

Armed Forces Pension & Compensation Schemes

Main Estimate 2024-25: Estimates Memorandum

1 Overview

1.1 Objectives

The Armed Forces Pension Scheme (AFPS), incorporating the Armed Forces Compensation Scheme (AFCS), is an unfunded defined benefit scheme, in which payments to pensioners are funded by employer contributions, with the shortfall being financed by the Exchequer. The AFPS is free to its members, and therefore, the scheme receives no employee contributions. The AFCS provides compensation for injury, illness and death that are caused by service on or after 6 April 2005.

1.2 Spending controls

The AFPS budgets are not subject to pre-set Departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the scheme administrators on a day-to-day basis, instead being affected by factors such as membership numbers; salary levels; mortality rates; the age profile of members, and annual pension increases.

The **Resource AME** sought under the AFPS Estimate is essentially the amount by which liabilities under the pension scheme are estimated to increase during the year, less the contributions paid by employer towards those liabilities.

In addition, the **net cash requirement** represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid in. Over time, these amounts are intended to balance, but in a particular year they will not. A negative value means that more is forecast to be received than paid in year.

1.3 Comparison of net spending totals sought

The table below show how the totals sought for the AFPS compares with last year:

Net Spending total Amounts sought this year (Main Estimate 2024-25)		Compared to final budget last year (Supplementary Estimate 2023-24)		Compared to original budget last year (Main Estimate 2023-24)	
		£ m	%	£m	%
Resource AME	£5,240m	+62m	+1.2%	+163m	+3.2%
Net Cash Requirement	£1,805m	-217m	-10.75%	-217m	-10.75%

1.4 Key drivers of spending changes since last year

The provision sought under Resource AME is £62m higher than last year's final budget (Supplementary Estimate 2023-24). This is driven by the net impact of the following factors:

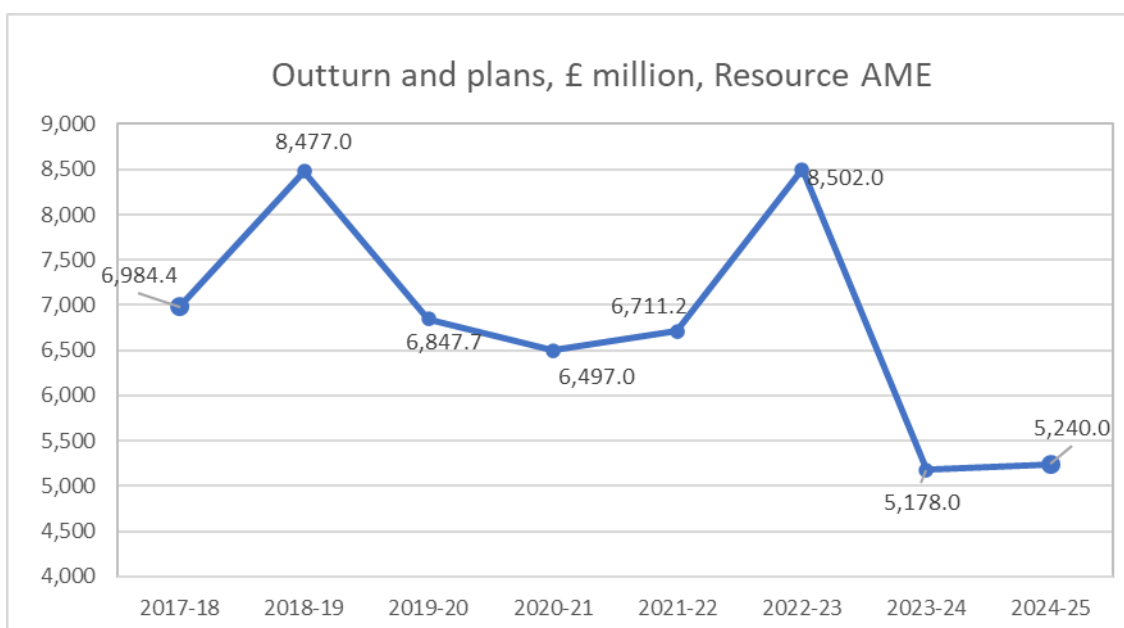
- The increase in the Treasury set **real discount rate** (net of CPI inflation) which is used within the calculation of Current Service Cost. This has increased from 1.70% to 2.45%. This has the effect of reducing costs, as in effect less needs to be set aside today in order to achieve the required liability amounts. This results in a decrease in costs of £395m.
- An increase in the Employer Contribution Rate has seen an increase in the forecast Employer (SCAPE) contributions of £375m.

Offset by:

- An increase in interest costs of £833m due to the increase in the **nominal discount rate** (from 4.15% to 5.10%). The impact of this increased rate has been offset by the reduction in the estimated opening liability for 2024-25 (as provided by Government Actuary's Department) which has reduced to £147.9bn (2023-24 opening liability: £158.8bn).

1.5 Spending trends

The charts below show overall spending trends for the last seven years and plans data presented in Estimates for 2024-25.



In general terms, the year-on-year changes to Resource AME, shown in the above chart, are largely as a result of annual changes to the Treasury set discount rate for long term liabilities, aside from specific financial years impacted by material Past Service Costs as detailed below:

- **2018-19** - The total RAME is also heavily influenced by Past Service Costs associated with McCloud (£1.9bn recognised in 2018-19).
- **2019-20** - Past Service Costs of £1bn in relation to GMP equalisation, however this was heavily offset by a negative Past Service Cost of £920m in relation to amendments to the cohort of scheme members impacted by the McCloud judgement.

1.6 Administration costs and efficiency plans

The costs of the administration of the AFPS are borne by the Ministry of Defence, the employer, and are reflected in the Department's Estimates and Annual Report and Accounts.

2 Spending detail

2.1 Explanations of changes in spending

Subheads	Description	Detail	Resource AME				Over 10% / £10m - See explanation, note/para number
			Main Est 24-25		Supp Est 23-24		
			£ million		%		
A	Expenditure	- Current service cost	2,439.59	2,835.00	-395.41	-13.9%	1a
		- Past Service cost	0.00	0.00	0.00	0.0%	
		- Interest on scheme liabilities	7,443.69	6,610.85	832.84	12.6%	1b
		- Enhancements and transfers in	2.00	2.00	0.00	0.0%	
	Sub Total		9,885.28	9,447.85	437.43	4.6%	
A	Income	- Employer contributions	-4,643.00	-4,268.19	-374.81	8.8%	1c
		- Enhancements and transfers in	-2.00	-2.00	0.00	0.0%	
		Sub Total	-4,645.00	-4,270.19	-374.81	8.8%	
A	Net total		5,240.28	5,177.66	62.62	1.2%	

Note – due to rounding, the totals in the above table may not equal the sum of the parts.

Differences which are above 10% and/or £10 million are explained below:

1a – A decrease in current service cost is due in the main to the increase in discount rate (real rate in excess of pension increase) from 1.70% to 2.45%. As a result, the Government Actuary's Department (GAD) have calculated the current service cost (calculated as a percentage of pensionable pay) as 35.2% for both Officers and Other Ranks (previously 41.4% for both Officers and Other Ranks).

1b - An increase in interest on scheme liabilities due to an increase in the interest rate from 4.15% to 5.10%.

1c – The scheme is forecasting an increase in Employer (SCAPE) contributions as a result of an increase in the Employer contributions rate from 65.5% to 73.5%.

2.2 Net Cash Requirement

The 2024-25 net cash requirement (NCR) is £1,805m, a £217m decrease (10.75%) from the 2023-24 requirement of £2,022m. This is primarily due to the increased Employer (SCAPE) contributions outlined above.

2.3 Estimated scheme liabilities

The latest valuation of the scheme liabilities for accounting purposes was AFPS £156.5 billion and AFCS £2.3 billion, as at 31 March 2023. At the time, there were 275,672 Active member benefits, 506,210 Deferred member benefits, and 460,735 Pensioner benefits.

Details of the latest scheme liabilities can be found within the 2022-23 AFPS accounts, report of the Actuary page 16, at the following link: [Armed Forces Pension Scheme annual accounts 2022 to 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/114444/afps-2022-23-actuary-report.pdf)

The latest completed actuarial valuation undertaken for the AFPS had an effective date of 31 March 2020 and was published in January 2024. The results of this valuation will be reflected in the 2023-24 accounts. The next AFPS actuarial valuation is due with an effective date of 31 March 2024, with changes to employer contribution rates as a result of the 2024 valuation expected to take effect from 1 April 2027.