



MINISTRY OF DEFENCE

Ministry of Defence

The New Armed Forces Pension Scheme **Initial Consultation**



March 2012

Foreword by the Secretary of State, the Rt Hon Philip Hammond MP

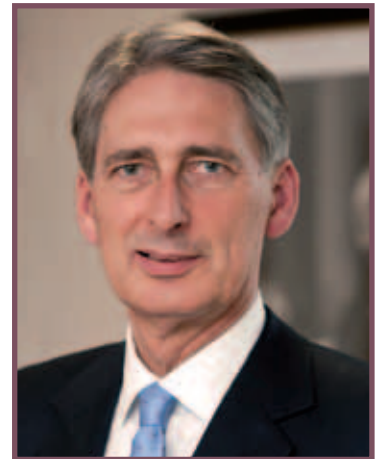
In March 2011, Lord Hutton's Independent Public Service Pensions Commission final report made recommendations for the reform of public service pension schemes, including the Armed Forces. The Government accepted these recommendations as a basis for consultation with public service workers.

As people live longer, the costs to the taxpayer of public service pensions continue to increase. We have to make sure that pension schemes are affordable, sustainable and fair.

In the Ministry of Defence, a dedicated team, which includes members of all three Services, is taking forward the design of a new Armed Forces Pension Scheme (AFPS) to meet Lord Hutton's recommendations. Building on the firm guarantee the Government has made on accrued rights to existing pension entitlements, this document sets out the consultation process the team is now undertaking with Service personnel and other interested groups on the reforms. It also makes clear that you will not be asked to pay personal contributions to the new AFPS when it is introduced.

I encourage people to respond to this document, either directly or through our on-line questionnaire. The Future AFPS Team will also be visiting and consulting with Service units, both in the UK and overseas in the coming weeks. All your feedback will be important in shaping a new scheme. This is the first stage of the process. Following this consultation, we intend to publish an outline scheme design which will contain greater detail and on which further views will be invited.

It is my intention to deliver a financially sustainable, fit for purpose pension scheme which will continue to support the recruitment and retention of the right people. I know how important the Armed Forces Pension Scheme is to members of the Armed Forces and I am determined that the new scheme will continue properly to reward the unique commitment that you all make to the defence of the Nation.



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SECTION 1

WHY CONSULT?

Key Points

- The Government intends to reform all public service pension schemes – this includes the Armed Forces.
- The Future Armed Forces Pension Scheme (FAFPS) team set up within MOD will conduct the consultation process.
- The consultation process will be in two phases:
 - Now - your chance to express your views as the new scheme is designed, including an on-line questionnaire for your completion.
 - From late Spring 2012 - MOD will publish an outline design for the new scheme.

The Government intends to reform all public service pension schemes, including the Armed Forces, following its acceptance of the recommendations of Lord Hutton's Independent Public Service Pensions Commission as a basis for consultation with public service workers (see Section 2). It is therefore important that you understand what these changes mean and have an opportunity to express your views as the new scheme is designed.

A Future Armed Forces Pension Scheme (FAFPS) team has been set up within MOD, including uniformed members of each Service, all with previous MOD pay and pension experience. This team will be responsible for developing the new Armed Forces Pension Scheme (AFPS) and conducting the consultation process.

The consultation will comprise two phases:

- The initial phase will gather the views of Service personnel and other interested parties before the outline design of the new scheme is agreed, probably in late Spring 2012. It includes:
 - The publication of this initial consultation document, which will be available electronically on both the internet and Defence intranet.
 - An on-line questionnaire.
 - A programme of presentations by the FAFPS team at selected locations across all three Services (spanning both the initial and subsequent phases).
 - A copy of the presentation made available to units not being visited.
 - Briefings to interested parties, including the Armed Forces Pay Review Body, Royal British Legion, Families Federations, Forces Pension Society and White Ensign Association.
- Should you have difficulty accessing the on-line questionnaire at [Link 1 of Section 7](#), a hard copy is at Section 6, which can be completed and returned to the address provided.

Before answering the on-line questions you should:

- Read this consultation document (Section 5 in particular).
- View the consultation presentation. A copy is available at [Link 2 of Section 7](#).
- MOD would welcome your questionnaire responses **by 11 May 2012**. If your unit is due to receive a presentation by the FAFPS team you do not have to wait until then before completing the questionnaire. The earlier you submit your questionnaire, the more it can be taken into account when developing the new scheme. You can also e-mail the FAFPS team direct at the mailbox link at Section 7 with additional thoughts.
- A further consultation phase will be undertaken once the outline scheme design has been agreed by the Government and this is expected to commence in late Spring 2012. A document setting out the proposed design of the new scheme will be issued, and comment invited, at that time.

SECTION 2

WHY CHANGE?

Key Points

- Changes to the Armed Forces Pension Schemes are not being made in isolation – MOD is responding to the Government’s requirement to reform all public service pension schemes.
- No change to the current schemes prior to April 2015.
- The Government is fully committed to ensuring that the new AFPS remains highly competitive.
- The new AFPS will support the future employment requirements of the Armed Forces as developed by the New Employment Model (NEM).

The UK population is living longer and this also applies to those who have served in the Armed Forces. This is good news, but it does mean that the Government is paying more in pensions to ex-Service personnel, and for longer, than originally anticipated and consequently the cost to the taxpayer has risen by over a third over the last 10 years. The costs of pensions to MOD have mirrored this trend, and have risen to £1.9 Bn (equivalent to 34% of the overall pay bill) in 2012, and are due to increase further. When set in the context of the current economic climate and a reducing overall Defence budget, this situation is increasingly unsustainable.

In response to rising pension costs, the Government commissioned a review of all public service pensions and asked Lord Hutton of Furness to chair an Independent Public Service Pensions Commission. Lord Hutton’s final report was published in March 2011 and the Government accepted its recommendations as a basis for consultation with public service workers – see [Link 3 of Section 7](#) for further information.

In accepting Lord Hutton’s report, the Government has made a number of important commitments which have implications for a new AFPS:

- New schemes will be introduced from April 2015.
- No further reform is anticipated for the next 25 years.
- You will not have to join the new AFPS if you are within 10 years of your Normal Pension Age (NPA) on 1 April 2012 (i.e. those born on or before 1 April 1967 (on or before 1 April 1962 for Reserves)) – see Section 4.
- The benefits you have already earned will be protected on adopting the new scheme and will remain linked to your final rank and salary – see Section 4.

The Government is fully committed to ensuring that the new AFPS remains:

- Competitive in relation to other public service schemes in recognition of your unique commitment to the Nation as a member of the Armed Forces.
- Recruitment and retention positive.
- Consistent with the development of a New Employment Model (NEM) - see overleaf.

New Employment Model

In 2010 a programme was established to redesign existing employment arrangements for Service personnel. This is known as the New Employment Model (NEM). The NEM programme will recommend a range of alternative policies covering new engagements, pay reform, allowances, training and education and housing models in Summer 2012 which will be considered by the Defence Board in Autumn 2012. It is too early to say what those recommendations might be. The detailed design of the NEM will take place between September 2012 and Autumn 2014. Wider consultation with Service personnel will take place during the design phase with implementation expected to take place from 2015. The FAFPS team is working closely with the NEM project to ensure that pension reform is coherent with other employment policies and the new AFPS continues to support the requirements of the Services.

You can find out more about NEM at [Link 4 in Section 7](#).

SECTION 3

YOUR CURRENT PENSION SCHEME EXPLAINED

Key Points

- This section provides some background on your pension scheme and explains the key differences between AFPS 75 and AFPS 05.
- You should read this carefully and understand what benefits the current schemes provide.

It is important that before you are consulted about changes to your pension scheme you understand the benefits that are offered in your current pension scheme. This section provides a brief guide to the existing benefits available. Further details are at [Links 5 and 6 in Section 7](#). A Glossary of Terms can be found at Section 8.

Regular Forces

There are currently two Armed Forces pension schemes for members of the Regular Armed Forces. The first was introduced in 1975 and was closed to new entrants from 6 April 2005. This is known as the Armed Forces Pension Scheme 75 (AFPS 75). On 6 April 2005 a new scheme was introduced for new entrants, known as the Armed Forces Pension Scheme 2005 (AFPS 05). Members of AFPS 75 were given the opportunity to transfer to AFPS 05 on 6 April 2006. The table below shows a comparison of the benefits available in each scheme.

Comparisons between AFPS 75 and AFPS 05

Benefit	AFPS 75	AFPS 05
Funding Structure	Unfunded and non-contributory	Unfunded and non-contributory
Overall Scheme Design	Defined benefit based on representative pay ¹	Defined benefit based on final pensionable pay
When do pension benefits start to build up?	From age 21 for officers and from age 18 for other ranks or date of joining if later	First day of paid service in the Armed Forces for both officers and other ranks regardless of age
Specialist Pay	Not pensionable	Not pensionable
Normal Pension Age	Age 55	Age 55
Maximum number of pensionable years' service	34 years for officers and 37 years for other ranks	40 years for both officers and other ranks
Accrual Rate	Uneven accrual rate – faster up to Immediate Pension (IP) point	Even accrual rate at 1/70th of pensionable earnings for each year of service

1. All those of the same rank with the same length of service retiring in the same year receive the same rate of pension, regardless of their actual earnings.

Benefit	AFPS 75	AFPS 05
Rate of pension increases once in payment	Consumer Prices Index (CPI): IP – from age 55 Invaliding Pension – on payment Preserved Pension – on payment	CPI increases: Early Departure Payments (EDP) – from age 55 Ill-health Pension – on payment Preserved Pension – on payment
Benefits for those who leave before the IP point or EDP	Preserved pension paid from age 60 (but age 65 for service after 6 April 2006) with a tax-free lump sum worth three times pension	Preserved pension paid from age 65 with a tax-free lump sum worth three times pension
Earliest age individuals can receive an income on leaving Service ² .	IP paid at age 37 and after 16 years for officers (RAF is age 38) and age 40 and after 22 years for other ranks. Level of IP income set at full pension value plus a tax-free lump sum worth three times annual pension is also payable	EDP paid after 18 years service and reaching at least age 40 for both officers and other ranks. Value of an EDP income at least half of preserved pension plus a tax-free lump sum worth three times preserved pension.
Non-attributable ill-health benefits	Service Invaliding Pension plus tax-free terminal grant of three times pension. Level of pension based on length of service and normally enhanced (if served longer than 5 years)	Three tier system dependent on seriousness of disability: Tier 1 ³ – Tax-free lump sum related to salary and number of years served. Tier 2 ⁴ – pension enhanced by one-third of remaining service to age 55 plus tax-free lump sum of three times pension. Tier 3 ⁵ – pension enhanced by half of remaining service to age 55 (with minimum pension based on 20 years' service) plus tax-free lump sum of three times pension

2. Separate arrangements exist for MODOs.

3. Tier 1 – for those with a condition that is not deemed to significantly impair their ability to get gainful employment in civilian life.

4. Tier 2 – for those with a condition that is deemed to significantly impair their ability to get gainful employment in civilian life, but are not permanently incapable of employment.

5. Tier 3 – for those who have a serious disability which is deemed to leave them permanently incapable of any further full-time employment.

Benefit	AFPS 75	AFPS 05
Value of lump sum if the member dies in Service?	A tax-free lump sum of about 3 times representational pay	A tax-free lump sum of four times pensionable pay
What pension would a spouse receive on the member's death (not due to service)?	Normally 50% of member's pension but ceases on cohabitation or remarriage. Short term pension payable at level of member's earnings up to 9 months	Up to 62.5% of member's pension paid for life. No short term pension
Is a partner ⁶ entitled to a pension?	No (unless death was due to service)	Yes, if evidence of a substantial relationship at time of member's death
Will a civil partner be entitled to a pension?	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts
Children's pensions	Children's pensions payable but not to children of post-retirement marriages or post-retirement civil partnerships	Includes pensions for children born after leaving the Armed Forces
Additional Voluntary Contributions (AVCs)	Options to increase death-in-service lump sum, widow's pension, purchase added years and top up AFPS benefits	Options to buy in-scheme added years. AVCs available from commercial sources

6. An eligible partner is someone (same sex or otherwise) with whom an individual has an established and exclusive relationship of dependence or interdependence.

Reserve Forces

There are two Armed Forces pension schemes for the Reserve Forces: **Full Time Reserve Service 97 (FTRS 97)** and the **Reserve Forces Pension Scheme (RFPS)**. FTRS 97 was introduced in January 1998 and closed to new entrants on 6 April 2005. RFPS was introduced in April 2005 for those joining the Reserves and for those starting or renewing an FTRS contract from 6 April 2005, and includes those on Additional Duties Commitments (ADC). Members of FTRS 97 were given the opportunity to transfer to RFPS from this date. The table below shows a comparison of the benefits available in each scheme.

Comparisons between FTRS 97 and RFPS

Benefit	FTRS 97	RFPS
Funding Structure	Unfunded and non-contributory	Unfunded and non-contributory
Overall Scheme Design	Defined benefit based on final pensionable pay	Defined benefit based on final pensionable pay
When do pension benefits start to build up?	First day of paid service in FTRS 97 for both officers and other ranks regardless of age	First day of paid service in the RFPS for both officers and other ranks regardless of age
Specialist Pay	Not pensionable	Not pensionable
Normal Pension Age	Age 60	Age 60
The maximum number of years' service that can count towards a pension	34 years for officers and 37 years for other ranks	40 years for both officers and other ranks
Accrual Rate	1/80th of final pensionable earnings for each year of service. (1/66.5th for FTRS Full Commitment)	Even accrual rate at 1/70th of pensionable earnings for each year of service
Pension increases once in payment	Consumer Prices Index (CPI): Invaliding Pension – on payment Preserved Pension – on payment	CPI increases: Ill-health Pension – on payment Preserved Pension – on payment
Benefits for those who leave before the Normal Retirement Age	Preserved pension paid from age 60 (but age 65 for service after 6 April 2006) with a tax-free lump sum worth three times pension	Preserved pension paid from age 65 with a tax-free lump sum worth three times pension
Earliest age individuals can receive an income on leaving Service	Age 60 for FTRS Home, Limited and Additional Duties Commitment. Age 55 for FTRS Full Commitment	Age 60

Benefit	FTRS 97	RFPS
Non-attributable ill-health benefits	Service Invaliding Pension plus tax-free terminal grant of three times pension. Level of pension based on length of service and normally enhanced (if served longer than 5 years)	Two tier system dependent on seriousness of disability: Tier 1 ⁷ – reckonable service enhanced by one-third of remaining service until end of engagement plus tax-free lump sum of three times pension Tier 2 ⁸ – reckonable service enhanced by half of remaining service to end of current engagement plus tax-free lump sum of three times pension
How much is the lump sum if the member dies in service?	A tax-free lump sum of three times final pensionable pay	A tax-free lump sum of four times final pensionable pay
What pension would a spouse receive on the member's death (not due to service)?	Normally 50% of member's pension but ceases on cohabitation or remarriage. Short term pension payable at level of member's earnings up to 9 months	Up to 62.5% of member's pension paid for life. No short term pension.
Is a partner ⁹ entitled to a pension?	No (unless death was due to service)	Yes, if evidence of a substantial relationship at time of member's death
Will a civil partner be entitled to a pension?	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts
Children's pensions	Children's pensions payable but not to children of post-retirement marriages or post-retirement civil partnerships	Includes pensions for children born after leaving the Armed Forces

7. RFPS Tier 1 – for those with a condition that is deemed to significantly impair their ability to get gainful employment in civilian life, but are not permanently incapable of employment.

8. RFPS Tier 2 – for those who have a serious disability which is deemed to leave them permanently incapable of any further full-time employment.

9. An eligible partner is someone (same sex or otherwise) with whom an individual has an established and exclusive relationship of dependence or interdependence.

Other schemes

- **NON-REGULAR PERMANENT STAFF (NRPS) PENSION SCHEME.** The **NRPS** will be affected by the proposed changes and serving members will be enrolled into the new scheme (unless covered by transitional protection). NRPS offers a pension based on final pensionable pay with the opportunity to accrue up to 40 years' benefits. The earliest age at which a pension can be paid is 60 but those on NRPS 05 terms may be paid a pension at age 55. The death-in-service lump sum is 2 times pensionable pay and survivors' benefits are paid to spouses, civil partners and children and cease on re-marriage or co-habitation. In the event of death attributable to service, pensions are paid for life and extend to eligible partners.

Other pension schemes which may be affected by the proposed changes and are subject to review are:

- **ROYAL GIBRALTAR REGIMENT PENSION SCHEME (RG).** The **RG** Pension Scheme is based on the AFPS 75 and offers pension and survivor benefits in accordance with the benefits paid under that scheme. The main difference is that members of the RG who leave before the IP point are required to have served a minimum of 7 years, rather than 2 years, before being entitled to a preserved pension.
- **GURKHA PENSION SCHEME (GPS).** The **GPS** offers a pension based on representative rates of pay for each rank with the opportunity to leave with an immediate pension after 15 years but not paid before age 33. Those who leave before this point but with a minimum of 5 years' service are entitled to a retirement gratuity and service gratuity. The death-in-service lump sum is 3 times representative pay at the rate used for AFPS 75 awards if death is due to service; otherwise based on Indian Army pay and length of service. Survivors' benefits are paid to spouses, civil partners, eligible partners and children. They are normally 60% of the member's entitlement and cease on re-marriage or co-habitation. In the event of death due to service, pensions are paid for life.

SECTION 4

TRANSITIONAL PROTECTION AND YOUR ACCRUED RIGHTS

Key Points

- The Government has offered additional transitional protection to those within 10 years of their Normal Pension Age (NPA).
- The NPA for the Armed Forces is currently 55.
- If you are not covered by the additional transitional protection you will be automatically enrolled in the new AFPS when it is introduced.
- The benefits that you have already built up in your existing pension scheme will be protected and you will receive them when you would have expected to – these are known as your accrued rights.
- In addition to your accrued rights, you will build up further pension benefits from the day the new AFPS is introduced.

Additional Transitional Protection

The Government has offered additional transitional protection, above and beyond the accrued rights below, for all members of public service pension schemes who are within ten years of their Normal Pension Age (NPA) on 1 April 2012; those people will see no change to the amount of pension they will receive or the date from which it can be drawn. This means that:

- If you are a member of AFPS 75, AFPS 05 or FTRS 97 (Full Commitment) and are aged 45 or over on 1 April 2012 (i.e. born on or before 1 April 1967), you will be able to remain in your current pension scheme and your benefits will be unaffected.
- If you are a member of the RFPS (including those on Additional Duties Commitment) or FTRS 97 on Limited (LC) or Home Commitment (HC) and are aged 50 or over on 1 April 2012 (i.e. born on or before 1 April 1962), you will be able to remain in your current pension scheme and your benefits will be unaffected. This also applies to members of the Non-Regular Permanent Staff scheme.

Further information is available at [Link 7 of Section 7](#).

If you are not covered by the additional transitional protection outlined above, you will be automatically enrolled into the new AFPS when it starts. We do not intend for there to be an 'Offer to Transfer' from your existing pension scheme to the new scheme.

Some Service personnel have an earlier Normal Retirement Age (NRA) than their Normal Pension Age (NPA) of 55 (or 60 for the RFPS, NRPS, FTRS 97 (LC) or (HC)). The setting of the NRA is based on operational requirements for your Service or specialism and forms part of

your Terms and Conditions of Service (TACOS). Future TACOS are being considered as part of the New Employment Model but until any changes are made, you will still have to leave your Service at your NRA. However if you have served past the Immediate Pension/Early Departure Payment (IP/EDP) qualification point, you will still receive an IP or EDP until your full (deferred/preserved) pension begins.

Accrued Rights

The Government has stated that:

‘Pension benefits already earned up to the implementation date of any new scheme will be protected. Individuals will be able to draw these benefits at the same age as now and they will be based on their final salary at the date of retirement’.

If the additional transitional protection outlined above does not apply to you, you will be automatically enrolled in the new scheme when it is introduced. The rights that you have accrued under your current pension scheme will be protected. Full details of AFPS 75 and AFPS 05 accrued rights have been published in the DIN at [Link 7 of Section 7](#) and further examples are in the FAFPS consultation presentation at [Link 2 of Section 7](#).

Accrued rights for AFPS 75 encompass supplements for those who are entitled to them (Professional Aviators, RN Clearance Divers, Medical and Dental Officers (MODO) and Nurses). Accrued rights to the supplements are currently being calculated and will be promulgated in due course.

Examples of accrued rights for the AFPS 05 MODO bonus payment are also being calculated and will be promulgated in due course.

Examples of accrued rights to Commutation (under AFPS 75 only) are currently being calculated and will be promulgated in due course.

Calculation of Accrued Rights

Armed Forces Pension Scheme 1975 (AFPS 75)

AFPS 75 offers a pension based on rank and length of service at the point of leaving the Services using representative rates of pay for each rank. Pension benefits do not build up at an even rate and the calculation for accrued rights involves a complex formula. However, put simply, your accrued rights will be calculated using the service accrued to the date of enrolment to the new scheme and the pension codes and the representative rates of pay for your rank on leaving the Service. This ensures that your accrued rights maintain a link to final salary (**at the rank at which you retire**) and that any promotion after enrolment into the new scheme will also be fully taken into account. If you leave the Service after the IP point, but before age 55, you will still receive the proportion of your IP accrued prior to the introduction of the new scheme at the point of leaving the Service. An immediate lump sum payment (not taxable) of 3 times your accrued IP will also be paid on leaving.

Armed Forces Pension Scheme 2005 (AFPS 05)

AFPS 05 accrued rights will be based on your final pensionable earnings (the greatest amount you earn for 365 consecutive days in the final 3 years of service) at exit multiplied by 1/70th (the accrual rate for AFPS 05) and the number of years served to the point of transition to the new scheme. If you leave the Service after the EDP point, but before age 55, you will receive the proportion of your entitlement to EDP accrued prior to the introduction of the new scheme at the point of leaving the Service. An immediate lump sum payment (not taxable) of 3 times your accrued rights preserved pension will also be paid on leaving.

Reserves

FTRS 97 and RFPS accrued rights will be based on your pensionable earnings (the greatest amount you earn for 365 consecutive days in the final 3 years of service) on retirement from the Service multiplied by the accrual rate for your scheme and the number of years served to the point of transition to the new scheme.

Other Schemes

Non Regular Permanent Staff (NRPS) Pension Scheme

Your accrued rights will be calculated using the same methodology as outlined for FTRS 97 and RFPS, using an accrual rate of 1/80th.

Royal Gibraltar Regiment (RG) & Gurkha Pension Schemes

The RG and Gurkha pension schemes are subject to review. Further details will be published in due course.

SECTION 5

WHAT AM I BEING CONSULTED ABOUT?

Key Points

- AFPS 75 is closed to new members – all comparisons between current and potential new schemes, in areas that are covered by this consultation, are based on AFPS 05.
- The new scheme will be based on career average earnings, not final salary.
- The Armed Forces Normal Pension Age will rise from 55 to 60, but this does not mean that you have to serve until you are 60.
- MOD would welcome your comments – you can go on-line at [Link 1 of Section 7](#).
BEFORE YOU DO:
 - Read this Consultation Document carefully – this section in particular.
 - View the consultation presentation at [Link 2 of Section 7](#).

Section 2 outlined the reasons for change; this section will look at the following:

- What has already been accepted as Government policy – **what is fixed**.
- Elements that are not yet fixed, including areas where MOD would welcome your views – **what is not fixed**.

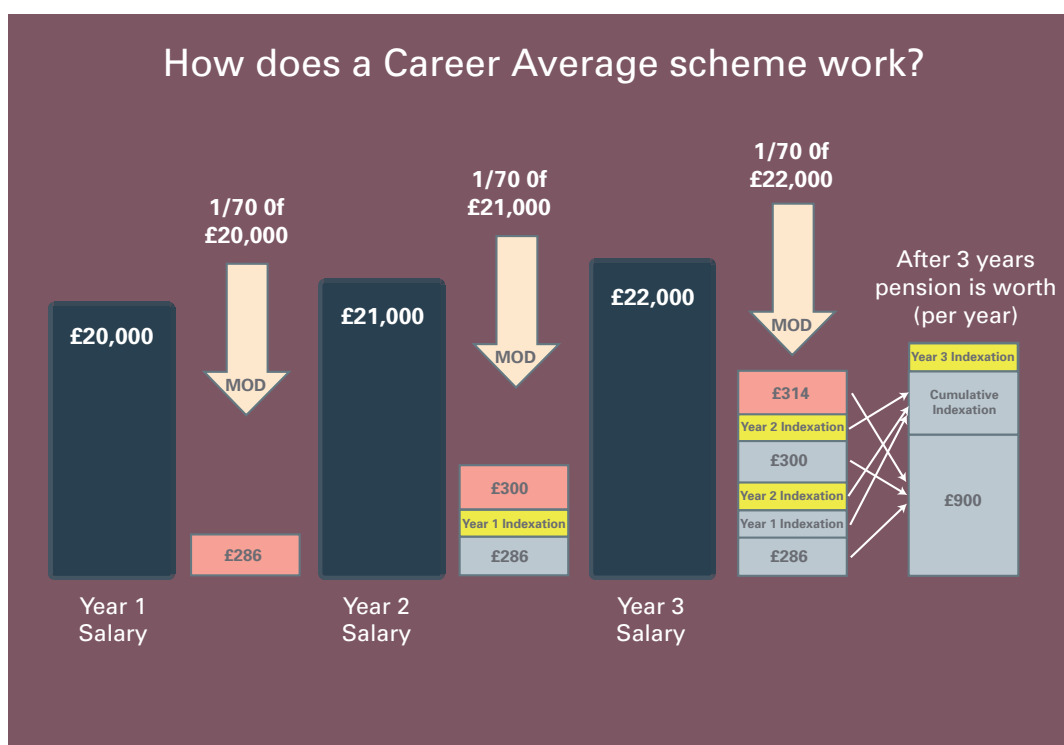
All comparisons between the existing schemes and the future design use AFPS 05 as a start point. As AFPS 75 is now a closed scheme (unavailable to new entrants but still with existing scheme members) comparisons of potential changes, in areas that are subject to this consultation, (i.e. included in the questionnaire) will be against AFPS 05 current provision. For example, while AFPS 75 members may receive an Immediate Pension (IP) on leaving the Armed Forces and AFPS 05 members receive an Early Departure Payment (EDP), the consultation will focus on EDP issues only.

What is fixed

- **Unless you are covered by the additional transitional protection outlined in Section 4, you will be automatically enrolled in the new Armed Forces Pension Scheme when it is introduced.** Unlike on the introduction of AFPS 05, we do not intend for there to be an offer to transfer and consequently no opportunity to remain in your present scheme, but you will retain your accrued rights under your old scheme as also outlined in Section 4.
- **You will not be asked to pay personal contributions to your pension scheme when the new AFPS is introduced.** You currently do not pay personal contributions towards your pension benefits. MOD makes contributions towards your pension benefits and this will continue in the new scheme.
- **The new AFPS will be based on Career Average Revalued Earnings (CARE or 'career average'). AFPS 75 and 05 are final salary schemes** (although AFPS 75 pensions are based on a representational rate of pay for each rank). In such schemes, individuals who experience faster wage growth, particularly towards

the end of their career, earn disproportionately higher levels of benefit than those whose wage growth is slower. A career average system will address this issue. It will ensure that an amount equal to a percentage of your earnings each year (the accrual rate) is placed into your pension. That amount, which will then increase in line with an earnings index to take account of inflation (the exact detail of this is yet to be determined), will be the amount to go towards your pension. These individual amounts build up to create your final pension payable each year (your 'pension pot').

For example, if in years 1, 2 and 3 you earn £20,000, £21,000 and £22,000 per annum respectively, at an assumed accrual rate of 1/70th, the amount which would go towards your pension pot would be £286, £300 and £314 each year (and each amount would be index linked for inflation) so that after 3 years your pension pot would be £900 (also index linked for inflation). The diagram below provides further detail but you should note that the 1/70th accrual rate (applicable to AFPS 05) has been used for illustrative purposes only – the accrual rate that will apply to the new scheme has not yet been agreed (see below):



- **There will be a Normal Pension Age (NPA) of 60.** The NPA is the earliest age you can draw a full pension, although reduced benefits are available, if you have sufficient qualifying service, before this age. The NPA is already 60 for RFPS, most FTRS 97 Commitments and NRPS. For AFPS 75, AFPS 05 and FTRS 97 (Full Commitment), the NPA is 55, therefore, under the new scheme, the NPA will be 5 years greater than it is now for these schemes. The Royal Gibraltar Regiment and Gurkha pension schemes are subject to review and further details will be published in due course.

Lord Hutton recommended that the NPA be linked to the State Pension Age (explained below), but also said that an NPA of 60 should be set for the uniformed elements of the public service (Police, Firefighters and Armed Forces) to reflect the unique characteristics of the work involved. This does not mean that you have to serve until 60, just as most people do not serve to 55 today; the length of your service will continue to be defined by the needs of the Services and options for future retirement ages are being considered as part of the New Employment Model (NEM). 60 will be the age at which you can receive full benefits, although there will be reduced benefits for people leaving the Armed Forces before reaching 60.

- **The Deferred Pension Age (DPA) will be linked to the State Pension Age (SPA).** The DPA (also known as the Preserved Pension Age) is the age that you can draw a pension if you leave the Service before qualifying for an IP or EDP as outlined in Section 3. Although Lord Hutton recommended an NPA of 60 for the Armed Forces in recognition of the nature of the employment, he did not make the same recommendation for the DPA. It is currently age 65 for all service since 6 Apr 2006 and will be linked to each rise of the SPA in the new scheme.
- **Benefits in payment should be annually uprated by the Consumer Prices Index (CPI).** This is in line with current Government policy for all public service pension schemes.
- **Pension Lump sum will not be automatic but will still be available by commutation.** Lord Hutton recommended that the new scheme should offer a choice to have a lump sum at the Normal Pension Age (outlined above) in addition to monthly pension payments. The new scheme will not therefore automatically pay lump sums at the NPA as they do now. You will instead be able to receive a lump sum by 'giving up' (known as commutation) a part of your annual pension.
- **Annual Pension Statements will be provided.** One of Lord Hutton's recommendations was that all public service schemes should issue regular benefit statements. You will receive annual pension statements from the introduction of the new scheme.
- **Cost Cap.** Once the design of the new scheme has been agreed, the Government will set a cap on the employer's contribution with a view to constraining costs which arise from unforeseen pressures (such as further increases in longevity). If costs rise above the cap in future, MOD will consider the best approach to managing the increasing costs. Service personnel will be fully consulted on any changes. The Government has said that future public service pension schemes should be designed to be fair and sustainable, and to endure for 25 years. This means that, during this period, no changes to scheme design, benefits or contribution rates should be necessary outside of the processes agreed for the cost cap. Indeed if there were to be changes, a further consultation would have to be undertaken.

What is not fixed

- **Benefits earned under the new scheme while serving will be uprated by an average earnings index.** Under a career average scheme, your 'pension pot' (the amount of pension built up each year) will increase each year by the amount of benefit earned in that year's service. It will also be increased annually by an amount that reflects inflation.

- **Accrual rate.** This is the rate by which pension benefits are calculated each year as a percentage of your annual salary (before inflationary increases are also factored in); i.e. the amount of your annual salary that MOD puts into a pension pot on your behalf. The accrual rate for the Armed Forces scheme will be set to meet the operational requirements of the future Armed Forces, and ensure that the scheme remains amongst the best available.
- **Overall Costs.** No specific target has been set for future costs, however, a new scheme must be affordable and sustainable in the long term. If the cost cap outlined above is exceeded, MOD would be required to take measures to bring expenditure back into line.
- **The balance between the Accrual Rate and the EDP.** The Government will need to strike the right balance between setting an accrual rate, which provides an appropriate level of benefits for all scheme members, and setting the value of an EDP replacement which encourages the retention of the necessary experience and ensures that the Service manpower requirement is maintained. The accrual rate and value of the EDP will determine the majority of the costs of the new scheme; a more generous accrual rate may result in a less generous EDP replacement and vice versa.
- **Ancillary Benefits.** Lord Hutton said that ancillary benefits (dependants' benefits, ill health etc) should be broadly retained in their present form. MOD will ensure that the new AFPS meets this commitment.
- **Maximum pensionable years' service.** AFPS 75, AFPS 05, RFPS and FTRS 97 each have a cap on the amount of years of service in respect of which you can accrue pension benefits (AFPS 75 and FTRS 97 maximum accrual is 34 years from age 21, or date of entry, for officers, and 37 years, from age 18 or date of entry, for other ranks, and AFPS 05 and RFPS allow accrual up to 40 years from the first day of paid service). MOD will seek to lift the maximum cap and allow accrual to continue for the duration of paid service.
- **Additional Voluntary Contributions.** Currently Service personnel have the option to purchase Additional Voluntary Contributions (AVCs) in a variety of forms (including additional years); it is the intention that you will continue to be able to purchase AVCs, but the detail has yet to be agreed.
- **Removal of abatement.** Currently if you re-join the Armed Forces, and already have an EDP under AFPS 05, dependent on the length of the break in your military service, you may have to pay back some of your lump sum. Under either AFPS 75 or AFPS 05, you may also have your pension suspended or reduced to ensure that your pension and your new rate of pay do not exceed your old rate of pay (adjusted for inflation). MOD will seek to remove such restrictions on re-employment in the Armed Forces or other public service.
- **The EDP point.** MOD considers that some form of incentive, payable before the new scheme's NPA of 60, is required to encourage Service personnel to serve longer in the Armed Forces. The current qualification points for payments in the AFPS 75 and AFPS 05 schemes are outlined at Section 3. It may be that New Employment Model work on career/length of service structures results in changes to these. *MOD would like your views on what you consider to be an appropriate length of qualifying service for an EDP. See Section 6 (Q7).*

- **EDP and Lump Sum.** The Armed Forces pension schemes are unique, compared with the other schemes, in offering a lump sum and a monthly income after relatively short periods of service (details at Section 3). This is because, unlike other public services, the Armed Forces can only guarantee a full career to a minority of its workforce. There is a balance to be struck between the value of the lump sum and the monthly income, which is something we would welcome your views on - *see Section 6 (Q8, 9 and 10).*
- **Governance.** The Armed Forces Pension Schemes are the responsibility of the Secretary of State for Defence who discharges this responsibility through MOD. One of Lord Hutton's recommendations was that each public service pension scheme should have a properly constituted, trained and competent pension management structure, with member nominees, responsible for meeting good standards of governance including effective and efficient administration. *MOD is interested in your thoughts on how you would wish your individual or collective views to be represented. See Section 6 (Q11).*

MOD would welcome your comments on any issues relating to the design of the new scheme - a free text box can be found at the end of the on-line questionnaire at Section 6.

SECTION 6

INITIAL CONSULTATION QUESTIONNAIRE

Available online at: <http://www.surveymonkey.com/s/NewArmedForcesPensionScheme>

Q1. Which Service are you in? Naval Service (Incl RM) ☐ Army ☐ Royal Air Force ☐
Spouse/Relative of a Service person ☐ (go to Q7)

Q2. Are you? (X where appropriate) Regular ☐ Reserve ☐

Q3. Are you an Officer or Other Rank? (X where appropriate) Officer ☐ Other Rank ☐

Q4. What age are you? (X where appropriate) 16-20 ☐ 21-30 ☐ 31-40 ☐ 41-50 ☐ Over 50 ☐

Q5. How long have you served in the Armed Forces? (X where appropriate) Less than 5 yrs ☐ 5-9 yrs ☐
10-12 yrs ☐ 13-16 yrs ☐ 17-22 yrs ☐
23-25 ☐ More than 25 yrs ☐

Q6. At what age do you intend to leave the Armed Forces? (X where appropriate) Before 25 ☐ 26-30 ☐
31-40 ☐ 41-44 ☐ 45-50 ☐ 51-55 ☐
Over 55 ☐ Don't know ☐

Q7 Those Service personnel in AFPS 05 who serve for 18 years and reach age 40 and who leave the Armed Forces are entitled to an Early Departure Payment (EDP), which consists of a monthly income and a lump sum of 3 times the preserved pension. Those personnel in AFPS 75 have a similar entitlement known as the Immediate Pension (IP). Increasing longevity and rising costs mean that this 18/40 point is subject to review.

The following 3 questions refer to potential EDP qualification criteria. Please indicate for each how you would react?

(X one box only for each question)

	I would leave the Services before reaching this point	I would serve to this point to earn the EDP payment	Don't know
Q7a. If the EDP was set at 20 yrs service and age 42?	☐	☐	☐
Q7b. If the EDP was set at 21 yrs service and age 43?	☐	☐	☐
Q7c. If the EDP was set at 23 yrs service and age 45?	☐	☐	☐

Please insert any additional information which you feel is relevant to this question:

Q8. The current Armed Forces Pension Schemes offer a lump sum and a monthly income for those who leave the Armed Forces after serving for a minimum period. For example, those in AFPS 05 who serve for 18 years and reach age 40 are entitled to an Early Departure Payment (EDP) which consists of monthly income and a lump sum of 3 times the preserved pension. Those personnel in AFPS 75 have a similar entitlement known as the Immediate Pension (IP).

When considering the EDP / IP within the new AFPS, which would be more important to you?

Please rank the following options in order of attractiveness:

1 = most important
3 = least important

- A Lump Sum ☐
- A Monthly Income ☐
- A Lump Sum **and** a Monthly Income (likely to be less) ☐

Q9. Why would an EDP **Lump Sum** be attractive to you? **(X one answer only):**

- Deposit for property purchase ☐

Reduce / pay off mortgage ☐

Set up as self employed ☐

Training for employment ☐

Childrens' education / Further education ☐

Tax efficient way of receiving EDP ☐

Long term investment ☐

Pay off debts ☐

Other (please specify below): ☐

Q10. Why would an EDP **Monthly Income** be attractive to you? **(X one answer only):**

- Top up other earnings ☐

Top up income from savings/investments ☐

A guaranteed regular income, helping me budget ☐

Other (please specify below): ☐

Q11. Who do you believe could best represent your needs in the management of the new Armed Forces Pension Scheme? (**X one answer only**)

The Chain of Command ☐

A specially selected Officer or Warrant Officer ☐

The Armed Forces Families Federations ☐

The Forces Pension Society ☐

Other (please specify below): ☐

Use this space to add any additional views you have on the design of the new Armed Forces Pension Scheme.

Please return to the Future AFPS Team at: dcdspers-pcv-fafpsmailbox@mod.uk
or Fax: 020 721 89474 or by post to 6-N-28, MOD Main Building, London, SW1A 2HB
by 11 May 2012

SECTION 7

WHERE CAN I GET FURTHER INFORMATION? ACCESSING THE ONLINE QUESTIONNAIRE

Link 1 - Questionnaire: <http://www.surveymonkey.com/s/NewArmedForcesPensionScheme>

Further information on the new pension scheme can be found on the Defence Intranet at the [Future AFPS Questions and Answers](#) and on the [internet](#). This document will be updated in response to issues raised in the consultation process and regularly updated as further details become available.

You can contact the Future Armed Forces Pension Scheme (FAFPS) team at: dcdspers-pcv-fafpsmailbox@mod.uk. The FAFPS team are not qualified to give financial advice to individuals; should you feel this is necessary, you should contact an independent financial adviser.

Further information can also be found through:

Link 2 – Consultation presentation: <http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/FindOutAboutTheReviewOfPublicServicePensionSchemes/FutureArmedForcesPensionSchemeStandardPresentation.htm>

Link 3 - DIB 2011/18: The Independent Public Service Pensions Commission final report
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/News/BriefingNotes/MOD/1811IndependentPublicServicePensionsCommissionPublishesFinalReport.htm>

Link 4 – New Employment Model:
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Teams/BrowseTeamCategories/ProgrammesProjectsAndWorkingGroups/NewEmploymentModelProgrammeForServicePersonnel.htm>

Link 5 - Your Current Pension Scheme: further details available on the internet at:
<http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/armedforcespensionsandredundancy.htm>

Link 6 – Your Current Pension Scheme: further details available on the Defence Intranet at:
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/>

Link 7 – Accrued Rights DIN
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Library/CivilianAndJointService/BrowseDocumentCategories/Personnel/PensionsAndCompensationSchemes/ArmedForcesCompensationScheme/Din2012din01063.htm>

Link 8 - DIN 2011DIN01-226: the new Armed Forces Pension Scheme (update on new scheme)
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Library/CivilianAndJointService/BrowseDocumentCategories/Personnel/PensionsAndCompensationSchemes/Din2011din01226.htm>

Link 9 - Find out about the new Armed Forces Pension Scheme (team website on intranet)
<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/FindOutAboutTheReviewOfPublicServicePensionSchemes/>

or on the internet at:

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

SECTION 8

GLOSSARY OF TERMS

Abatement

Where payments (e.g. of pension) are reduced in certain circumstances.

Accrual Rate

The rate at which pension benefits build up.

Accrued Benefits / Pension Rights

The pension benefits or rights built up as a result of membership of a pension scheme. Accrued benefits depend on specific circumstances, including the terms of your pension scheme.

Additional Voluntary Contributions (AVCs)

Payments made by a scheme member to enhance pension or death benefits.

Armed Forces Pension Scheme 2005 (AFPS 05)

The pension scheme for Regular Service personnel for new entrants from 6 April 2005 and from 6 April 2006 for Service personnel who were in service on that date and elected to transfer from AFPS 75.

Armed Forces Pension Scheme 1975 (AFPS 75)

The pension scheme for Service personnel introduced in 1975 but closed to new entrants from 6 April 2005.

Attributable

The term used to describe an injury, illness or death that was mainly caused or made worse by service in the Armed Forces.

Attributable Benefits

Benefits that are paid when a Service person is injured, becomes ill or dies, where this is attributable to service in the Armed Forces.

Automatic Enrolment

A pension scheme where an individual is made a member by default and actively has to decide to leave the scheme.

Career Average Revalued Earnings (CARE) or 'career average' scheme

A defined benefit scheme that gives individuals a pension based on a percentage of the salary earned in each year of their working life.

Commutation

When a member gives up part of their pension in return for a tax-free sum of money.

Consumer Prices Index (CPI)

An internationally comparable measure of inflation based on structures in international legislation and guidelines, and launched in 1996. Like the Retail Prices Index (RPI), it tracks the changing cost of a fixed basket of goods and services over time. However unlike the RPI, it disregards some items, such as housing costs. It also has a different population base for the indices from the RPI and a different way in which the index is calculated.

Deferment

Benefits that are preserved ('deferred') for a member of the Armed Forces who leaves before their pension is paid.

Deferred Pension

A pension which is 'deferred' (or 'preserved') for a member who leaves the Armed Forces after a minimum of two years' service and before becoming eligible to receive a pension immediately (or having decided not to transfer it to another pension scheme).

Defined Benefit (DB) Scheme

A pension scheme where the pension is related to the member's pensionable earnings and/or length of service.

Early Departure Payments (EDP)

For AFPS 05 members – payments to personnel who leave service before age 55, after a minimum of 18 years' service and who are at least age 40 (the EDP 18/40 point). Payments are made up of a lump sum equal to three times the value of the personal annual pension and an income payment equal to at least 50% of the preserved pension. From the age of 55, the income payment increases to 75% of the preserved pension and from that age, is increased in line with inflation (CPI) from the date when the EDP was first paid. With every complete year of service beyond the EDP 18/40 point, the EDP increases by 1.6667% of the deferred pension value. EDP income ceases at age 65 when the deferred pension and pension lump sum become payable.

Final Salary Scheme

A defined benefit scheme which gives individuals a pension based on the number of years of pensionable service, the accrual rate and final earnings (the latter as defined by the scheme).

Immediate Pension (IP)

For AFPS 75 members – a pension paid immediately on leaving the Armed Forces after 16 years' reckonable service from age 21 as an Officer or 22 years' reckonable service from age 18 as an Other Rank.

Index-Linking

Annual increase in pension value in line with movements in the Consumer Prices Index (CPI). Changes are made in April, using the previous September's annual headline rate of inflation. Ill-health pensions, pensions and dependants' pensions are index-linked from the date of payment. Preserved pensions are index-linked using prices from the date of leaving service. IPs and EDPs are index-linked from age 55.

Normal Pension Age

The earliest age at which, in the normal course of events, you can choose to receive immediate payment of your pension without reduction.

Pensionable Pay

Basic pay including the X factor applicable but excluding allowances, bonuses, Financial Retention Incentives, Loan Service Pay and any form of Specialist Pay.

Preserved Pension – see 'Deferred Pension' above

Representational Rate of pay for each rank

For AFPS 75 members - for each rank below 1 star, pensions are not based on individual earnings, but on a representative rate of pay for each rank. This 'all of one company' principle means that all those of the same rank with the same length of service retiring in the same year receive the same rate of pension, regardless of their actual earnings.

Reserve Forces Pension Scheme (RFPS)

Those who start or restart on Full Time Reserve Service (FTRS), including Additional Duties Commitment terms on or after 6 April 2005, are automatically members of the RFPS. Personnel called out for service under section 32, 43, 52, 54 or 56 of the Reserve Forces Act 1996, (or corresponding section of the Reserve Forces Act 1980) from that date may choose to become members of RFPS. Those in service before 6 April 2005 and still in service on 6 April 2006 were given the opportunity to transfer to this scheme.

Service Personnel and Veterans Agency (SPVA)

MOD agency which administers the Armed Forces Pension Schemes and authorises appropriate payments.

State Pension Age (SPA)

The age at which you can receive your State pension. It is currently 65 for men and 60 for women, but will gradually increase to 68 for all by 2046.

