

**Pensions & Compensation
Policy Instruction**

**The Armed
Forces Pension
Schemes**

PCPI 03/15

2015

**Reference: CDP Remuneration – AFPS – Resettlement - Commutation
Resettlement**

Resettlement Commutation - Officers Commissioned from the Ranks

Which schemes are affected:	AFPS 75
Who should read this:	DBS Veterans UK
Date of Issue	24 February 2015
When it takes effect:	Immediately
Review date:	24 February 2017
Contact points:	CDP Rem AFPS Pol 4, 9621 87573

INTRODUCTION / ISSUE

1. Calculating Resettlement Commutation for Officers Commissioned from the Ranks (OCFR).

POLICY INTENT

2. This PCPI restates how the current rules should apply to OCFRs depending on length of commissioned service. It is not announcing new policy or a change of policy.

a. Less than two years

The qualifying period for a member's substantive pension rank for officers is two years. For an OCFR who leaves with less than two years commissioned service, the rate of pension is based on the rank held before they were commissioned. The maximum resettlement commutation calculation is based on the same pension code.

b. More than two years, less than five years

Where the OCFR serves at least two years but less than five years, the pension is based on OR9 rates plus Commissioned Service Addition. However, as a substantive officer, the Resettlement Commutation is calculated using the pension code for officers

c. Redundancy

If an OCFR's officer service ends before the two year point, due to redundancy, the pension is based on officer rates. The resettlement commutation is calculated using the same pension code.

d. Ill health

Resettlement commutation is not available if the member leaves service due to ill health, see SI 2010/832 paragraph 29(1)(b) (Annex A).

LEGISLATION

3. The legislation governing entitlement to Resettlement Commutation is in Part 4 of SI 2010/832 (see Annex A).

RISK

4. Failure to apply the entitlement to officer rates of Resettlement Commutation in cases where the OCFR holds a substantive officer rank will result in undervaluation of the maximum award allowed.

COMMUNICATIONS

5. This PCPI is for Veterans UK as the Scheme Administrator.

BACKGROUND

6. In 2012, CLS advised that:

- a. The rules of the commutation scheme (SI 2010/832 copied at Annex A) are separate from those of the AFPS 75 pension scheme.
- b. Article 30 (1)(a) (SI 2010/832) applies to an officer (i.e. someone who retires in the rank of officer, whether or not they were promoted from the ranks at any time), and 30(1)(b) applies to a non-officer, as does 30(4).
- c. There is no provision requiring or allowing officers whose AFPS 75 pension is calculated at OR rates (with or without the commissioned service addition) to be treated as non-officers under the commutation scheme rules.
- d. Members are not able to "opt" to be treated as officers under the commutation scheme, because the scheme treats them as officers in any event.

ACTION REQUIRED

7. Resettlement commutation is based on the rank that the individual holds at the time of leaving Service, so there is no automatic link to the pension awarded and no choice for the individual or for the awarding authority as to which rate should be paid. DBS Veterans UK should ensure current processes are consistent with the policy intent and implement change if necessary.

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Annex:

A. Armed Forces (Redundancy, Resettlement and Gratuity Earnings Schemes) (No. 2) Order 2010 (SI 2010/832) – Part 4

**ARMED FORCES (REDUNDANCY, RESETTLEMENT AND GRATUITY
EARNINGS SCHEMES) (NO. 2) ORDER 2010 (SI 2010/832)**

Part 4 - THE ARMED FORCES RESETTLEMENT COMMUTATION SCHEME
2010

Interpretation of Part 4

27. (1) The Scheme set out in this Part shall be known as the Armed Forces Resettlement Commutation Scheme 2010 (“the AFRCS 2010”).

(2) In this Part—

“ill-health pension” means service invaliding retired pay or pension under the AFPS 1975;

“the life commutation scheme” is set out in rule J.7 of the AFPS 1975;

“the Scheme actuary” means the actuary appointed by or on behalf of the Defence Council to provide a consulting service on actuarial matters relevant to the AFRCS 2010.

Application

28. The AFRCS 2010 applies to persons serving in the armed forces before 6th April 2005, with an immediate entitlement to pension other than ill health pension, whose service ends on or after 6th April 2010.

Resettlement Commutation

29. (1) A person may commute part of their pension, with restoration in full at age 55, to obtain an additional lump sum, subject to the following conditions—

(a) they gave service on or after 31st March 1978;

(b) they ceased to be in service with an immediate entitlement to pension other than ill health pension before the age of 55 years; and

(c) in the opinion of the Defence Council their health on leaving service is satisfactory.

(2) Commutation under both the life commutation scheme and the AFRCS 2010 is not permitted, except as stated under article 30(4).

- (3) Subject to paragraph (4), the option to commute under the AFRCS 2010 may only be exercised once and must be exercised on or before the last day of service.
- (4) Commutation will not be permitted where an officer has applied to rejoin the armed forces.

Factors affecting the amount of commutable pension

- 30.** (1) Subject to article 32, the maximum lump sum which can be commuted by a person shall be the difference between the lump sum awarded on leaving service and—
- (a) in the case of officers, the 34 year rate, and
 - (b) in the case of someone who is not an officer, the 37 year rate, set out in the pension codes at the date service ends.
- (2) Any supplements paid to a person shall be included when calculating resettlement commutation and pension.
 - (3) Commutation under the AFRCS 2010 shall not be permitted to reduce the basic rate of pension by more than half for any person.
 - (4) Subject to paragraph (3), where a person who is not an officer can raise less than £1000 under the AFRCS 2010, they may commute concurrently under the life commutation scheme to provide a combined sum of up to £1000 provided that the sum taken under the AFRCS 2010 is the maximum available.
 - (5) The following awards are not commutable—
 - (a) ill-health pension;
 - (b) any proportion of pension based on purchased added years or additional voluntary contributions of any kind; and
 - (c) preserved awards.
 - (6) The amount of pension to be temporarily waived to secure a capital sum will be determined by the Scheme actuary.
 - (7) In paragraph (5)(c), “preserved awards” refers to the preserved pension of a person who leaves service without being immediately entitled to a pension.

Repayment of resettlement commutation and abatement

31. (1) Where a person leaves the armed forces with an immediate entitlement to pension, (“the old service”) and later rejoins (“the new service”), that person’s pay under the new service, combined with the existing pension in respect of their old service, shall not exceed the rate of pay (uprated for inflation), on the day before their old service ended.

(2) If the pay under the new service and existing pension exceeds pay in the old service, the difference shall be deducted from pension.

(3) Where a person leaves the armed forces having taken a lump sum under the AFRCs 2010, that person shall commence repayment of the lump sum with immediate effect.

(4) Where a person having taken resettlement commutation later rejoins the armed forces in a post where the pay in the new service combined with existing pension exceeds pay in the old service, the difference shall be repaid in accordance with paragraph (2) and the repayment due in relation to the resettlement commutation sum shall be deducted from that revised sum.

(5) Any deductions under paragraphs (2) and (4) shall be made from pension, with any shortfall immediately repayable.

Misconduct

32. Where a person’s service ends by reason of misconduct, the amount payable as set out in the pension codes is—

(a) in the case of officers, the difference between the lump sum for length of service based on the 34 year rate for premature voluntary retirement; and

(b) in the case of persons other than officers, the difference between the lump sum for length of service relating to misconduct and the 37 year rate.