to be utilised with approximately 13,000 followers on each site. Veterans UK landing page on Gov.Uk has an average of 20,000 visits per month over the last 12-month period. The pensions and compensation page has a slightly higher hit rate of 28,000 per month in the same period.

23. During the year we continued to utilise a Pension Communications Working Group, that sits under the governance structure of the Pensions Board. In addition to fulfilling legislative requirements, the Working Group considers three distinct areas of interest on behalf of members:

- i. Aiding in the improvement of communications laid down by regulation;
- ii. Aiding in the improvement of communications that increase the understanding that Service Personnel and Veterans have of their pensions; and,
- iii. Supporting the Ministry of Defence to enable effective and efficient scheme administration.

23. **Risk and assurance.** In addition to the work of the Pension Board, to help us understand our risks further, I as Chair, have attended four DBS Assurance and Risk Committee (ARC) meetings this year. This allows me to contribute to the assurance oversight of the Schemes via that forum. In linking the Pensions Board with ARC, we can benefit from work undertaken by Defence Internal Audit and National Audit Office activity. This in turn builds on the existing internal controls and assurance activities performed by DBS and MOD supported by the Internal Contract Performance Monitoring Team (CPMT) and the dedicated AFPS Assurance Team. I am satisfied with the coverage of this assurance activity. Further to this, the Board does consider 'risk awareness' to ensure process and protocol (with respect to risks surrounding the AFPS), are considered appropriately.

24. **Forward view of the Pension Board programme.** As the Board increases its capability in challenging and providing overview on pensions, the breadth of topics and issues under consideration has increased proportionately. In place for its fifth year, the Board undergoes a process of continuous reassessment of the current and future landscape and understanding that prioritisation is key. Our priorities remain those that

are legal and mandated, followed by those deliverables that are assessed as providing the greatest opportunity to benefit our members. It also remains important that new Board members are quickly brought up to speed through our formal training piece and wider informal briefings. Based on our knowledge, we capture tasks in a forward plan. Further details are at Annex D. This will be reviewed regularly to ensure we are still balancing opportunities with risk but compliance with tPR's requirements, assurance and member communications will be our main areas to evolve and refine going forward.

25. At the end of the fifth year of Pensions Board operation I remain encouraged. We continue to face ongoing challenges to deliver pensions accurately and on time, to answer queries sympathetically and fairly, to respond with agility to changes in the pension's world, and to present our activity to those regulating us. However, good progress is being made and I judge we continue to be fit for purpose, and that we compare very well with other major public-sector schemes. This is not to say that we cannot get any better; indeed, we must get better as the demands on us increase. However, by building on this year's activities I believe we are well placed to face those future challenges.

Membership and Transaction Information

26. **DBS Contracted Support Arrangements.** DBS Veterans have two major Commercial Partners, assisting them with the administration of the schemes. Equiniti Paymaster delivers pension administration services to our pensioner members, largely involving paying 442,945 pensioners and dependents. Secondly with Computer Sciences Corporation (CSC) (known as DXC), who cover many tasks for the delivery of pensions. To enable this, the MOD provides the commercial partner with access to appropriate expertise to enable commercial partner to discharge its obligations. Whilst the MOD has responsibility for ensuring that pension casework is processed in accordance with appropriate guidelines, the Authority for making such discretionary decisions is delegated to DBS Veterans UK from the Admiralty, Army and RAF Boards. In Dec 2019 a new Commercial Partner contract was drawn up and awarded to Shared Service Connected Ltd (SSCL). From Jan 2020 SSCL were involved with running transition discovery sessions with the existing contractor and worked closely with the DBS Veterans business to manage the challenges of COVID-19 lockdown. The operational service commencement date was 1st June 2020.

Overview of AFPS 2019/20

Performance

27. We strive to ensure that our pension schemes continue to provide a good level of service. In addition to MOD and the Boards scrutiny of supplier performance, DBS continue to use CEM, a global benchmarking company that specialises in objective and actionable benchmarking information which includes pension funds. This benchmarks costs, performance, and administration against pension companies here in the UK and overseas. The benchmarking enables DBS Veterans UK to compare costs, administration, and performance against peers. This in turn helps to give an understanding of the level of service other schemes offer and understand industry best practices. CEM has helped towards continuous improvement in the AFPS service delivery at a reasonable cost.

28. Scheme membership balances brought forward from 31 March 2018 have been restated to account for better information obtained from the membership databases. The databases used to manage member data records are dynamic systems that allow records to be continuously reviewed and updated as necessary. It is therefore accepted that the opening balances will not exactly reconcile to the previous year's closing balances.

29. The report from Apr 2018 to Mar 2019 (reported at Nov 2019) compared the governance and pension administration costs and the member service with a peer group of other large pension schemes. The peer group comprised 12 pension schemes with between 324,768 and 3,170,570 members. The peer median was 567,012 members, compared with our own 1,262,158 members. The peer group is a useful comparator for AFPS and has been selected based on the availability of data, scheme size, membership mix and to include both in-house and outsourced schemes.

30. Our total member service score fell slightly to 51 out of 100, (we scored 54 in the previous year's survey), but we were below the peer median of 65 this year. Service is defined from a member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality. The total service score is equal to the service scores for active members, deferred members, and pensioners, weighted by the membership mix. The membership mix is also used to weight the total scores for our peers.

31. The key outliers influencing the total service relative to peers include:

Higher than peers:

- a. DBS Enquiry Centre is open longer than that of our peers and our average call time is more than half that of our peers;
- b. DBS meet targets to deliver member statements within 0.5 months of a member's birthday;
- c. DBS have a high first contact resolution rate for calls (89%) and a strong definition of first contact resolution.

Lower than peers:

- a. Our pension commencement lump sums are generally not paid within one week of an individual's retirement date;
- b. DBS do not have a dedicated secure member area website;
- c. DBS send fewer newsletters to members than peers and run fewer campaigns (e.g., to encourage members to complete nomination of beneficiary forms);
- d. DBS did not survey members to understand how they feel about you /your service / the scheme in the year. All of our peers did survey their members.
- e. DBS do not send benefit statements to deferred members. Half of your peers do.

32. In terms of cost effectiveness, we were positioned in the low cost, basic service quadrant on the CEM administration cost effectiveness matrix.

AFPS MEMBERSHIP STATISTICS

AFPS Membership	01 April 19	31 Mar 20
Active Members (inc. Reserves)	305,473	298,760
Pensioner Members	436,588	442,954
Deferred Members (inc. Reserves)	520,097	519,763

Source: AFPS Finance

33. The total transactions processed by the commercial partner are detailed at Annex E. Only 5.7% of complaints received by commercial partner were upheld – the majority

were queries with policy – further information is provided in Annex F. The Commercial partner has comfortably met the contractual measures of performance required during 2018/19, as detailed in Annex G.

Quality of Service

34. AFPS 75/05/15 schemes are run in partnership with DXC and Equiniti against contractual measures of performance against accuracy and timeliness. Varying levels of audit and assurance are provided by the NAO, the Defence Internal Audit (annual audit programme) and teams who check monthly compliance. The contract includes reporting incentives whereby the commercial partner reported failures carry a significantly lower penalty than if failures are identified by the Authority and/or any of our assurance/audit partners. As part of the Boards oversight of the administration performance each quarter, I believe that our suppliers have provided us with a good service this year. The Pension Board will be working hard with all stakeholders to continue this trend going forward whilst also looking at any areas the service can be enhanced for members.

Improvements made

35. **Internal Dispute Resolution Procedures (IDRP) Process Review.** All occupational pension schemes are required to have a procedure in place to allow its members to make an application on a matter in dispute. Up to April 2018, the AFPS operated a two-stage process; however, with support from the Pensions Ombudsman, the scheme investigated the benefits adopting a shorter single stage process. This resulted in a move to a revised single Tier process which went live on 1 April 2018. The volume of cases looked at is at Annex F.

- A move from two stages of appeal to a single stage has shortened the overall process, achieving outcomes for our customers more quickly.
- Previously, a decision was expected within 40 days at Stage 1 followed by a further 40 days at Stage 2 (80 days total) where a Stage 2 Appeal was raised.
- Statistics show that only a very small percentage of AFPS appeal decisions were overturned at the second stage, so in the vast majority of cases, the Single Stage gets our customers to the same correct outcome 25% faster.
- The Single Stage IDRP aims to have an appeal decision sent to the customer within 60 days in total – a 25% reduction in timescale for completion.
- We also improved our decision notice by issuing customers with a clear picture of the whole decision-making process showing all inputs and considerations.

36. **The Defence Transition Service (DTS)**, a new Service for all personnel and their families leaving the Service was launched 1st Nov 19. DTS deliver a full range of transition support for service leavers and their families, working directly with personnel to provide tailored information and guidance. DTS facilitate access to the support needed, whether that be from other government departments, local authorities, the NHS or trusted charities. A person's unit will identify potentially vulnerable service leavers who would benefit from Veterans UK help and will refer that person using a Defence

Transition Referral Protocol form which will be processed to provide the service leaver with the appropriate support from Veterans UK, delivered by Veterans Welfare Service (VWS) or DTS depending on the nature of the enquiry. There is a DTS dedicated page on the Gov.UK website which signposts information and contacts which might be needed at the time of transition from Military to Civilian.

37. **Gone Away.** An exercise was started to contact existing pensioners for whom a 'gone away' notification has been received because of returned postal communications. We have issued 1,854 life certificates to date, with 77% reinstated. The aim is to continue to promote the importance of keeping contact details up to date to ensure the right pension benefits are paid to the right people at the right time.

38. Unclaimed Pensions exercise is continuing to identify the unclaimed pension population and we continue to send claim forms to such members. Up to 31 March 2020, 668 previously unclaimed pensions having gone into payment. We are continuing to analyse unclaimed membership data to reduce the number of unclaimed pensions. The intention is to reduce the number of unclaimed pensions by tracing preserved pensioners as pensions become due for payment.

39. The **'Tell Us Once (TUO)' Death Nomination** referral process has reduced the time it takes for notifications to be made and the likelihood of members being overpaid benefits. This generally means that dependant benefits can be paid quicker and there is less administration for a bereaved family to manage. Veterans UK (Ministry of Defence) have been utilising the TUO initiative since 2016 for the Armed Forces Pension Schemes, the War Pension Scheme & the Armed Forces Compensation Scheme. The benefits our customers receive using TUO include quicker payments to dependents and an overall reduction in any overpayments. During lockdown as a result of COVID-19, a high level of priority was assigned to the TUO initiative ensuring that the daily notifications received continued to be processed. Although, there has been an increase in the number of notifications since March 2020 it's been business as usual with no reduction in service for our customers who use the TUO initiative.

40. The Second Membership Data Improvement (MDI) project investigated a total of 28,849 questionable records which included those outstanding from the first MDI Project and questionable data from the 2018 and 2019 data extracts. The project met the 31 March 2020 deadline.

Future improvements

41. The Veterans ID card was launched for service leavers in Dec 2019 who received a recognition card as part of discharge process. The extension of the ID card for existing Veterans has been delayed due to the requirement to future-proof the scheme and safeguarding requirements against fraudulent use so the process will take longer. The new ID cards will ensure the process of validating service is as straightforward as possible, so that ex-forces personnel can access support for issues related to their service quickly, as and when needed.

42. Our further focus will be on:
- a. reviewing and improving our communications package. A quarterly membership newsletter will be introduced in Nov 2020;
 - b. undergoing a modernisation project to assist our customers to know what services we offer and how to access them. We are also modernising our internal processes, freeing up more time to support veterans and their families;
 - c. continuing to analyse the Gone Away membership data seeking validation from member and to inform scheme valuations;
 - d. continuing to analyse unclaimed membership data to reduce the number of unclaimed pensions. The intention is to reduce the number of unclaimed pensions by tracing preserved pensioners as pensions become due for payment; and
 - e. implementing HM Treasury instruction re Guaranteed Minimum Pension (GMP) from April 2021 once an overall decision has been received.

The Pension Landscape 2019 – 2020

43. As part of its expanded role, the Pensions Regulator (tPR) is responsible for over 200 public services schemes in respect of eight public service workforces, covering over 16.5 million memberships. Increasingly the Regulator is investing more time understanding and helping public service pension schemes. As part of that process, AFPS was chosen as one of the first large, well run, and complex schemes to form a relationship with tPR. At the end of 2018, we began a process of educating tPR on our controls, processes and operations and spent considerable time meeting, discussing and working with their team on how we effectively manage the AFPS. We also invited the tPR team to attend one of our Board meetings and to visit our Administrators in Glasgow during 2019.

44. In May 2019, the Pension Regulator published a supervisory review of the Armed Forces Pension Schemes. The purpose of the review was for tPR to gain an understanding of, and to provide comments to, the scheme manager on how the schemes operate and the management and governance controls in place. The review provided the opportunity for tPR to understand how the scheme manager and Pension Board ensures compliance with legislation, adherence to codes of practice; and the application of good industry practice.

45. Overall, the report identified that the schemes were well run with the Chair and Pension Board demonstrating control over all areas, with no material concerns identified. A close working relationship between the interim scheme manager, Chair of the Board and DBS was noted, with a focus on good quality, and efficient, administrative services to members. This attention to quality service has resulted in relatively low levels of member complaints in comparison with the number of members.

46. Along with this, the Regulator flagged various areas for potential improvements. These recommendations have been considered and incorporated into the forward plan for the Board. This forward plan is constantly being reviewed as, for example, our relationship with tPR may require additional activity on our part via meetings or provision of documentation. We will update you more on the tPR relationship next year and how this helps support us oversee the AFPS and of course, maintain high quality member service.

The Near Future

47. **McCloud.** The Court of Appeal has ruled that transitional protection, whereby members that were within 10 years of retirement by 1 April 2012, remained in their existing Public Service Pension Schemes (PSPS) rather than moving to the reformed schemes introduced on 1 April 2015, constituted unlawful age discrimination in the Fire and Judges schemes. The Supreme Court has since refused the Government the right to appeal the decision. The Government accepts that the judgment applies to all main public service schemes and must take steps to remedy the difference in treatment across all schemes and ensure no further discrimination in the future. Work is now in

hand to consider the most appropriate remedy and the Department is working closely with HMT, the Government Actuary's Department and OGDs to take this forward during 2019.

48. **Pensions Tax.** The Government's decision to reduce the annual allowance limit to £40,000 has resulted in more Service Personnel breaching their savings limit and attracting a tax charge. The Senior Salaries Review Body (SSRB) have raised concerns in their recent report over the impact pension taxation is having on the morale of senior talent. The Ministry is further cognisant of the announcement by the Department of Health and Social Care on their intention to consult on introducing pension flexibilities for senior clinicians within the NHS. In response, work is underway, firstly, to better understand the impact that pension taxation will have on Service Personnel and, further, to provide guidance and support to our Service Personnel that are impacted - this will include the creation of digital content to supplement the comprehensive guidance and advice published last year.

49. **Cross Whitehall Participation.** The Department is keen to ensure that the pensions offered to Service Personnel reflect the unique nature of the Armed Forces and are in line with other Government departments. The Department regularly engages with the HM Treasury Official Committee on Occupational Pensions (MOCOP), who are in place to ensure that a cross Departmental view is taken for any significant policy changes. This ensures that the requirements of the Armed Forces are being considered across Whitehall. The Pension Board are committed to building upon relationships to improve the Board's effectiveness and I regularly meet with the Chairs of the other Big 4 public sector pension schemes, (Civil Service, NHS, Teachers and AFPS), and with tPR's public service schemes forum where information and best practice are shared on central and local government pensions. The Department also participates in cross Whitehall meetings with public sector scheme representatives and HMT to consider the issues that may be involved in deciding a remedy, following the McCloud judgment.

50. **Valuation Exercise.** Pensions are paid from Annually Managed Expenditure with the employer's contribution paid from the Departmental Expenditure Limit through the Superannuation Contribution Adjusted for Past Experience (SCAPE) mechanism. SCAPE partially funds in-year AFPS pension payments and HM Treasury funds the remainder. The rate of SCAPE contributions is set following a valuation carried out, under HM Treasury direction, by the Government Actuary's Department every four years.

51. The employer cost cap framework was introduced by the Public Service Pensions Act 2013 – this is aimed at maintaining the affordability of public service pensions. If the cost of AFPS (as measured by this framework), changes by more than 2% of payroll, this will require action to return the scheme to its original level of cost. In this period, the cost cap technically breached in excess of the 2% of pensionable pay but work is on hold to fully consider any impact until such time as

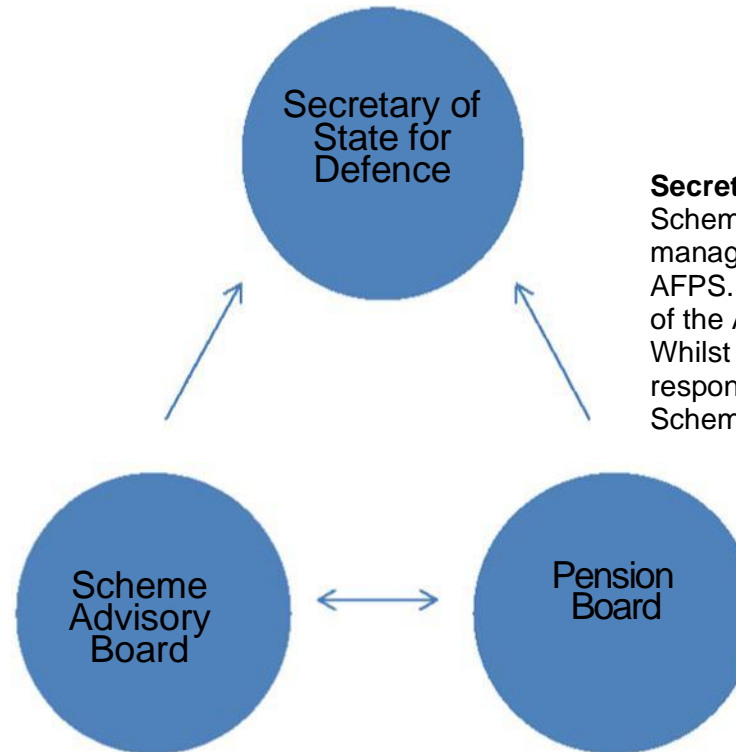
more certainty exists surrounding the McCloud case. (This is impacting all public service pension schemes, not just AFPS).

52. **Conclusion.** I am pleased to be able to present a positive report for a year that has had a wide range of challenges for all those involved with the Schemes. Next year will be equally challenging with increasing regulatory, actuarial and commercial issues to address but I am confident that Board members will continue to assist with the delivery of a quality service for all members.

GOVERNANCE STRUCTURE FOR ARMED FORCES PENSION SCHEMES

Scheme Advisory Board – has responsibility for providing advice on the desirability of changes to the scheme when required to do so by the Scheme Manager. Chaired by the Permanent Secretary, the Scheme Advisory Board will only be required to make decisions on major changes to the scheme design; as such, it sits by exception.

It has authority to make recommendations to the Scheme Manager on major changes to the Scheme rules.



Secretary of State – also the Scheme Manager. Responsible for managing and administering the AFPS. Delegated the management of the AFPS to the two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager

Pension Board - responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to governance and administration, as well as requirements imposed by the Pension Regulator.

Robert Branagh is the Non-Executive Chair of the Pension Board which meets quarterly.

Annex B

PENSION BOARD TERMS OF REFERENCE

General

1. The Pension Board will be set up in compliance with the Public Service Pensions Act 2013 and be in place from 1 Apr 15. The Board will be responsible for assisting the Scheme Manager in ensuring compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it.

The Pensions Regulator

2. The Pension Board is also responsible for assisting the Scheme Manager in securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator (tPR). The Pension Board will, at all times, work to protect the reputation of the scheme for effective governance and administration and for proper use of taxpayers' money in accordance with such good practice guidance that may be issued by the Pensions Regulator. The Pension Board will respond to any requests/directions made by tPR and ensure that they oversee the development of processes and systems to incorporate any new statutory requirements.

Purpose of the Pension Board

3. In addition to the statutory responsibilities² the Pension Board has key functions as follows;
- Responsibility for the effective and efficient governance of the Armed Forces Pension Schemes. To ensure that those in receipt of a benefit receive accurate, timely benefits under the scheme rules and satisfactory customer service thereby ensuring that schemes are administered correctly and appropriately, and in accordance with regulations;
 - Oversee and advise on pension delivery and represent Pension Schemes interest in MOD's management of the wider Shared Services contract;
 - Provide advice on policy issues which affect members' interests.
 - Contribute to the planning and influencing of the risk management and audit activity for Armed Forces Pension Scheme, to include internal audit programmes;
 - Advise and influence the selection, appointment and reappointment of all third-party providers including the Scheme Administrator in conjunction with the provision of wider people services;
 - Oversee and contribute to communications on pension management issues;

² Section 5 of Public Services Pension Act 2013

- Monitor all Pension Scheme material issues to ensure consistency of application and a seamless service for members;
- Develop positive, co-operative working relationships with all of the stakeholders and provide a forum to receive feedback from them on issues affecting the scheme.

Changes to the Terms of Reference

4. The Terms of Reference can be amended subject to Chair agreement.

Chair

5. The Pension Board will be chaired by an independent, voting Non-Executive Director (NED) who has responsibility for ‘...assisting the Scheme Manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the Pension Regulator.’³ Chief of Defence People (CDP) will appoint the Chair on behalf of the Scheme Manager.

Pension Board Members

6. At the time of writing;

Name	Role
Employer representatives	
Helen Helliwell	Director Armed Forces People Policy (People-AFPPol-D) – 2* Civil Servant
Paul Griffiths	Head of Armed Forces Remuneration (Hd AF REM) - 1* Military
Tom Wipperman	Director Resources Assistant Head Plans (D Res AHd Plans) - 1* Civil Servant
VACANT	Reserve Forces & Cadets Assistant Head Capability (RFC AHd Cap) -
Andy Fogell	Royal Navy Pay Colonel – Captain Royal Navy

³ tPR Draft Code of Practice.

Philip Bassingham-Searle	Army Pay Colonel - Colonel
Toria Mcphaden	Royal Air Force Pay Colonel – Group Captain
Member/ employee representatives	
Neil Marshall	Forces Pension Society
Mark Collins	Royal British Legion
Anna Wright	Single representative from the Forces Families’ Federation
William Grove	Reservists Members’ representative: a volunteer from the Chain of Command
Kevin Fudge	Members representative from the Royal Navy; a volunteer from the Chain of Command
Steven Parker	Members representative from the Army; a volunteer from the Chain of Command
Stu Pullar	Members representative from the Royal Air Force; a volunteer from the Chain of Command
Not Board Members, but in attendance to provide technical, legal and actuarial advice as and when required	
<ul style="list-style-type: none"> • Defence Business Service (DBS), the Service Provider • Command Legal Service (CLS) • Government Actuary’s Department (GAD) • Assistant Head Armed Forces Pension Schemes (AHd AFPS) • Secretary • MoD – Commercial/Change 	

Tenure and Attendance

7. The Chair’s appointment will be for an initial 3 years. The military employer members will typically change every 2 to 3 years as this is the normal length of an assignment. Where the Board member is a Civil Servant, the tenure will endure whilst the incumbent is in the appointment. Employee members can remain for a period of up to 4 years. The Chair will need to consult with Pension Board members to try, if possible, to avoid too many Board members changing at the same time.

8. Pension Board members are expected to attend all meetings in person and there will be no alternate representation. If a short notice meeting is called, all Board members should make their best efforts to attend.

9. Each member must agree that information provided or gleaned in the course of their duties as a member of the Board (which may include confidential/personal information) will not be used for purposes outside of the delivery of the Board's function unless specifically agreed.
10. There must be at least 3 employer and 3 employee representatives at each Pension Board Meeting.

Removal

11. Pension Board members (including the Chair) may only be removed from office during a term of appointment by the Scheme Manager.
12. Members of the Pension Board may resign from the Pensions Board by giving one month notice in writing to the Chair.
13. In the event of resignation or other removal the Chair will work with the Secretary to ensure that an alternative member is appointed within three months of the date of resignation or removal.
14. In the event of resignation or other removal, the Pension Board can continue to meet and conduct its business although every effort should be made to ensure that there is a balance of employers/employees.

Voting

15. All 15 members of the Pension Board are voting members. Items arising at any meeting will be decided by a majority of voting members present. The Chair will have the casting vote.

Conflict of Interest

16. Conflict of interest means a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).
17. Subject to the agreement of the Scheme Manager, the Chair must be satisfied that none of the members have any conflict of interest. If it is determined that a member of the Pensions Board has an enduring conflict of interest, the appointment of the member must be terminated.
18. All members are to sign the Conflict of Interest declaration form and these should be held as a record and reviewed annually. Any individual conflict of interest should be declared before each meeting. Conflict of interest will be a standing agenda item.

Conduct of Business

19. The Chair of the Pension Board will report annually at the end of the FY on the activities of the Pension Board to the Responsible Authority (S of S). This is to include a suitable response to the Pension Regulator's annual report. This annual report should include input and support from Pension Board members.

20. The Pension Board will meet at least every six months but usually no more than 4 meetings a year.

21. The Chair of the Pension Board may call a meeting at any time providing two weeks' notice is given, if practicable. Such meetings may be in person, via telephone, video conference or other media as appropriate.

22. Minutes of all Pension Board Meetings will be recorded. Draft minutes will be circulated to the Pension Board and will be ratified by members at the next meeting; paperwork should be circulated 5 days before the next meeting.

23. A standing agenda will be used to guide the meeting and where there are specific issues to discuss, these will be put in as separate agenda items.

24. The Pension Board can decide to ask its professional advisers, representatives from third party suppliers, including the scheme administrator, and any other person to attend its meetings as it sees fit.

25. The Secretary will update the training log quarterly, or as and when necessary.

26. The Pension Board may agree on a decision outside of a meeting if 3 employee representatives and 3 employer representatives confirm their agreement either in writing or by electronic mail. Any such decision will be as valid and effective as if it had been passed by a meeting of the Board.

Committees and Sub-Groups

27. The Pension Board may establish such committees and sub-groups as it sees fit. They will decide if they need to have separate ToRs and if so, they will take responsibility for writing them within the Pension Board ToRs; any ToRs will be approved by the Chair.

28. Minutes of any subcommittee meetings will also be recorded. The Chair of the Pension Board will appoint the Chair of each sub-group.

Pension Board's Responsibilities

29. The Pension Board will monitor the effectiveness and efficiency of the scheme administration and focus on scheme performance, continuous improvement, value for money, risk management and compliance with statutory requirements.

30. The Pension Board will:

- monitor and advise the Responsible Authority on the performance of the service administration of the Pension Schemes;

- ensure that an appropriate risk management strategy is in place for the scheme and monitor the Scheme Administrator's risk management framework and internal control procedures;
- ensure that the Scheme Administrator has an effective audit strategy in place for the scheme and monitor the internal audit programme to check compliance;
- ensure there is a process to allow compliance with data management requirements;
- monitor the process and viability of the System Administrator's electronic data storage in order to assist with data extracts needed for actuarial valuations;
- report breaches of the law to the Regulator, when they have reasonable cause to believe that a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions;
- may consider and advise on (but not give final approval as not solely a pension's contract) any amendments to the terms of the Commercial Contract in place with the Scheme Administrator;
- may request (if Department funding is agreed) additional services from the Scheme Administrator.

Pension Board Member's Responsibilities

31. Members will be expected to:

- contribute in a way that will benefit scheme members, employers and the taxpayer;
- contribute to any discussion on policy issues as it affects the management and oversight of the Armed Forces Pension Schemes;
- be a credible and visible consultative body for Armed Forces Pension Schemes;
- have or be prepared to develop, appropriate knowledge and understanding of pensions legislation and best practice pensions governance; have a good understanding of and conversance⁴ with the Armed Forces Pension Schemes⁵ and allocate sufficient time to consider Pension Board Papers prior to boards;
- take part in training to gain and retain, up to date and working knowledge of the Armed Forces Pension Schemes. Thereafter keep their knowledge up to date by undergoing training as required; this will include but not be limited to:

⁴ Conversance is working knowledge of scheme rules and policy documents, so members can use them effectively in carrying out their duties.

⁵ AFPS 75, AFPS 05, AFPS 15, FTRS 97, RFPS 05 and NRPS

- a. taking part in themed training on administration, actuarial practice, benchmarking and member experience as provided at Board meetings by external contacts.
 - b. completion of the Public Service Toolkit provided by the Pension Regulator within six months of taking up post
- know where scheme rules and administration policies are relevant and where a particular provision or policy may apply;
 - be aware of the range and extent of pensions law applying to the scheme and recognise when and how it impacts on their responsibilities;
 - be able to challenge failures to comply with the scheme rules and legislation relating to governance and administration;
 - make every effort to attend any short notice meetings;
 - understand that if they fail to attend three consecutive meetings, they may be removed as a member;
 - will be expected to inform the Chair of any changes in respect of possible conflicts of interest.

Annex C. ARMED FORCES PENSIONS SCHEMES (AFPS) PENSION BOARD TRAINING LOG

	Topic	Robert Branagh	Helen Helliwell	Paul Griffiths	Steven Parker	Richard Sanders	Mark Collins	Andy Pike	Stu Pullar	Phillip Bassingham-Searle	Anna Wright	Tom Wipperman	Neil Marshall	Toria McPhaden	Kevin Fudge	William Grove
May 19	17th PB															
	CEM Benchmarking, Comms	✓	✓	✓	Absent	NOT YET IN POST	✓	✓	✓	✓	Absent	Absent	✓	NOT YET IN POST	Absent	Absent
Sept 19	18th PB															
	FSDC, Cyber and security, GDPR	✓	Absent	✓	✓	NOT YET IN POST	Absent	Absent	✓	✓	✓	Absent	✓	✓	Absent	Absent
Dec 19	19th PB															
	FSDC, NHS proposals	✓	✓	✓	Absent	✓	Absent	Absent	Absent	✓	✓	Absent	✓	✓	Absent	Absent

Annex D - Forward Plan of Activity

20 th Pension Board – 14 th May 2020 (11.00 – 14.00) Virtual Meeting - Zoom	Covid-19 (BCP) update DBS update Performance measures Rem update FSDC
21 st Pension Board – 21 st July 2020 (12.00-14.00) Virtual Meeting - Zoom	Covid-19 (BCP) update DBS update Performance measures Rem update Forward Plan
22 nd Pension Board – 9 th November 2020 (10.00-13.00) Virtual Meeting - Teams	Covid-19 (BCP) update DBS update Performance measures Rem update Forward Plan
23 rd Pension Board – 18 th March 2021 (13.00-16.00) Virtual Meeting - Teams	Covid-19 (BCP) update DBS update Performance measures Rem update Gurkha Pension Scheme

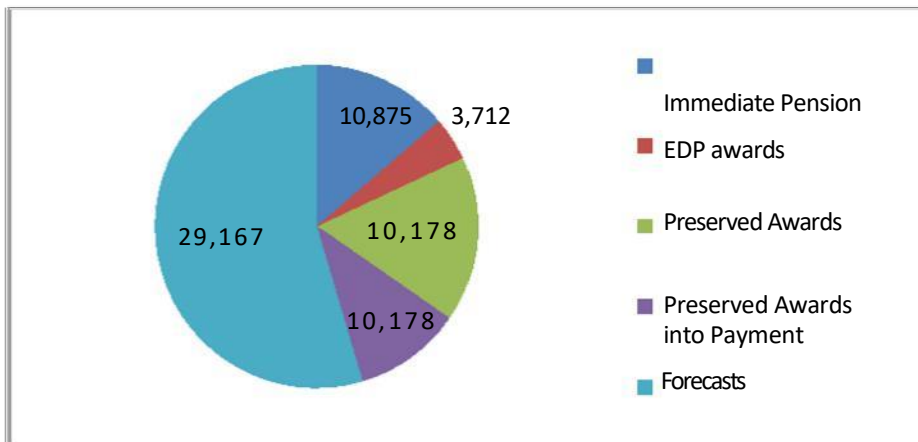
Annex E

AFPS HIGH LEVEL TRANSACTIONS

The following data has been provided by our commercial partner and details the number of AFPS high level transactions processed during 2019/20 by transaction type.

Immediate and Preserved Award volumes are in line with normal turnover. Forecast figures appear to have plateaued and are only slightly down on last year.

BUSINESS INFORMATION STATEMENT (BIS)



We are continuing to monitor BIS feedback and have made enhancements to the process and BIS template as a result.

	Apr19	May19	Jun19	Jul19	Aug19	Sep19	Oct19	Nov19	Dec19	Jan20	Feb20	Mar20
Benefit Information Statement	17,787	18,288	16,984	18,439	16,438	16,384	16,246	15,383	15,271	16,009	13,810	15,655

Source: Contract Partner DXC/SSCL

Annex F

COMPLAINTS

The number of complaints in relation to the population remains exceptionally low and represents good work by the services as well as the contract partner's enquiry centre.

CSC Complaints:

Total complaints received by DXC – 41, Majority were queries/disagreements with policy.

MOD Complaints:

A total of 36 formal complaints received during the year with 35% upheld/partially upheld.

Internal Disputes Resolution Process:

Members of an occupational pension scheme have a legislative right to have their complaint/appeal reviewed if they are dissatisfied with any decisions made in relation to the AFPS Schemes. This review process is known as the Internal Disputes Resolution and if members are unhappy with the decisions made by the administrators of the scheme under this process they will have recourse to the Pensions Ombudsman, whose decision is final and binding on both parties (unless the case is taken to the appropriate Court on a point of law).

Total Internal Disputes Resolution Process (IDRP) and Discretionary Awards Reviews processed by AFPS Authority staff during 2019/20:

Discretionary Award Review (DAR)	163
Discretionary Award Appeal Review (DAAR)	24
Internal Dispute Review Process (IDRP)	78

- The IDR procedure is broken down in to two types, formal complaints and ill-health appeals against ill-health Tier assessments.

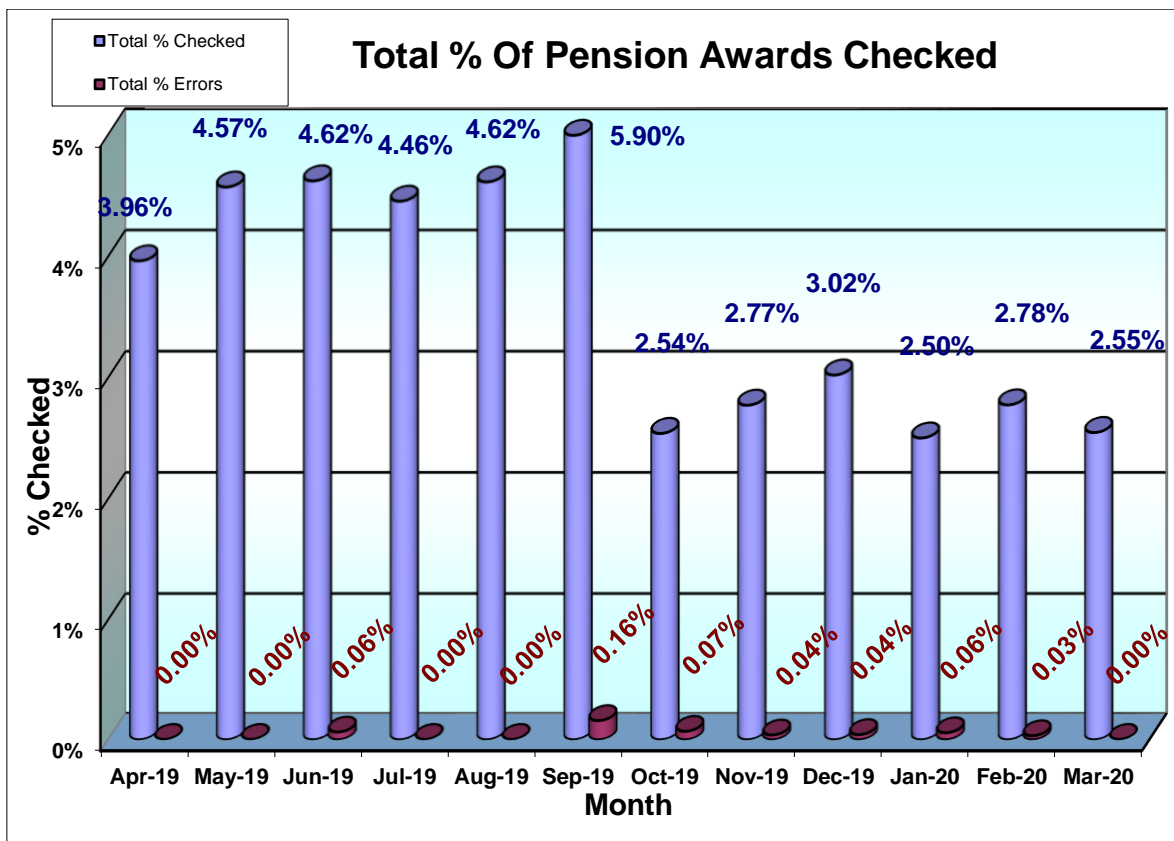
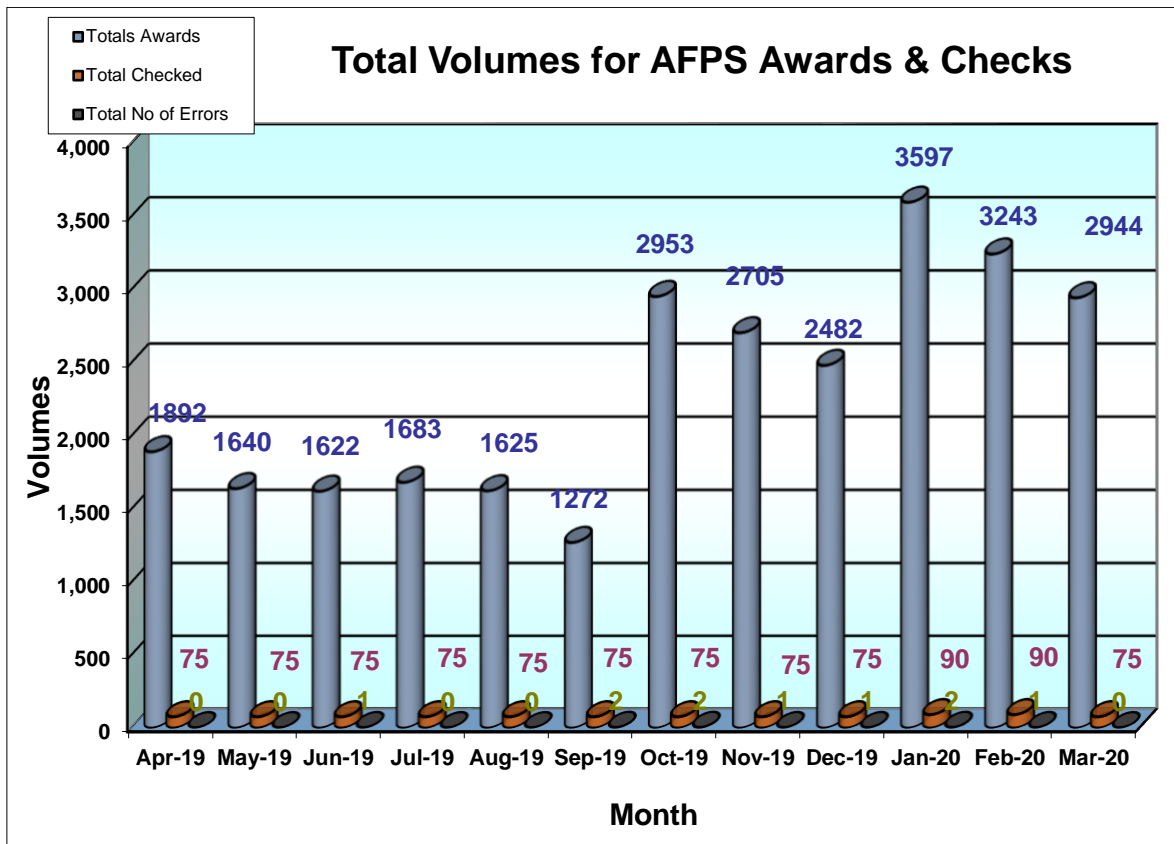
- Of cases registered during the performance year, approximately 56% (78) of IDRPCs were ill-health Tier appeals, of the remaining 17% (13) were IDRPC formal complaints for maladministration.
- Total ill-health appeals registered were 44 which were upheld at a rate of 30% during the period. (based on 22 random cases, 50% of total). There were a total of 1346 ill-health Tier assessments registered in the period.
- More serious complaints that have gone through the internal dispute process can be made to the Pensions Ombudsman. I am pleased to report that in this reporting period, another low number of Ombudsman complaints were made.

Armed Forces Pension Scheme Investigations by Pension Ombudsman

For complaints on topics such as Ill health, Interpretation of scheme rules, death benefits, 18% were upheld and 59% were not upheld.

Complaint Topic	2019/20	Outcome
Death Benefits	1	Upheld 1
Divorce	1	Not upheld 1
Ill Health Pension	12	Upheld 3, Partially upheld 1, Not upheld 7, withdrawn 1
Misquote/Misinformation	1	Not upheld
Overpayment	1	Partially upheld
Retirement benefits	1	Resolved
Total	17	

Annex G



Source: CPMT