

For those under the 14 year point you have decided to offer year-for-year for all ranks. Offering more than year-for-year for the lower ranks appears illogical given the purposes of the GOTT as a whole and the cost involved in providing the year-for-year for ranks of Corporal and above is negligible given the number of Gurkhas affected, the length of pre 97 service that they will have completed (0 to 4 years) and that it will be offset by any Lance Corporals and below who elect to transfer.

The main focus of the calculations has been on AFPS 75, with that being the scheme for which those choosing to transfer are most likely to opt and also the scheme that was in force before April 1997. You have decided to offer the same service credits in AFPS 05 as AFPS 75, partly because if the Gurkhas had been allowed access to AFPS 75 in 1997 they would have been able to transfer to AFPS 05 on the year-for-year basis in 2006.

We agreed that pre 18 (Other Ranks) and pre 21 (Officers) service in GPS would be included in the calculation of the service credit at the point where the service credit percentage is applied to GPS pre 97 service, but no Gurkha would be given a service credit in AFPS 75 that would give them more pensionable service than they could have completed in AFPS 75 from age 18 or 21.

Assumptions

You are well aware of the number of assumptions that we have had to make in order to make a comparison of the values of the GPS and AFPS benefits. This is not an exact science and has been made more uncertain by the complicated and uncertain nature of future payments from the GPS. This should be kept in mind when considering the service credits, which are a function of the assumptions that we have used. Our assumptions have come from a variety of sources, including examination of experience data, input from yourself and Gurkha Policy and from the models that we use to determine the cost of the AFPS to the MoD. As a whole we have used assumptions which we feel are reasonable.

I have set out a list of the main assumptions in Appendix 2.

Risks

Over the last few months thoughts on how the Gurkha regiment may be operated have been changing repeatedly. If it is ultimately decided that MCPs will not be used or if Gurkhas are able to continue in the army at an MCP point by moving to a different regiment, the pre 97 service credits offered to the post 93 group would be too generous. In this situation they should then only have been offered the service credits being provided for the pre 93 group. This would be a risk that the MoD would run and if the position did change as described above, the cost would eventually come through via an experience loss and resultant increase in the SCAPE rate. However, I would not expect this to be a major item in the context of the overall SCAPE contributions.

Please let me know if you have any questions.

Yours sincerely

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Consulting Actuary



Appendix 1 - Results

Table A – Theoretical service credits

Rank	Percentage of GPS service that is equivalent in value to AFPS 75 Service	
	Less than 14 yrs service on 1/10/2007 (ie joined between 1/10/1993 and 30/6/1997)	More than 14 yrs service on 1/10/2007 (ie joined before 1/10/1993)
Rfn	116%	36%
L.Corp	116%	36%
Corp	97%	30%
Sgt	88%	29%
S.Sgt	82%	27%
WO2	-	27%
WO1	-	26%
Lt	-	27%
Capt	-	28%
Maj	-	23%

(Note that there are no Gurkhas who are WO2 and above in the less than 14 years group.)

Table B – Service credits to be offered

Rank	Percentage of pre 97 GPS service to be offered in AFPS 75 or AFPS 05	
	Less than 14 yrs service on 1/10/2007 (ie joined between 1/10/1993 and 30/6/1997)	More than 14 yrs service on 1/10/2007 (ie joined before 1/10/1993)
Rfn	100%	36%
L.Corp	100%	36%
Corp	100%	30%
Sgt	100%	29%
S.Sgt	100%	27%
WO2	-	27%
WO1	-	26%
Lt	-	27%
Capt	-	28%
Maj	-	23%

Appendix 2 - Assumptions

Financial assumptions

Gross discount rate	6.5% pa
Net discount rate above price inflation	3.5% pa
Net discount rate above salary inflation	2.0% pa
Indian Rupees to the £ sterling	85
Nepalese Rupees to the Indian Rupee	1.6
Future changes in inflation/exchange rates	Assumed that purchasing power remains constant in the future, ie any increases in Indian/Nepalese inflation are offset by falls in the exchange rate.

Demographic assumptions

- An entry age of 19 ½ has been used.
- The same longevity assumptions have been used as those that are used for the armed forces as a whole. These equate to deaths at an average of age 87 for Officers and 85 for Other Ranks.
- All those Gurkhas who joined before 1 October 1993 have been assumed to serve to the later of 22 years service and the normal exit point for their final rank.
- For those who joined after 1 October 1993, all have been assumed to leave at 15 years service, with the exception of Staff Sergeants and Sergeants for whom 95% have been assumed to leave at 15 years with the remainder serving to 22 years.

Assumptions about benefits

- Resettlement Grants have been included.
- GPS pensions in payment have been assumed to increase in line with salaries.
- A deferred pension age in AFPS 75 of 60 has been used
- Qualification for IP/EDP benefits to be based on actual (post 18/21) GPS service, rather than amount of service credited in AFPS 75/05.
- In AFPS 75, Queen's Gurkha Officers would get Officer benefits.
- The comparison between the schemes has been made using 06/07 AFPS 75 pension codes and 06/07 GPS pension codes (uplifted for the recent changes in service weightings).
- The calculations are based on the cost to the MoD of providing the benefits and therefore no allowance is made for any different tax effects between the GPS and AFPS in the hands of the member.