

ANNUAL REPORT 2015/16

For the year ended 31 March 2016

**To the Minister for the Armed Forces on the
Armed Forces Pension Schemes**

**Robert Branagh
Chair, Armed Forces Pension Board**

19 September 2016

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Executive Summary

I am delighted to present this first Annual report on the Armed Forces Pension Scheme. I was appointed via open competition in January 2015 and I would like to express my thanks and appreciation of the support provided to me by the Chief of Defence People, since then. The Pensions Board officially commenced in April 2015 (as a result of new regulations following the Public Service Pensions Act 2013), and I am pleased to report that we have built very strong foundations as a body charged with assisting the Scheme Manager in administering the scheme, or in laymen's terms, assisting with the oversight and governance of the Armed Forces Pension Schemes.



The Board meets every quarter and reviews the quality and quantity of the pension's administration service provided by our colleagues at DBS Veterans UK. 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 we have developed a transparent and collaborative approach to dealing with core business issues, projects or on areas of improvement.

Board members come from a wide range of backgrounds and all bring different skills to the Pensions Board. They are all however, representing the interest of all beneficiaries and they also have access to suitably qualified and experienced advisers to complement their own knowledge. This is further enhanced by members undertaking the Pensions Regulator's public sector Trustee toolkit. I would like to thank all my Board colleagues for their attendance and contribution at meetings and engagement has been very good around the table this year.

The 75 and 05 Schemes have been supplemented this year by the introduction of a new 2015 scheme and due in no small part to the collaboration between MOD policy and DBS Vets UK staff, this new scheme was not only delivered and operational on time but with no significant degradation of existing service to members. What it did do however, was to further increase the complexity of the schemes operation and its rules and regulations. We have over 1 million members to support with the vast majority having already left service or drawing a pension. A high quality, well run and efficient administration service is critical in supporting our members enjoy the benefits of what remains, a first class pension scheme compared with many others in the UK workplace today.

Looking ahead the Board will be spending more time looking at how the complexity and the benefits of the Scheme are communicated alongside supporting improvements to administration process and the underlying quality of our data. As this is the first 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 in its first year of operation in this new regulatory environment. Additionally, I am grateful to the Minister for the armed forces for meeting with me last year so I could introduce myself and the scheme and look forward to appropriately timed meetings in the future. I am now looking forward to our second year; to maintaining the high level of service to members and seeing what other great things can be achieved for our membership.

RB
Chair of the AFPS Pension Board

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 legislation, specifically 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).
2. Lord Hutton's overarching principles were that public service employees and tax payers should expect public service pensions that are:
 - a. **designed to protect the tax payer from rising costs**, through a 'cost cap' mechanism;
 - b. **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
 - c. **subject to better governance and greater transparency for members**. For the Armed Forces this was through the establishment of a Board; to ensure member interests are protected, with the Pensions Regulator now 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 dependants' 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 31st March 2015. Further pre-AFPS 15 schemes still exist, therefore management of the current pensions systems is complex.

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. The PSPA 13 mandated a formal Governance Structure specifically for Public Service pensions, with two new roles and two new boards.
6. **New Roles:**
 - a. **Responsible Authority.** The PSPA 13 specifies that the Secretary of State for Defence (SofS) must be the Responsible Authority. The Responsible Authority has the power to make and amend Scheme Regulations.
 - b. **Scheme Manager.** The Scheme Manager is responsible for managing and administering the AFPS. SofS appointed himself the Scheme Manager but delegated the management of the AFPS to the two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager.

7. New Boards:

- a. **Scheme Advisory Board.** The Scheme Advisory Board has responsibility for providing advice on the desirability of changes to the scheme when required to do so by the Responsible Authority. 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 SofS on major changes to the Scheme rules and is advised by the Pension Board and HM Treasury. The Chair of the Pension Board is a member of the Scheme Advisory Board.
 - b. **Pension Board.** The Pension Board was created following the mandating by the PSPA 13 for a formal Governance structure specifically for Public Service pensions. It 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. SofS appointed Robert Branagh as the Non-Executive Chair of the Pension Board. It meets quarterly.
8. The Scheme Advisory Board has the authority to recommend to SofS changes to scheme rules; the Pension Board ensures that those rules are followed. Annex A provides an overview of the governance structure and those areas that support the Scheme Advisory and Pension Boards.
 9. Overall governance arrangements and that of day to day management control are now in place and remained largely effective. The AFPS has its own assurance programme, which commenced in 2013/14. The programme formed the basis of a rolling year on year programme of assurance, undertaken by Defence Internal Audit, which continued in 2015/16. Two full assurances were issued against Additional Voluntary Contributions and Management Reporting. Opportunities to improve control were also identified resulting in the creation of an additional, targeted, level of assurance within the MOD.
 10. The AFPS is supported by the DBS Veterans UK, who has delegated authority to deliver pension administration through a contractual arrangement covered later on in this Annual Report. This arrangement includes agreement on Governance, Audit and pension reporting. Specific groups have been established, including the Authority Audit Committee, to provide objective advice and support in the areas of risk, control, governance process and associated assurances. A rolling programme of Defence Internal Audits are undertaken to review pension processes. In addition to this there is an annual audit undertaken by the National Audit Office.
 11. I am pleased to report that following completion of an annual audit, the National Audit office has recommended that our Annual Accounts should be certified with an unqualified opinion. As Chair of the Pensions Board I have a standing invitation to the DBS Audit and Risk Committee where the Accounts and wider scheme assurance are currently monitored and overseen.
 12. This has been a very busy time for Armed Forces pensions. We have seen the introduction of a brand-new scheme – AFPS 15 coming in on 1 April 2015 and further complicating the pensions landscape for us. This meant the great majority of those still serving will eventually draw pensions based upon both the new scheme and one of the pre-existing legacy schemes. We have also had to cope with the administrative and policy repercussions of the cessation of contracting out of NI and changes to Guaranteed Minimum Pensions (GMP) at a time when the regulatory climate is tightening, and we are finding our activities more closely examined and assessed by outside bodies such as the Pensions Regulator, (tPR).

The Pension Board

13. **Pension Board Membership.** After much consideration, the construct of the Pension Board was agreed as needing an equal number of employer¹ and employee² members. Whilst this is not a structure that naturally aligns to Defence's organisation and Armed Forces culture, much thought was given to membership to ensure that all member groups were chosen based on specific, valuable contributions they could provide to the Board (for example, having the Royal British Legion represent the needs of current pensioners). All Pension Board appointments are personal and represent the interests of all of the Schemes' beneficiaries and stakeholders. There are 15 members (including the Chair) and 4 attendees in an advisory capacity. Details on the composition of the Pension Board along with the Terms of Reference are at Annex B.
14. **Financial Costs.** 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. A breakdown can be found below:

Direct Costs 2015/16	Cost
Non-Executive Chair	£13,000
Training and development	£ 7,000
Travel and subsistence costs	£ 2,000
Total	£22,000

15. **Training.** Since the Pension Board was formally established on 1st April 2015, it has met four times. Recognising the importance of this initiative, the Board also met once in a shadow capacity, prior to regulations requiring it. The Pension Board members are committed to better understanding the various pension schemes, and to using their experience to ensure high standards are set. Board members have had to learn to work together in a coherent and supportive way whilst having varying degrees of public pension specific knowledge. Although this has been a steep learning curve for us, we all agreed early on that training, continuing learning and development were key elements of helping us become an effective Board. Consequently all Pension Board members have signed up to completing the Pension Regulator Trustee Toolkit, which will give them all a strong understanding of Pensions in order to allow them to appropriately discharge their responsibilities as a Board. A log detailing the training the Board has undertaken is at Annex C. We also recognise the need for bespoke training in the future, which will expand on the already comprehensive Pension Regulator Trustee Toolkit, and we will look to review how to improve the current training set.
16. **Pension Board areas of interest.** Since its inception, the Pension Board has focussed on various areas, including:
- a. **Review of DBS Veterans performance.** Key performance indicators (KPIs) are used to monitor DBS Veterans performance in order to improve the service delivery for all pension scheme members. In addition to monitoring BAU administration we have also been monitoring how DBS and other professional advisors such as the Government Actuary's Department (GAD), have been dealing with the contracting out and GMP project mentioned above. Whilst this has been a major additional piece of work involving reviewing

¹ Employer representatives means persons appointed to the board for the purpose of representing employers for the scheme and any connected scheme.

² Employee or member representatives means persons appointed to the board for the purpose of representing members of the scheme and any connected scheme.

thousands of data elements, I am pleased to say this has not impacted day to day service to members and we are well advanced compared to other public service schemes whilst enjoying an excellent working relationship with HMRC colleagues.

- b. **The effectiveness of communications to members.** The Board recognises the copious amount of information provided to members and identified an opportunity to provide a coherent, effective strategy that seeks to improve the quality, timeliness and relevance of information provided to all members. – as such, the Board is seeking to improve the way in which we communicate to our member and has planned to set up a Communications sub group next year that will focus on these key points. Whilst the sub group is being established progress is still being made on communications, for example, one improvement that has already been implemented is a formal notification process to those members who breach the Annual Allowance limit each tax year.
- c. **Risk and assurance.** The range of issues considered and reviewed not only include those listed above, but other topics which have helped us to understand our risks. Currently as Chair, I attend the DBS Assurance and Risk Committee (ARC) meetings and contribute to the assurance oversight of the Schemes via that forum. In linking the Pensions Board with ARC, we are able to benefit from work undertaken by Defence Internal Audit and National Audit Office activity. This in turn builds on the existing internal controls and assurance activity performed by DBS and MOD. I am satisfied with the coverage of this assurance activity but going forward we will explore any opportunities to improve this particularly once we have more evidence of how other large public service pension schemes assure themselves.

- 17. **Forward view of Pension Board programme.** As the Pension Board develops its' capability to challenge and provide an overview on pensions, the breadth of topics and issues being considered has increased proportionately in complexity. Having been in place for a year, the Pension Board has begun to assess the current and future pension situation and realise that prioritisation is key. Our priorities are those that are legal and mandated, followed by those deliverables that are assessed as providing the greatest opportunity for our members. Based on our knowledge, we have captured tasks in a forward plan. Further details are at Annex D. As with all plans, this will be reviewed regularly to ensure we are still balancing opportunities with risk but compliance with tPR requirements, assurance and member communications will be our main areas to evolve and refine going forward.
- 18. At the end of the first year of operation I am encouraged. We face big 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. In all of this I judge we are fit for purpose, and that we compare well with other major public sector schemes. This is not to say that we cannot get any better; indeed we will have to get better as the demands on us increase. However by building on the first year's activities described here I believe we are well placed to face those challenges.

Membership and Transaction Information

- 19. **DBS Contracted Support Arrangements.** DBS Veterans have two major suppliers assisting them with the administration of the schemes. Equiniti Paymaster delivers pension administration services to our pensioner members, largely involving paying c420,000 pensioners and dependants. Secondly with Computer Sciences Corporation (CSC), who cover a large number of tasks for the delivery of pensions. To enable this the MOD provides CSC with access to appropriate expertise to enable CSC 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.

Overview of AFPS 2015/16 Performance

- 20. We strive to ensure that our pension schemes provide a good level of service. CEM is 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 very reasonable cost.
- 21. Scheme membership, detailed below, shows a significant increase (almost 20%) in the number of active members (these are personnel who are still serving in the Armed Forces) . This increase is mainly as a result of the inclusion of Volunteer Reservists who are now captured as AFPS 15 members. Pensioner members and Deferred members (those who have left the Services, but who have not reached pension age) have had small fluctuations in terms of the overall populations (both exceeding 400,000). We are one of the big four public sector pension schemes alongside NHS, Teachers and the Civil Service in terms of membership size and complexity, but the vast majority of our members have left service.

AFPS MEMBERSHIP STATISTICS

	01 April 2015	31 March 2016	Movement
Active Members (inc Reserves)	165,598	196,471	30,873
Pensioner Members	402,170	409,625	7,455
Deferred Members (inc Reserves)	430,283	415,607	-14,676

Source: AFPS Finance

- 22. The total transactions processed by CSC are detailed at Annex E. Only 5% of complaints that were received by CSC were upheld – the majority were queries with policy – this is further explained at Annex F. CSC has comfortably exceeded the contractual measures of performance required during 2015/16, as detailed in Annex G.
- 23. The annual AFPS Newsletter was issued to all pension members during April 2015. This provided key pension information including; enquiry centre details, advice on pension increases, information on survivor pensions, information on the Veterans Welfare Service and scheme updates. As part of the focus that the communications sub group will be bringing on wider communication to members, this newsletter will benefit from Pensions Board input next year.

Quality of Service

- 24. AFPS 75/05/15 schemes are run in partnership with CSC 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 where by

CSC 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 and I understand that we have the least amounts of complaints, internal disputes, or Pension Ombudsman cases compared to our peer schemes. The Pensions Board will be working hard with all stakeholders to continue this trend going forward whilst also looking at areas the service can be enhanced for members.

Improvements

25. Improvements during 2015/16 include:

- a. **Benefit Information Statement (BIS).** As of August 2015 every serving member of an Armed Forces Pension Scheme (AFPS) received an annual BIS. The statement articulates how much pension and additional benefits an individual has accumulated through their career, at the time of issue. The Annual Benefit Information Statements rolling programme to all members commenced in September 2015.
- b. **Enhancement of pension forecasting process.** In response to feedback, early triage of forecast requests is being trialled to ensure complex cases are given an additional level of scrutiny. In addition DBS Veterans UK are trialling 100% peer checks, including checks by the Quality and Assurance Team prior to release.
- c. **Customer Service Satisfaction Survey.** At the end of year Customer Service Satisfaction survey, DBS Veterans UK improved on their overall average score and exceeded the target. Responses were provided by Confederation of British Ex Servicemen Organisation (COBSEO), The Royal British Legion, The Forces Pension Society and Combat Stress who all gave DBD Veterans UK outstanding marks for their operational delivery, communications and customer care.
- d. **Introduction of Tell us Once - Tell Us Once (TUO)** service allows the death of an individual to be electronically notified to a number of Central and Local Government services at the same time. The TUO service was introduced on 4 March 2016. To date 1,882 notifications have been received, of which 52% had an AFPS pension. Cessation of pension payments now takes an average of 7 working days from date of death (previously 28 working days). This has reduced the debt and associated debt recovery costs.

26. Future improvements include:

- a. DBS Veterans will continue to improve the pension award processing system, removing manual intervention where possible to allow more efficiency.
- b. Continued vigilance will be maintained on any potential pension liberation 'scams'. New research highlights how scammers' tactics are shifting away from pension liberation schemes offering high rewards and moving towards free pension reviews and advice as a first step towards tricking people out of their pension pots.
- c. Working with the Pensions Board and MOD colleagues, efforts will continue to enhance the content and quality of Benefit Information Statement to members.
- d. External benchmarking results of AFPS pension delivery against other public service pension schemes will be analysed and as appropriate, embraced by DBS Veterans to inform business improvements.

- e. DBS Veteran's UK will develop their communication strategy with their in house team. They are now developing their Social Media outlets and now have a dedicated Facebook page (which they post an update on once a week on average). DBS Veteran's UK also have a Twitter account and again tweet at least once a week on average.
- f. DBS Veteran's UK is focusing on unclaimed pensions and the potential use of tracing mechanisms in order to reduce the number of unclaimed pensions. The intention is to trace preserved pensioners as pensions become due for payment.
- g. A review of current business processes will also be undertaken to further enhance overall assurance coverage, by providing an additional level of assurance within the current AFPS administration team.
- h. A communications campaign – **Service to Civvy – Are You Pension Ready?** will be launched late Summer 2016 aimed at SP, Veterans and their families to embed the message that that accurate pension information and forecasts are crucial to accessing financial services ahead of, during, and after transition.

The Pension Landscape 2015- 2016

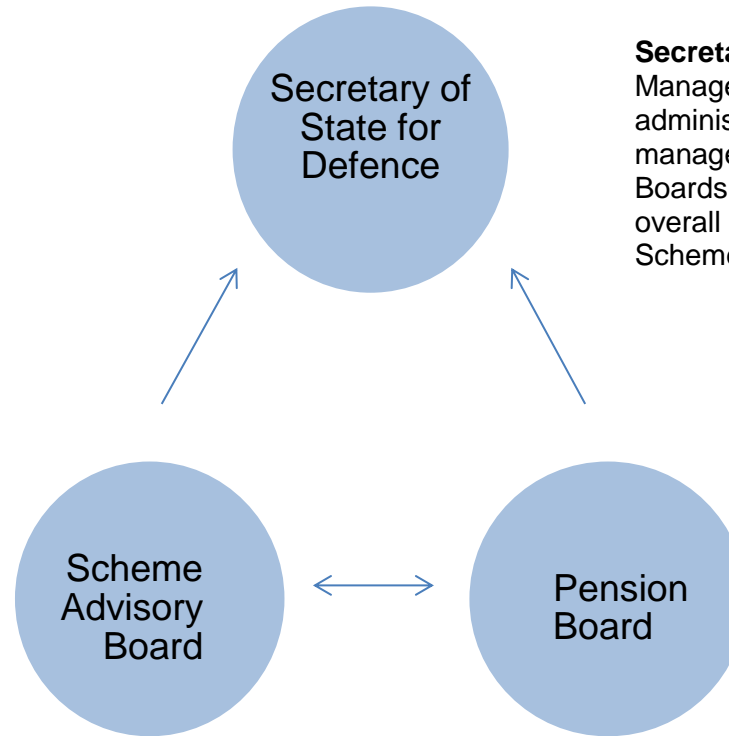
- 27. On 8 July 2015, the Chancellor announced further tax restrictions on pension tax relief. To support Scheme members, the MOD focussed efforts on targeted communications interventions, ensuring that members were made aware of what the changes meant for them. This was also a useful opportunity for MOD to consider the impact that these changes had on overall recruitment and retention. For example, the changes taper available Annual Allowance for the 2016/17 tax year onwards for higher earning members. To enable this change, MOD issued guidance for the 2015/16 tax year. Active members were notified if they were likely to have breached the pensions Annual Allowance by a variety of internal communications.
- 28. As the Pension Board continues to evolve, increase its capability and effectiveness, the Pension Regulator expectations of compliance will increase in line with its Code of Practice and its experience of other pension scheme governance and best practice. In common with the other public service schemes, the financial position of AFPS is now reviewed at four-yearly actuarial valuations, as required by PSPA 13. These valuations are carried out by the scheme actuary, the Government Actuary's Department (GAD). The first valuation was completed with an effective date of 31 March 2012. The next valuation with an effective date of 31 March 2016 is currently underway. The actuarial valuations have two main purposes. To set the contributions payable by MOD and to assess any changes in the cost of the scheme, through the 'backstop' protection mechanism known as the employer cost cap. Significant changes up or down (more than 2% of pensionable pay) will result in changes to member benefits.
- 29. The new actuarial valuation requirement imposes stronger and more formal obligations on AFPS in relation to cost control in order to minimise changes to member benefits. In particular, it is now even more important that the membership data supplied by DBS to GAD for the valuations is accurate. If not, there may be large unexpected changes in the cost to MOD, and/or changes to member benefits via the cost cap mechanism. With this in mind, DBS has prepared a prioritised valuation data improvement plan, (with input from GAD), and this has been shared with HM Treasury and tPR.
- 30. This additional workload will not impact on day to day service delivery and should help improve both the accuracy and quality of our membership data but also provide us with even better financial analysis for future funding and policy decisions.

The Near Future

31. As AFPS15 begins to bed in, the MOD recognises that the delivery and management of the pension schemes needs to develop and improve. The MOD participated in a survey by the Pension Regulator on governance. Using the results of the survey and the Pension Regulator code of practice as a baseline, a review will be conducted to identify where improvements are required to ensure compliance with the code of practice, such as how DBS Veteran's UK could manage risk more effectively, or in providing further assurance to the Scheme Manager of robust systems that are in place.
32. **Pension Codes:** The AFPS 75 scheme calculates pensions based on a representative rate of pay of the member's final rank. This means that everyone with the same rank and same length of service will receive the same pension, regardless of actual pay. The method of calculation under Pay 2000 has been to select a pay level from within the scale structure. Once pay tables are updated to reflect the pay award each year a single rate from each pay band is selected. In AFPS 15, the pension is based on career average re-valued earnings.
33. As a consequence of a new single tier State Pension being introduced from 6 April 2016, all Defence employees currently benefiting from lower National Insurance contributions (NIC), as a result of being a member of a contracted out Defined Benefit workplace pension scheme, will see their NIC rise once the existing NIC rebate is withdrawn. Those in other, non-Defined Benefit pension schemes, e.g. civil servants in the Partnership Pension Scheme, and others who have opted out of the MOD workplace pension arrangements altogether, are unaffected as they already pay the higher rate of NIC. For employers, the standard rate of National Insurance Contributions increased to 13.8% with the removal of the 3.4% National Insurance rebate as a proportion of earnings. This is another example of where the MOD realised this would impact our members, resulting in another communications intervention in April 2016 to ensure people were aware of the impact this would have on them.
34. Following on from the Strategic Defence and Security Review 2015, MOD announced that it would be developing a modernised offer for the Armed Forces. This gives the Pension Board the opportunity to help shape how pension's policy is developed. The modernised offer will be delivered through the following initiatives:
- a. **Flexible Engagements System.** This aims to enable Regular Service personnel to vary the nature of their Service, enabling flexible working and exploring the scope to temporarily adjust liability for deployment in order to support an individual's personal circumstances. Flexible engagements will also provide improved opportunities for Reservists to be employed in higher commitment jobs for which they have the knowledge, skills and experience that Defence needs.
 - b. **New Offer for New Joiners:** The MOD is developing an affordable employment model for new joiners to the Armed Forces that will better target 'the offer'. They will start by considering all potential elements of the offer for Service Personnel, including pensions. Any changes will not affect current serving personnel.
35. **Cross Whitehall Participation.** Keen to ensure that the pensions we offer are in line with other Government departments, we regularly engage 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 particular requirements of the Armed Forces are being taken into account 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 and with the tPR's public service schemes forum where we share information and best practice on central and local government pensions.

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 MOD 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. It meets at least 6 monthly, but no more than quarterly.

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 responsibilities³ 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;
 - 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 the agreement of the Chair.

Chair

³ Section 5 of Public Services Pension Act 2013.

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.*⁴ Chief of Defence People (CDP) will appoint the Chair on behalf of the Scheme Manager.

Pension Board Members

6. The Pension Board will have an equal number of employer⁵ and employee⁶ members. All appointments to the Pension Board are personal. All members will represent the interests of all of the Schemes’ beneficiaries and stakeholders. There are 15 members (including the Chair) and 4 attendees in an advisory capacity as follows:

- **Chair** - NED
- **Employer representatives**
 - Director Service Personnel Policy (D SP Pol) - 2* Civil Servant
 - Head of Armed Forces Remuneration (Hd AF REM) - 1* Military
 - Director Resources Assistant Head Plans (D Res AHd Plans) - 1* Civil Servant
 - Reserve Forces & Cadets Assistant Head Capability (RFC AHd Cap) - currently a Gp Capt
 - RN Pay Colonel - Capt RN
 - Army Pay Colonel - Col
 - RAF Pay Colonel - Gp Capt
- **Member/Employee Representatives**
 - Forces Pension Society (FPS)
 - Royal British Legion (RBL)
 - Single representative from the Forces Families’ Federations
 - Reservist Members’ Representative; a volunteer from the Chain of Command
 - Members’ Representative from the RN; a volunteer from the Chain of Command
 - Members’ Representative from the Army; a volunteer from the Chain of Command
 - Members’ Representative from the RAF; a volunteer from the Chain of Command
 -
- **Not Board Members, but in attendance to provide technical, legal and actuarial advice as and when required**
 - Defence Business Services (DBS) - Service Provider
 - Command Legal Services (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

⁴ tPR Draft Code of Practice.

⁵ Employer representatives means persons appointed to the board for the purpose of representing employers for the scheme and any connected scheme.

⁶ Employee or member representatives means persons appointed to the board for the purpose of representing members of the scheme and any connected scheme.

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 months 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 (SofS). This is to include a suitable response to the Pension Regulator's annual report. This annual report will include input and support from all 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 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

26. 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.
27. Minutes of any sub committee meetings will also be recorded.
28. 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. The Pension Board:
 - will monitor and advise the Responsible Authority on the performance of the service administration of the Pension Schemes;
 - will 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;
 - will ensure that the Scheme Administrator has an effective audit strategy in place for the scheme and monitor the internal audit programme to check compliance;
 - will ensure there is a process to allow compliance with data management requirements;
 - will monitor the process and viability of the System Administrator's electronic data storage in order to assist with data extracts needed for actuarial valuations;
 - will 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;
- The Pension board may request (if Department funding is agreed) additional services from the Scheme Administrator.

Pension Board Members' Responsibilities

30. 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 conversance⁷ with the Armed Forces Pension Schemes⁸ 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;
- 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.

⁷ Conversance is working knowledge of scheme rules and policy documents so members can use them effectively in carrying out their duties.

⁸ AFPS 75, AFPS 05, AFPS 15, FTRS 97, RFPS 05 and NRPS.

ARMED FORCES PENSIONS BOARD TRAINING LOG

	TOPIC	ROBERT BRANAGH	HEATHER McNAUGHTON	GARRY TUNNICLIFFE	CHRIS SKIDMORE	MARK POMROY	JOHN OLDROYD	RICH PAUL	ANDY BRITAIN	DEL ROWLANDS	CAROL SMITH	BILL MAHON	JOHN PITT-BROOKE	JOHN MOORE-BICK	SIMON MACKIE	ROBERT ECCLES	STEVE CASS	MARK SPEEKS	JOHN McCULLAGH
	RELEVANT MODULES OF PENSION REGULATOR TRUSTEE TOOLKIT	✓					✓												✓
04-Feb-15	SHADOW BOARD AND TRAINING DAY:																		
	INTRODUCTION TO DBS	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	PRESENTATION BY THE PENSIONS REGULATOR	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	OVERVIEW OF CURRENT PENSION SCHEMES	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	GOVERNANCE STRUCTURE	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	CONFLICT OF INTERESTS	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
														✓					
05-May-15	PENSION BOARD MEETING:													✓					
	BRIEF BY GAD ON VALUTATION	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
	BRIEF BY DBS ON ANNUAL FINANCIAL PROCESS	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
08-Jul-15	PENSION BOARD MEETING:						LEFT POST			LEFT POST			JOINED	LEFT					
	REVIEW OF MI PROVIDED BY DBS -	✓	✓	✓				✓			✓	✓	✓		✓	✓			✓
24-Sep-15	PENSION BOARD MEETING:						JOINED												
	SCHEME ADVISORY BOARD BRIEFING BY CHAIR OF PENSION BOARD	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓	✓	✓
	PRESENTATION BY NAVY PAY COL SO2 ON UNIT VISITS TO SERVICE PERSONNEL ON PAY AND PENSIONS	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓	✓	✓
	GAD PRESENTATION ON GUARANTEED MINIMUM PENSION	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓	✓	✓
02-Dec-15	PENSION BOARD MEETING:																		
	BRIEF BY RICHARD CHAPMAN ON FUTURE DBS PROGRAMME	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓	✓	✓
	PRESENTATION BY CEM BENCHMARKING ON APPS ADMINISTRATION	✓	✓	✓	✓		✓	✓			✓	✓	✓		✓	✓	✓	✓	✓
17-Mar-16	PENSION BOARD MEETING:																		
	PRESENTATION ON PENSION TAX BY GAD	✓	✓	✓	✓	✓	✓				✓	✓	✓		✓	✓			✓
	PENSION BOARD DEVELOPMENT AND PRIORITIES FOR FY 16/17	✓	✓	✓	✓	✓	✓				✓	✓	✓		✓	✓			✓

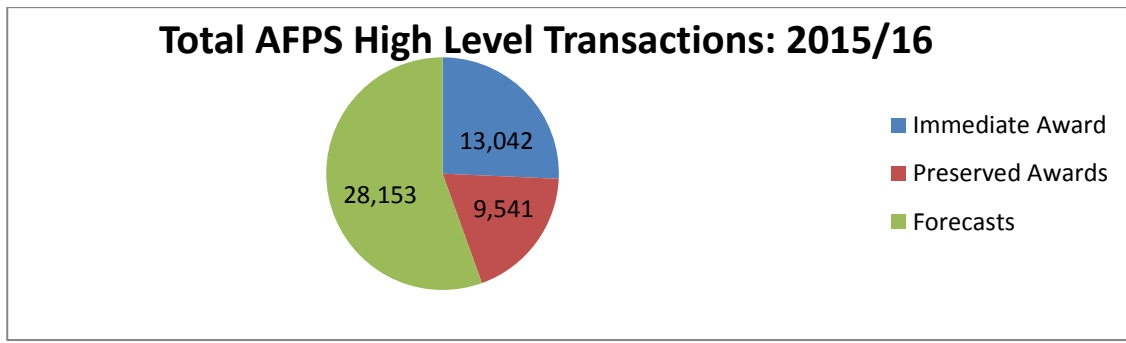
Forward Plan of Activity.

July 2016	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Setting and reviewing Member's training programme • Scheme Annual Report completion • Update on pensions reform/tPr activity including Governance Compliance of Scheme against practical guidance of tPr Code of Practice (13) • Scheme Accounts update and presentation • Audit & Risk committee update incl DIA annual audit • Communication committee ToR and workplan
September 2016	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Valuation update - early indicators and planning • Board knowledge and understanding – annual assessment preparation • Communication committee ToR's sign off • Review of compliance with the Pensions Regulator Code of Practice and PSPA13 • Data strategy review of progress and against tPr tests (39) • Training for Board members via visit to DBS in Glasgow
January 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Preliminary Actuarial Valuation themes • Communications committee update • Formal self-assessment against tPr Code of Practice • Quality review of breaches, complaints, Pensions Ombudsman cases and IDR procedures/activities (48) • Audit & Risk Committee update • Document/establish Scheme documents repository and link to tPr record keeping requirements
April 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Actuarial Valuation Assumptions • Disaster recovery/business continuity plan • Scheme future work plan 2017/18 • CEM administration benchmarking • Communication committee update • Audit & Risk Committee update/revise risk register • Training for Board members
September 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Actuarial Valuation Results • Annual Report published • Communication committee update • Audit & Risk Committee update
December 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Audit & Risk Committee update

AFPS HIGH LEVEL TRANSACTIONS

The following data has been provided by our commercial partner Computer Science Corporation (CSC) and details the number of AFPS high level transactions processed during 2015/16 by transaction type.

Immediate and Preserved Award volumes are in line with normal turnover. Over the last 3 years forecast requests have increased 18% year on year which shows no sign of slowing. This reflects the growing interest our membership has in their benefits.



BUSINESS INFORMATION STATEMENT

We are continuing to monitor BIS feedback (under 1%) and have made a number of enhancements to the process and BIS template as a result.

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	TOTAL
Benefit Information Statement (BIS):	26,430	23,947	15,147	11,343	14,172	16,354	15,368	122,761

BIS started Sept 15

Source: CSC

COMPLAINTS

The number of complaints in relation to the population is exceptionally low and represents good work by the services as well as the CSC Enquiry Centre.

CSC Complaints:

Total complaints received by CSC – 128, of which 7 were upheld. Majority were queries/disagreements with policy.

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 2015/16:

Discretionary Award Review (DAR)	220
Discretionary Award Appral Review (DAAR)	27
Internal Dispute Review Process (IDRP) Stage 1	220
Internal Dispute Review Process (IDRP) Stage 2	89

Source: AFPS

Approximately 70% of Stage 1 IDRPs are ill health Tier appeals, the remaining 30% are all IDRP formal complaints for mal-administration.

Further AFPS Complaints Information provided by Pensions Ombudsman

Since January 2013 over 1,400 IDRPs completed by AFPS during the period since Jan 13 to Mar 16.

<u>PENSIONS OMBUDSMAN AFPS COMPLAINTS INFORMATION:</u>			
TOTAL APPROACHES FROM AFPS PENSIONERS:	168		
<u>ANALYSIS:</u>			
OUT OF JURISDICTION:	14		
INVESTIGATED:	64		
INVESTIGATION NOW CLOSED:	55*	30 not upheld, 13 upheld, 2 partially upheld, 10 no outcome	
ONGOING INVESTIGATION:	9		
* 55 cases covered: ill health (50%), misquote/misinformation, divorce.			

QUALITY OF SERVICE**ARMED FORCES PENSION SCHEME KPI-1 & 2 -Measurement 15-16**

This is a summary of the DBS Key Performance Indicator reporting for AFPS and on the achievement of the contractual element of AFPS Measure of Performance reporting by our Commercial partner CSC.

The level of performance from our commercial partner CSC continues to exceed the contractual targets set.

<u>PENSION VOLUMES 2015/16</u>		
Pension Caseload	New Awards	Combined TOTALS
4,859,277	8,531	4,867,808

Failures Nos reported - By Due Date	17*
Delivery on Time %	100.00%
Target	99.3%

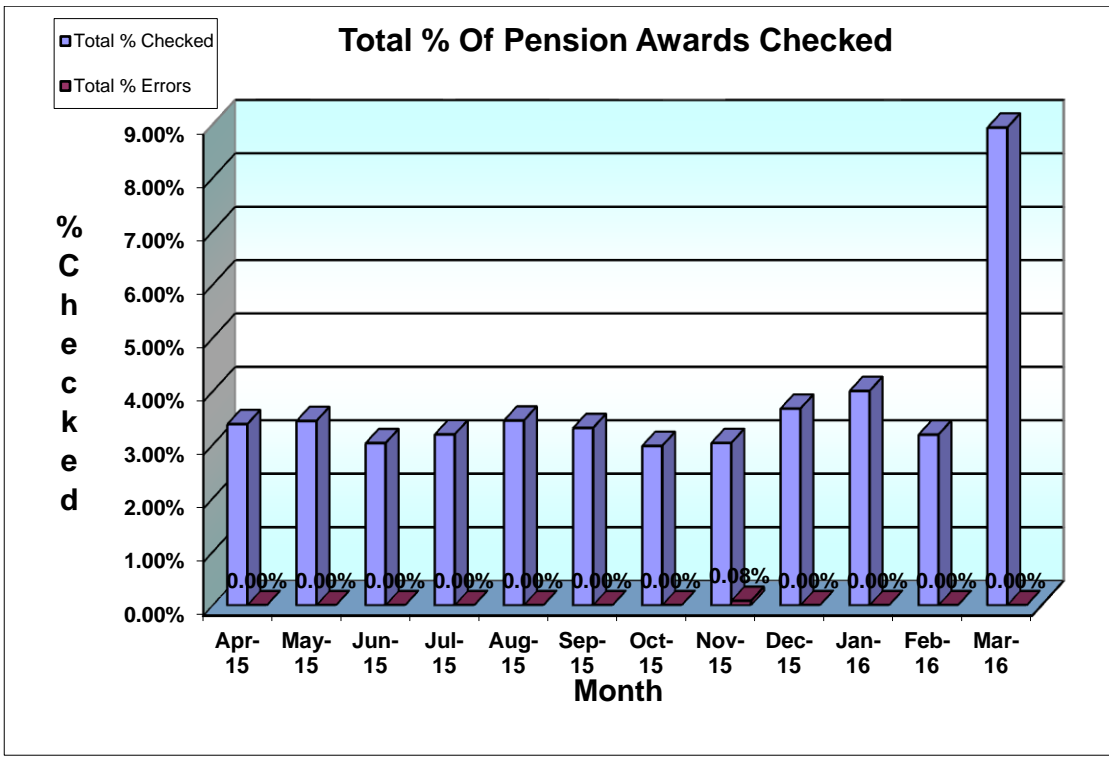
Failures Nos reported - By Accuracy	15*
Delivery on Time %	100.00%
Target	99.0%

Source – DBS CPMT

AFPS ACCURACY ASSURANCE CHECKS 2015/16

These awards are processed by our Commercial Partner and the Authority checks these for accuracy and timeliness on a monthly basis.

Total AFPS Awards:	25,771
Total checked:	900
% checked:	3.49%
Total No of Errors:	2



Source – DBS CPMT