

ANNUAL REPORT 2017 / 18
for the year ended 31 March 2018

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

Robert Branagh
Chair, Armed Forces Pension Board

Executive Summary

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



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

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

Supported by some helpful suggestions from both the Defence Internal Audit and National Audit Office around our assurance work on scheme benefits, the Board provided insight to DBS to deliver against an AFPS Membership Data Improvement Project focusing on the quality, accuracy and reliability of underlying membership data. The programme of improvement work will span a number of years with a target completion of the end of 2019-20.

During 2017-18, the project reviewed several thousand member records, with some requiring corrective action, focusing on those with a higher priority scoring. The project has now reviewed some 70,000 records in total, 49% of the total number of records to be investigated. To date there have been no material issues identified that would undermine the actuarial valuation of the scheme. The Army, Royal Navy and RAF are also engaged with the project and are assisting in the analysis of the scheme active membership data. DBS provide regular updates to the Pensions Board and the Pensions Regulator also receives updates on project progress.

Since the establishment of the Scheme Authority 'Quality Assurance' team in October 2016, the Scheme Authority have maximised opportunities to not only increase the amount of process reviewing that is now undertaken, but also regain some of the 'intelligent customer' knowledge that may have been lost when many of the caseworkers transferred to the contractor at outsourcing. Through the 'Quality Assurance' team the Scheme Authority has been able to challenge the contractor more robustly when questionable issues have arisen and work with the contractor to

improve the member experience. Focus has been placed on the quality and availability of desk instructions during 2017-18, further ensuring a consistent level of member service.

In the last year, in addition to improvements in scheme data, we have refined the kpi reporting with DBS to identify areas for improvement and several other projects to benefit members are detailed later in the report. One particular highlight however is the increased roll out of the Tell Us Once (TWO) service. The TWO service allows citizens on a voluntary basis to inform central and local government of bereavement in a single engagement. This can either be at the point of registering a death with a Registrar, by telephone or via the internet. It is hosted by the Department for Work and Pensions but is a cross-government resource. The benefit of being part of the TWO is the provision of a better service to the bereaved at a difficult time and a reduction in the number of days between the death of a pensioner and the Scheme being informed. The aim is to stop or reduce the number and value of overpayments and associated activities and costs of recovery. During 2017-18 the service provided the AFPS with 5,905 death notifications.

This year we have seen much more engagement with the Pensions Regulator as they become more interested in public sector pensions, having become involved initially following the 2015 legislative changes. In addition to Annual Scheme Returns, Annual Administration and Governance Surveys to inform them of our activities, we also meet with on a working level and at a more public sector wide stakeholder group level where we can share experiences and learn from each other to improve good administration and best practice. I am delighted to share that compared to our peers in public service pensions, we continue to do the right things as set out by the Regulator, in good time and to very high standards.

Board members come from a wide range of backgrounds and all bring different skills to the Pensions Board. They represent the interest of all beneficiaries and have access to suitably qualified and experienced advisers to complement their own knowledge. This is further enhanced by members undertaking the Pensions Regulator's (tPR) public sector Trustee toolkit. I would like to thank all my Board colleagues for their attendance and contribution at our meetings and engagement has again been very good around the table this past 12 months. We have begun the process of reviewing our effectiveness as individual members of, and as, a Board although we are now starting to see from leavers and new joiners on the Board, which given the nature of military service particularly, is to be expected. We will focus on ensuring in the coming year that this does not detrimentally impact our outputs and oversight as a Board.

Across the 75, 05 and 15 Schemes we have over 1.2 million members to support with the vast majority having already left service or drawing a pension. We helped over 55,000 members with their benefits during this year and over 186,000 calls to our Administrators were answered first time. 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. We have received independent feedback from CEM Benchmarking during the period to update us on our value for money and complexity compared to similar sized schemes in the UK. Against this peer group we continue to cost less

and have a higher total member's service score compared to the peer median.

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 third report produced for AFPS, I very much welcome any feedback or comments on its contents.

I would like to thank all of those involved in making the AFPS a success this year and look forward to maintaining a high level of service to members next year.

Introduction

1. Lord Hutton's Independent Public Service Pensions Commission (IPSPC) Report in 2011 outlined key recommendations for the reform of all public service pension schemes. This led to the enactment of 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 dependents' benefits schemes.

4. There are two main legacy pension schemes for members of the regular Armed Forces: the Armed Forces Pension Scheme 1975 (AFPS 75), which closed to new entrants on 6 April 2005; and the Armed Forces Pension Scheme 2005 (AFPS 05), which was introduced thereafter and closed to new recruits on 31 March 2015. Further pre-AFPS 15 schemes still exist, therefore management of the current pensions systems is complex.

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

Pension Governance

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

6. **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. **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, and 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 in January 2015 and he was reappointed for a second three year term in January 2018.

9. The AFPS is supported by DBS Veterans UK. It has delegated authority to deliver pension administration through a contractual arrangement covered later in this report. This arrangement includes agreement on governance, audit and pension reporting. Specific groups have been established, including the Audit Risk Committee (ARC), 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 conducted to review pension processes. In addition, there is an annual audit undertaken by the National Audit Office.

10. Overall governance arrangements, and that of day to day management control, are in place and effective. The AFPS has its own three-year assurance plan, which forms the basis of a year on year rolling programme of assurance, undertaken by Defence Internal Audit (DIA). During the 2017/18, a Full Assurance opinion was awarded for Abatements on Re-Join and Data Security. In addition, four substantial assurances were issued against Early Departure Payments, Attributable Benefits, DXC Communication & Oversight of EP pension payments and Transfer of Active Members to pensions recipient/deferred member. This positive effort was recognised, resulting in DIA awarding an Annual Audit Option for the AFPS as one of Substantial Assurance for 2017/18.

11. I am pleased to report that the 2017/18 Armed Forces Pension Scheme financial statement was certified by the Controller and Auditor General with an unqualified audit opinion with modification. As Chair of the Pensions Board I have a standing invitation

to and regularly attend the DBS Audit and Risk Committee where the Accounts and wider scheme assurance are currently monitored and overseen.

12. We continue to deliver on all three schemes including AFPS 15, AFPS 75 and AFPS 05. The Annual Benefit Information Statements (BIS) rolling programme to all members commenced in September 2015. The BIS provides scheme members with a description of the benefits earned and a full review of content is planned to improve the way information is passed to members; this is underway as part of a wider review of pension communications (covered later).

The Pension Board

13. **Pension Board Membership.** There are currently 15 members (including the Chair) and 4 attendees in an advisory capacity. The construct of the Pension Board has been maintained to ensure the interests of the Schemes' beneficiaries and stakeholders are represented, with seven employee representatives and seven employer representatives. Details on the composition of the Pension Board along with the Terms of References 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 2017/2018 (Approx.)	Cost
Non-Executive Chair	£ 13,000
Training and development	£0
Travel and subsistence costs	£ 3,500
Total	£ 16,500

15. **Meeting Attendance & Training.** During the period, the Pension Board has met four times. The Pension Board is committed to complying with the statutory duty of monitoring its training needs to ensure a better understanding of the Armed Forces Pension Schemes. We all agreed early on, that training, continuing learning and development were key elements, helping us become a more effective Board. Consequently, all Pension Board members have commenced training through the Pension Regulator Trustee Toolkit, which will give them all a strong understanding of Pensions to allow them to appropriately discharge their responsibilities as a Board. A log detailing the training the Board has undertaken is at Annex C.

16. **Conflicts of Interest.** No Conflicts of Interests have arisen during the year. All members are required to confirm this annually in writing and verbally at the start of each board meeting.

17. **DIA Audit of the Pension Board, (PB).** Defence Internal Audit (DIA) is responsible for providing the Permanent Secretary and Defence Audit Committee with an independent, objective assurance on the effectiveness of MOD's systems of governance, risk management and internal control. An audit was included in their 2017/18 programme to contribute to that assurance. It reviewed the control framework that is in place to manage the risks associated with People – Overarching Governance and Oversight of Armed Forces Pension Scheme (AFPS). The framework of controls

in place to ensure effective overarching Governance and Oversight of AFPS were established and found to be working as intended. These included:

- a. **Tone at the Top.** the Pension Board (PB) Terms of Reference dated 3 July 2015 set out expectations for PB business. There was no evidence indicating that behaviour had breached the tone expected for PB business. This was further evidenced during DIA attendance at the July 2016 Pension Board meeting. The Boards' ToR were also reviewed again and found to be fit for purpose during this scheme year.
- b. **Communication.** In line with tPR's requirements for scheme governance, key PB information had been published on the Defence Intranet. This included PB Terms of Reference (TOR), Annual Report 2016/17 and PB Forward Plan 2016/17. PB Annual Report 2016/17 had also been published on gov.uk and Forces Pension Society internet pages. Separately, there was effective communication at both working and senior levels between AFPS Policy Team/Pay Colonels/DBS about DIN production and policy interpretation.
- c. **PB Governance;** The PB TOR dated 3 July 2015 set out the composition of the Pension Board. This was confirmed by the PB Annual Report 2016/17, which also evidenced PB composition was subject to periodic review. Tenure of PB members was in line with best practice; TOR clearly outlined PB roles/responsibilities; and included requirements for scheme governance as highlighted by tPR.
- d. **The PB forward work plan focused on strategic matters and was reviewed regularly;** there was an effective induction procedure in operation for new PB members; Management Information (MI) requirements of PB were regularly reviewed; MI was challenged at PB meetings; and performance reports covered key AFPS activity. PB meetings were minuted, with actions allocated to specific PB members; and all outstanding actions were considered at subsequent meetings until they were closed.
- e. **Policy/Delivery Team Boundaries/Responsibilities;** the boundaries between AFPS Policy Team and DBS Vets UK Delivery Team were clearly documented and subject to periodic review; as were the responsibilities of both teams. The process by which AFPS Policy was interpreted by DBS Vets UK was evidenced and AFPS Assurance Team were in the process of reviewing all MOD Authority Instructions (MAI).

21. Pension Board areas of interest. Since its inception, the Pension Board has focused on several areas principally:

- a. **Review of DBS Veterans performance.** Key performance indicators (KPIs) are used to monitor DBS Veterans performance to improve the service delivery for all pension scheme members. In addition to monitoring routine administration, we continue to monitor how DBS and other professional advisors such as the Government Actuary's Department (GAD) have been dealing with the contracting out and major projects such as on GMP reconciliation. Member data reconciliation continues at pace with AFPS working collaboratively with HMRC, through the scheme reconciliation scheme, to match data and ensure members are recorded accurately. In addition, the AFPS Authority Assurance team continue to address less routine aspects of pension administration. During the

period April 2017 to March 2018, the team have quality assured more than 1,442 awards.

b. Guaranteed Minimum Pension. DBS is fully engaged with HM Treasury and HMRC in the End of Contracting Out Pension arrangements and Guaranteed Minimum Payment (GMP) reconciliation exercise. The work is being governed by a senior Project Board, of which the Chair of the Pension Board is a member. April 2016 policy changes have been fully effected, with Treasury direction on some outstanding elements awaited. Membership Reconciliation has resulted in 934,037 matched members and just 2,317 yet to match. Data reconciliation is also progressing well. To date, the team has processed just over 50% of the overall data reconciliation total of 142,403. Of those cases 62% are now reconciled with the remaining 38% resulting in initial queries being raised to HMRC. It is widely accepted that meeting the HMRC timelines are challenging and policy advice is awaited via Treasury on what process schemes should follow for unreconciled members and data. The Project is expecting to turn its attention to payment and data rectification work once the final cut of data has been received from HMRC in July 2019, as well as implementing the extension of the GMP Interim Period Solution from 6 December 2018 to 5 April 2021.

c. Communication to members. The Pension Board continues to monitor closely the development of this important area of business. Communicating pensions information to members is important and has a clear impact on moral and retention of Service Personnel. However, we recognise our communications are not as good as they could be, evidenced in the Armed Forces Pay Review Body's most recent report. Under the Pension Board's direction, a significant amount of progress has been made on further improving communications over the last year. This includes: making greater use of social media channels, such as Twitter and Facebook; re-designing the annual newsletter; simplifying the messages that are delivered on pensions by the Services and the MoD; re-designing the Benefit Information Statement and Annual Allowance Statement; updating our gov.uk pages; and we continue to see encouraging progress with our "Service to Civvy" campaign, with over 50,000 reached by the end of March 2018, leading to an increase in satisfaction levels in the 2018 Armed Forces Continuous Attitude Survey.

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

- e. DBS carried out assurance checks on 1,422 case files throughout the year, focusing on the following:

Audit programme	242
Internal Case Work Assurance	368
Q&A checksheet	726
Equiniti Paymaster reconciliations	50
Validations for tax-exemption	36
Total	1,422

The total amount of assurance checks represents 18% of total casework referred from the contractor.

Areas that have been audited include member terminations, Benefit Information Statements, FTRS pensions, pension abatement on re-employment and appeals.

22. 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 the third year, the Pension Board has been continuously assessing the current and future pension situation and realise that prioritisation is key. Our priorities remain those that are legal and mandated, followed by those deliverables that are assessed as providing the greatest opportunity for our members. It also remains important that new board members are quickly brought up to speed and this is being done through the formal training piece and wider informal briefings. Based on our knowledge, we capture 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's requirements, assurance and member communications will be our main areas to evolve and refine going forward.

23. At the end of the third year of operation I am encouraged. We continue to face ongoing challenges to deliver pensions accurately and on time, to answer queries sympathetically and fairly, to respond with agility to changes in the pension's world, and to present our activity to those regulating us. But progress is being made and 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 must get better as the demands on us increase. However, by building on this year's activities I believe we are well placed to face those challenges.

Membership and Transaction Information

24. DBS Contracted Support Arrangements. DBS Veterans have two major Commercial Partners, assisting them with the administration of the schemes. Equiniti Paymaster delivers pension administration services to our pensioner members, largely involving paying 428,222 pensioners and dependents. Secondly with Computer Sciences Corporation (CSC) (now known as DXC), who cover many tasks for the delivery of pensions. To enable this, the MOD provides the commercial partner with access to appropriate expertise to enable commercial partner to discharge its obligations. Whilst the MOD has responsibility for ensuring that pension casework is processed in accordance with appropriate guidelines, the Authority for making such discretionary decisions is delegated to DBS Veterans UK from the Admiralty, Army and RAF Boards.

Overview of AFPS 2017/18 Performance

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

26. Scheme membership balances brought forward from 31 March 2017 have been restated to account for better information obtained from the membership databases. The databases used to manage member data records are dynamic systems that allow records to be updated retrospectively. It is therefore accepted that the opening balances will not exactly reconcile to the previous year's closing balances.

27. The report from March 2017 compared the governance and pension administration costs and the member service with a peer group of other schemes. The peer group comprised 8 pension schemes with between 343,367 and 2,958,061 members. The peer median was 895,012 members, compared with our own 1,239,912 members. The peer group has been selected based on the availability of data, scheme size, membership mix and to include both in-house and outsourced schemes.

28. Our total member service score was 62 out of 100. This was slightly below the peer median of 62.7. Service is defined from a member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality. The total service score is equal to the service scores for active members, deferred members and pensioners, weighted by the membership mix. The membership mix is also used to weight the total scores for our peers.

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

Higher than peers:

- a. Our active members benefit statements were issued more quickly than other schemes;
- b. Our deferred member new pension set-ups were paid without an interruption to cashflow of more than 1 month;
- c. All 186,549 calls to the Enquiry Centre were connected to the system first time (i.e. no engaged tone, message to call another time or phone 'rang out');
- d. Our Enquiry Centre is open longer than that of our peers and our average call time is half that of our peers';
- e. We generally strive to achieve 100% success against our SLA targets.

Lower than peers:

- a. Our pension commencement lump sums are generally not paid within one week of an individual's retirement date;
- b. We do not have a dedicated secure member area website;
- c. We score below our peers for forecasts, which is due to content and our online calculator which is not linked to a secure member area.

30. In terms of cost effectiveness, in summary, we were positioned in the low cost, high service quadrant on the CEM administration cost effectiveness matrix.

AFPS MEMBERSHIP STATISTICS

	01-Apr-17	31-Mar-18	Movement
Active Members (inc Reserves)	333,310	339,396	+6,086
Pensioner Members	428,222	431,667	+3,445
Deferred Members (inc Reserves)	478,380	475,019	3,361

Source AFPS Finance

31. The total transactions processed by commercial partner are detailed at Annex E. Only 5.7% of complaints received by commercial partner were upheld – the majority were queries with policy – further information is provided in Annex F. The Commercial partner has comfortably exceeded the contractual measures of performance required during 2017/18, as detailed in Annex G.

Quality of Service

32. AFPS 75/05/15 schemes are run in partnership with DXC and Equiniti against contractual measures of performance against accuracy and timeliness. Varying levels of audit and assurance are provided by the NAO, the Defence Internal Audit (annual audit programme) and teams who check monthly compliance. The contract includes reporting incentives where by the commercial partner reported failures carry a significantly lower penalty than if failures are identified by the Authority and/or any of our assurance/audit partners. As part of the Boards oversight of the administration performance each quarter, I believe that our suppliers have provided us with a good service this year. I understand that we have had fewer complaint resulting in a reduction from last year of 38% (Annex F refers) on the number of cases referred to the Pension Ombudsman. The Pension 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 made

34. **Internal Dispute Resolution Procedures (IDRP) Review.** It is a requirement for all occupational pension schemes to have a procedure in place to allow its members to make an application to them for a decision on a matter in dispute. Until April 2018, the AFPS operated a two-stage process; however, with support from the Pensions Ombudsman, the scheme investigated whether the service provided to its members could be improved by adopting a shorter single stage process and to inform a full

review of IDRPs legislation and current procedures. This has resulted in us moving to the delivery of a revised single Tier process with a go-live date of 1 April 2018. We will update you next year on how this is working but early indications suggest better early engagement as part of this process has resulted in significant reduced elapsed times for a majority of complaints.

35. Gone Away. An exercise was started to contact existing pensioners for whom a 'gone away' notification has been received because of returned postal communications. Starting with 1805 members, we have issued 1,116 life certificates to date, with 63% reinstated. 406 remain outstanding. The aim is to validate the last known address held on the pension administration system and to ensure continuing entitlement to pension.

36. Unclaimed Pensions. The exercise is continuing to identify the unclaimed pension population. To date 1286 application forms have been sent to pensioners, of which 547 have been returned. 196 of those had no entitlement to a pension, whilst 351 unclaimed pensions have now gone into payment. Out of the 6832 names listed we identified that 4689 already had a pension in payment, 605 had transferred their pension and required no further action.

37. Social Media. Veterans UK main communications channels targeting the Armed Forces Community have been increased to include: The Veterans UK pages on [GOV.UK](https://www.gov.uk), which include the 'Veterans Today' Blog. Social Media channels – Facebook (10k) and Twitter (9.5k) (posts are frequently shared by other Defence accounts).

Future improvements

38. Our focus will be on:

- initiating a post implementation review of the new single tier IDRPs process, 2018/19 including analysis of customer feedback;
- continuing to analyse the Gone Away membership data seeking validation from member and to inform scheme valuations;
- continuing to analyse Unclaimed membership data to reduce the number of unclaimed pensions. The intention is to reduce the number of unclaimed pensions by tracing preserved pensioners as pensions become due for payment;
- further analysis of the results of the 2017 AFPS external CEM benchmarking results to inform business improvements, by comparing AFPS pension delivery against other public service pension schemes;
- further development of our communication strategy;
- further develop additional targeted assurance cover that enhances the current rolling assurance programme;

The Pension Landscape –2017 - 2018

39. As part of its expanded role, TPR is responsible for 207 public service schemes in respect of eight public service workforces, covering over 16.5 million memberships. A survey was undertaken in 2015 to assess how schemes were meeting the new requirements, and the standards to which they were being run.

Further surveys were run in 2016 and 2017 to provide a further assessment of performance, understand barriers to improvement, and delve deeper into the top risks of record-keeping, internal controls and communications.

40. In autumn 2017, the Pensions Regulator surveyed public service pension schemes to assess how they were being run. On behalf of Board colleagues, I contributed answers to the survey in which we again appear to be one of the more proactively governed public sector pension boards. Some of the figures are included below:

a. Scheme managers contributed to 85% of the completed surveys, and directly completed it in 70% of cases. Only 46% of the surveys were completed with input from the pension board chair, although other board members were involved in 17%.

b. 88% of scheme managers or their representative attended every pension board meeting, but these meetings occur less than quarterly in 43% of schemes.

c. Use of conflicts policies has increased over time, from 81% in 2016 to 92% in 2017.

d. 90% of schemes now have procedures in place to identify (92%) and report (91%) breaches of law, a significant improvement from previous years.

e. 60% of respondents reported that all their members received their statements on time, an increase from the previous year when 43% of schemes met the deadline. This aligns with our experience whereby failure to issue timely annual benefit statements accounts for the majority of breach of law reports relating to public service pension schemes in 2016.

41. As the Pension Board continues to evolve, increase its capability and effectiveness, tPR's 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 next valuation, with an effective date of April 2019, is already 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.

42. The previous actuarial valuation (2012) highlighted some issues with our data. Using data extracts from 2015 and 2016 it was agreed AFPS would investigate the questionable data that GAD identified. The questionable data was split into 5 different categories based on the risk to the Department if the data was incorrect. The team to date has reviewed approximately 41,000 cases. Most of data held is correct, however any discrepancies have been sent for correction to our contract partner. The project is on track to meet the March 2019 deadline for completion.

The Near Future

43. Flexible Engagement System (FES): MOD is continuing to develop a modernised offer for the Armed Forces through FES. The Pension Board took the opportunity to help shape how pension policy is developed via consultation. The Department is amending its pension schemes rules to accommodate FES, which will be complete in December 2018 prior to FES going live Spring 2019.

44. Communications: We will continue to make improvements to our pension communications, with a challenging programme of work planned for 2018/19. This includes: reviewing and re-designing key products for Service Personnel; re-designing the armed forces pension website; simplifying scheme guides; and increasing the pension component in Regimental Admin Officer training courses.

45. Pensions Tax: The Government's decision to reduce the annual allowance (originally £255,000 now £40,000) and the lifetime allowance (originally £1.5m now £1.03m) limits means that more service personnel are breaching their savings limits and attracting a tax charge. The Senior Salaries Review Body (SSRB) recently raised concerns over the impact pension tax is having on the retention of senior talent in their report. Other government departments have also raised concerns about the implications of pension tax charges on their senior workforce. Work is currently underway to better understand the implications.

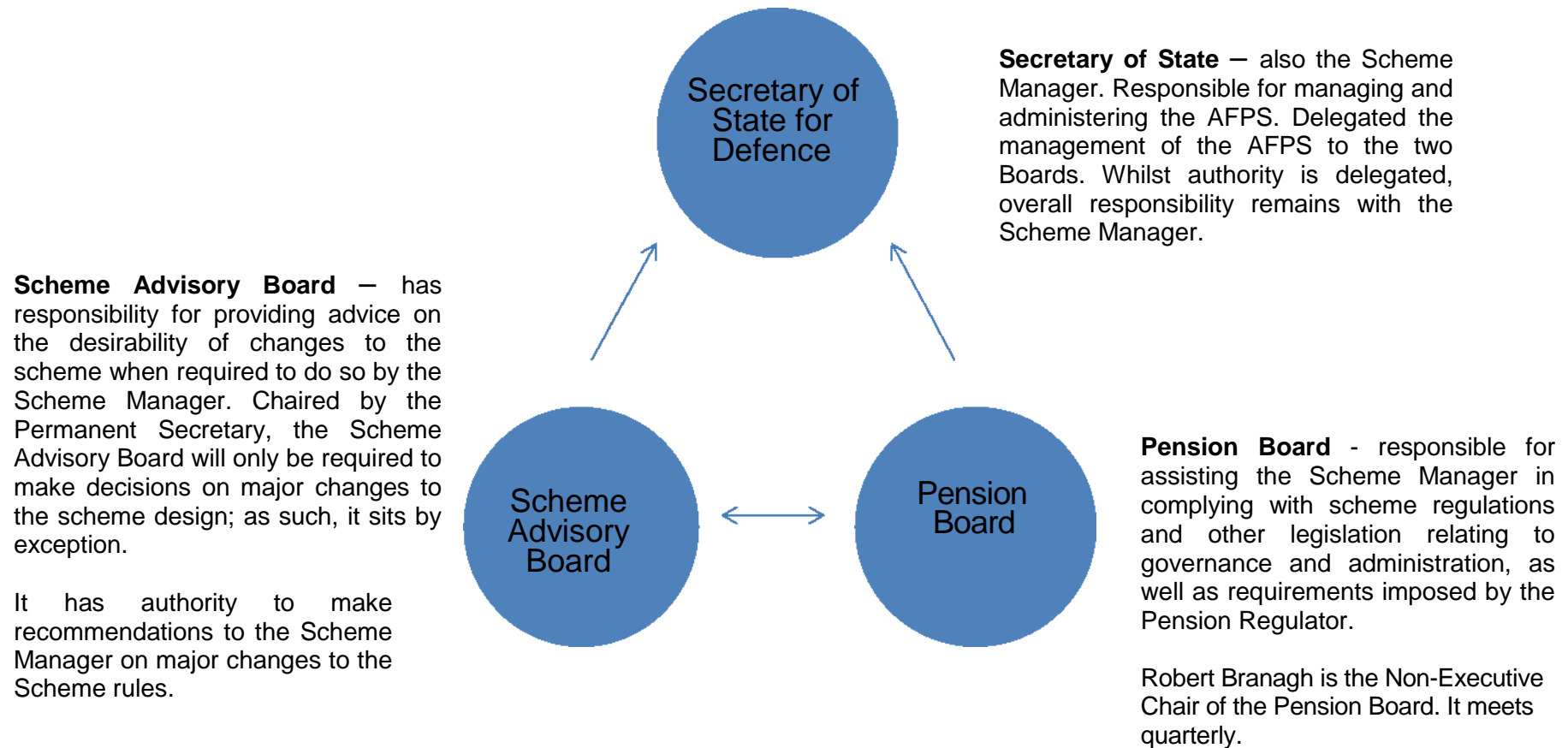
46. Cross Whitehall Participation. Keen to ensure that the pensions we offer are in line with other Government departments, we regularly engage with the HM Treasury Official Committee on Occupational Pensions (MOCOP), who are in place to ensure that a cross Departmental view is taken for any significant policy changes. This ensures that the requirements of the Armed Forces are being considered across Whitehall. The Pension Board are committed to building upon relationships to improve the Board's effectiveness and I regularly meet with the Chairs of the other Big 4 public sector pension schemes and with tPR's public service schemes forum where we share information and best practice on central and local government pensions.

47. Valuation Exercise. Every four years, the government undertakes valuations of public service pension schemes. This exercise is important as it ensures that the full costs of the public-sector pension schemes are understood by the government. In September, HM Treasury issued guidance to all public-sector pension schemes on how the valuations are to be conducted this year. A test, known as the cost control mechanism, was introduced to offer taxpayers and employees protection from unexpected changes in pension costs. During this period the Pension Board was engaged with the Government Actuarial Department to confirm assumptions to be used in the valuation exercise. These assumptions were briefed to the Scheme Advisory Board and will be used alongside HMT central assumptions to undertake the valuation exercise.

Conclusion

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

GOVERNANCE STRUCTURE FOR ARMED FORCES PENSION SCHEMES



PENSION BOARD TERMS OF REFERENCE

Armed Forces Pension Board Terms of Reference reviewed January, ratified wef April 2017

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 responsibilities¹ 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.

¹ Section 5 of Public Services Pension Act 2013.

Chair

5. The Pension Board will be chaired by an independent, voting Non Executive Director (NED) who has responsibility for ‘...*assisting the Scheme Manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the Pension) Regulator.*² 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 employer³ and employee⁴ 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) -
 - 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)
 - Deputy Head Armed Forces Pension Schemes – Secretary
 - MOD – Commercial/ Change

Tenure and Attendance

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

² tPR Draft Code of Practice.

³ Employer representatives means persons appointed to the board for the purpose of representing employers for the scheme and any connected scheme.

⁴ Employee or member representatives means persons appointed to the board for the purpose of representing members of the scheme and any connected scheme.

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 Pension 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 should include input and support from Pension Board members.

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

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

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

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

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

25. The 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 conversance⁵ with the Armed Forces Pension Schemes⁶ 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.

⁵ Conversance is working knowledge of scheme rules and policy documents so members can use them effectively in carrying out their duties.

⁶ AFPS 75, AFPS 05, AFPS 15, FTRS 97, RFPS 05 and NRPS.

Annex C

ARMED FORCES PENSIONS SCHMES (AFPS) PENSION BOARD TRAINING LOG

	TOPIC	ROBERT BRANAGH	HEATHER McNAUGHTON	JAMES MACLEOD	JOHN OLDROYD	MARK COLLINS	BILL MAHON	JOHN PITT-BROOKE	ROBERT ECCLES	MARK SPEEKS	NICHOLAS WRIGHT	CLAYTON FISHER	ADRIAN BETTRIDGE	ANNETTE MATTON	KEVIN FUDGE
20 Apr 17	9TH PENSION BOARD MEETING:														
	BRIEFING ON 2016 PUBLIC GOVERNANCE SURVEY RESULTS AND WAY THE PENSION REGULATOR REGULATES	✓	✓	✓	ABSENT	ABSENT	✓	✓	✓	ABSENT	✓	✓	✓	ABSENT	ABSENT
	BRIEFING ON CEM BENCHMARKING RESULTS	✓	✓	✓	ABSENT	ABSENT	✓	✓	✓	ABSENT	✓	✓	✓	ABSENT	ABSENT
27 Sep 17	10TH PENSION BOARD MEETING:														
	BRIEFING ON AFPS ACCOUNTS	✓	ABSENT	✓	✓	✓	✓	✓	ABSENT	✓	ABSENT	ABSENT	✓	ABSENT	✓
14 Dec 17	11TH PENSION BOARD MEETING:														
	BRIEFING ON THE DWP PENSION DASHBOARD DEVELOPMENT DAY	✓	✓	✓	✓	ABSENT	ABSENT	✓	✓	✓	ABSENT	✓	✓	ABSENT	ABSENT
19 Mar 18	12TH PENSION BOARD MEETING:														
	BRIEFING ON CSC CONTRACT RELET	✓	LEFT POST	ABSENT	ABSENT	ABSENT	✓	✓	✓	ABSENT	✓	✓	✓	ABSENT	✓

Forward Plan of Activity.

•

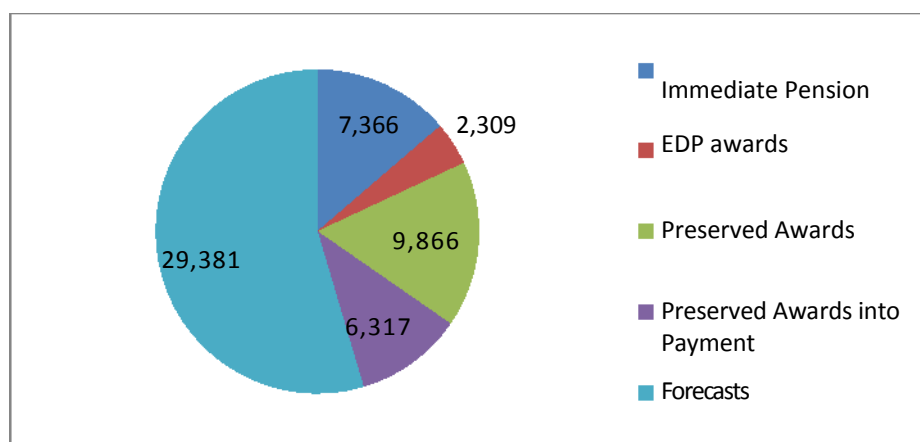
March 2018	<ul style="list-style-type: none"> • CSC Contract • Communications • Scheme Advisory Agenda • ToR & Conflict of Interest Register • Service, IDR, Ombudsman cases • Review of Board Training • Scheme Workplan
June 2018	<ul style="list-style-type: none"> • Annual Report • Balance scorecard review • Board Training • Service, IDR, Ombudsman cases • Communications • Digital • Audit
October 2018	<ul style="list-style-type: none"> • TPR Annual Presentation • Annual Allowance Update • Scheme Accounts update • Communications Update • CSC Contract Update/Review • Digital
January 2019	<ul style="list-style-type: none"> • Communications Update • Conflict of Interest, TOR Review • Review of Board Training • Board Training • Scheme future workplan • Review Chancellor's Autumn Statement

AFPS HIGH LEVEL TRANSACTIONS

The following data has been provided by our commercial partner and details the number of AFPS high level transactions processed during 2017/18 by transaction type.

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

Total AFPS High Level Transactions: 2017/18



BUSINESS INFORMATION STATEMENT

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

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Benefit Information Statement (BIS)	20,698	18,864	16,713	19,020	16,491	15,847	14,609	15,543	14,365	16,845	14,332	15,814

Source: DXC

COMPLAINTS

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

CSC Complaints:

Total complaints received by DXC – 56, of which 3 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 2017/18:

Discretionary Award Review (DAR)	187
Discretionary Award Appeal Review (DAAR)	29
Internal Dispute Review Process (IDRP) Stage 1	253
Internal Dispute Review Process (IDRP) Stage 2	65

- The IDR procedures are broken down into two types, formal complaints and ill-health appeals; against ill-health Tier assessments.
- Of cases registered during the performance year, approximately 86% (217) of Stage 1 IDRPs are ill-health Tier appeals, the remaining 14% (36) are IDRP formal complaints for maladministration.
- Approximately 69% (45) of stage 2 IDRP's are ill-health appeals, the remaining 31% (20) are IDRP formal complaints for maladministration.
- Total ill-health appeals registered were 262– 35 ill-health appeals were upheld during the period. (There were a total of 2020 ill-health Tier assessments registered in the period).
- Formal Complaints were 56 of which 10 were upheld either wholly or partially (that is maladministration had taken place but the outcome requested was rejected). For example incorrect forecast, maladministration accepted but the incorrect pension to be put into payment was rejected, no entitlement.

Armed Forces Pension Scheme Investigations by Pension Ombudsman
2017/18

Complaint Topic	2017/18	Outcome
Ill health	7	Upheld 1, not upheld 6
Misquote/misinformation	3	Not upheld 2, open 1
Benefits overpayment	4	Not upheld 2, withdrawn 1, open 1
Pensions Liberation	1	Open 1
Interpretation scheme rules	1	Not upheld 1
Death Benefit	1	Not upheld 1
Total	17	

■ Total % Checked

■ Total % Errors

Total % Of Pension Awards Checked

