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Armed forces pensions - 2015

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Inside:

1. Background
2. Introduction of AFPS 05
3. Introduction of AFPS 15



Contents

Summary	3
1. Background	4
1.1 The new scheme – AFPS 15	7
1.2 The existing schemes	8
Armed Forces Pension Scheme 1975	8
Armed Forces Pension Scheme 2005	10
Reserve Forces pensions	12
1.3 Costs and numbers	14
1.4 Pension increases	15
2. Introduction of AFPS 05	17
2.1 Consultation	17
2.2 Impact	18
3. Introduction of AFPS 15	20
3.1 Independent Public Service Pensions Commission	20
Interim Report	20
Final Report	21
3.2 Legislation	22
Consultation on scheme design	23
Final agreement	26
Regulations	27
3.3 Impact Assessment	28

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Summary

The AFPS is an unfunded, defined benefit occupational pension open to most members of the armed forces. It is non-contributory for members but the value of pension benefits is taken into account in setting pay.

The AFPS was reformed in the early 2000s with the existing scheme – now Armed Forces Pension Scheme 1975 (AFPS 75) - closed to new entrants in April 2005. A new scheme - Armed Forces Pension Scheme 2005 (AFPS 05) - was introduced for new entrants from that date.

The Government legislated in the [Public Service Pensions Act 2013](#) for longer term reform of public service schemes. A new pension scheme for members of the armed forces (AFPS 15) was introduced from 1 April 2015. Serving members on that date transferred to the new scheme covered by transitional protection arrangements for those 'closest to retirement.' The new scheme provides pension benefits based on career average rather than final salary. In addition, members of the armed forces (like police and firefighters) will have a normal pension age of 60.

Other relevant Library notes include: SN 5892 [Armed forces pension reform, 1995-2005](#) (March 2011) and SN 1424 [Armed forces pensions legacy issues – survivors' benefits](#) (November 2014) and SN 5768 [Public service pension reform – 2010 onwards](#) (October 2012).

1. Background

Armed Forces pensions can be traced back as far as 1831, although it was not until April 1975 when the *Social Security Act 1973* changed legislation requiring pensions to be paid for those who did not serve a full career.

The [Armed Forces Pension Scheme 1975 \(AFPS 75\)](#), which incorporated this requirement to award preserved pensions was closed to new entrants on 5 April 2005.¹

The [Armed Forces \(Pensions and Compensation\) Act 2004](#) laid the ground for the introduction of the [Armed Forces Pension Scheme 2005 \(AFPS 05\)](#) for new entrants to the regular armed forces on 6 April 2005. The opportunity was taken to introduce the Reserve Forces Pension Scheme (RFPS) for those who started or restarted full-time reserve service on or after 6 April 2005.² AFPS 05 and RFPS are the first true final salary schemes for the armed forces. For both of these schemes members who were already in service on 6 April 2005 and still in service on 6 April 2006 were given the opportunity to transfer to the new schemes with a common Member Transfer Date of 6 April 2006.³

A new scheme – [Armed Forces Pension Scheme 2015 \(AFPS 15\)](#) – was introduced on 1 April 2015. Active members on that date became members of AFPS 15 except those covered by transitional protection for those ‘closest to retirement.’

All three schemes are UK-wide defined benefit, contracted-out occupational pension schemes. They are salary-related. However, AFPS 15 provides pension benefits based on career average revalued earnings (CARE) whereas AFPS 05 provides them on the basis of final salary. All three schemes are non-contributory for members.⁴ This means that members make no direct contribution towards basic benefits, although pension benefits are taken into account when pay is assessed.⁵

The AFPS, like most of the other main public service schemes, operates on a pay-as-you-go (PAYG) basis, meaning that there is no fund of assets which is invested and from which pension benefits are paid. Employer contributions are paid to the sponsoring government department but these contributions are not invested. Instead, the sponsoring government department pays benefits to pensioner members, netting off the contributions received.⁶

¹ With the exception of those taking advantage of the Gurkha Offer to Transfer. This is covered in more detail in Library Briefing Paper SN04375 [Gurkha Pensions](#)

² The legislative vehicle for the RFPS is the *Reserve Forces Act 1996*.

³ [HC Deb, 27 November 2006, c 362W](#)

⁴ [Armed Forces Pension Scheme Resource Accounts 2007-08](#), 17 Dec 2008, HC 84

⁵ AFPS 05, [Your Pension Scheme Explained](#), (MMP/124, Re-issued April 08)

⁶ For a more detailed discussion, see Library Briefing Paper SN05768

The [AFPS Resource Accounts for 2014/15](#) explains the history and statutory background as follows:

The Armed Forces Pension Scheme 2005 (AFPS 05)

The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the Armed Forces Pension Scheme 2005 (AFPS 05) and the Early Departure Payment (EDP) Scheme.

From 6 April 2005, the AFPS 05 was introduced for all new members of the Armed Forces. The AFPS 05 is an unfunded, defined benefit, salary-related, contracted out, occupational pension scheme. The Scheme is designed to meet the special requirements of Service life. Pensions are paid immediately if an individual serves to age 55. Those who have at least two years service who leave before age 55 will have their pensions preserved until age 65. The Scheme also includes an EDP for those who leave before age 55 providing they have at least 18 years service and are at least 40 years of age. The EDP Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65 the EDP stops and the preserved pension and preserved pension lump sum are paid. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination.

From 31 March 2015 AFPS 05 was closed to new members; approximately 5,000 members remained in the Scheme with Transitional Protection but some 75,000 members were transferred to the new AFPS 15. Those transferring have had their AFPS 05 accrued pensions protected.

The Armed Forces Compensation Scheme (AFCS)

The *Armed Forces (Pension & Compensation) Act 2004* is the primary legislation covering the Armed Forces Compensation Scheme (AFCS). The AFCS was introduced on 6 April 2005, replacing two separate compensation arrangements under the Armed Forces Pension Scheme 1975 and the War

Pension Scheme. The AFCS covers injury, illness and death that are caused by service on or after 6 April 2005. The AFCS is a tariff-based compensation scheme, which has been designed to be simple to understand and to produce consistent and equitable decisions, using an evidence-based approach.

The Armed Forces Pension Scheme 1975 (AFPS 75) The AFPS 75 was the primary Scheme for Armed Forces personnel prior to 2005. The Scheme rules are set out in "Prerogative Instruments" that derive their authority from Her Majesty The Queen and are not subject to approval, annulment or amendment by Parliament. The current prerogative instruments are the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010 and the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010. The AFPS 75 regulations are set out in Schedule 1 to the prerogative instruments.

The AFPS 75 is an unfunded, defined benefit, salary-related, contracted-out occupational pension scheme. It provides immediate pension benefits to many of those who leave without completing a full career but who have completed at least 16 years reckonable service for Officers and 22 years reckonable service for

Other Ranks. The full career pension can be earned relatively early, at age 55, and invaliding and death benefits are available in the event of illness, injury or death at different rates depending upon whether or not these are caused by service. From 6 April 2005, unless already in payment at that date, these benefits are not provided for service related illness, injury or death but are provided by the Armed Forces Attributable Benefits Scheme (AFABS) where the cause is service prior to that date and the AFCS where the cause is service after that date. For those who leave without entitlement to immediate pension but who have completed at least two years reckonable service a preserved pension is payable at the age of 60 for service before 6 April 2006 and age 65 for service from that date.

The AFPS 75 was closed to new members from 6 April 2005. Members of the AFPS 75 were given the opportunity to transfer to the AFPS 05 from this date.

From 31 March 2015 some 96,000 AFPS 75 members were transferred to the new AFPS 15; with approximately 10,000 members remaining in the scheme with Transitional Protection. Those members transferring to the new AFPS 15 had their AFPS 75 accrued pensions protected.

The Armed Forces Attributable Benefits Scheme

The current Scheme Rules are set out in Schedule 2 to the following prerogative instruments; the *Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010*, the *Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010* and the *Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010*.

The Scheme provides invaliding benefits to those discharged from the Services on medical grounds in respect of injuries caused by service on or before 5 April 2005, who have been awarded a benefit under the War Pensions Scheme and whose degree of disablement due to the disabling condition is 20% or more.

[...]

The Armed Forces Pension Scheme 2015 (AFPS 15)

A new Armed Forces Pension Scheme was introduced on 1 April 2015 (AFPS 15). All serving Service personnel who were members of an Armed Forces Pension Scheme were automatically transferred to the new Scheme, unless they qualified for Transitional Protection.

The government offered Transitional Protection for those who were within 10 years of their respective

Scheme's Normal Pension Age (NPA) on 1 April 2012. AFPS 75, AFPS 05 and FTRS 97 (Full Commitment) have a NPA of 55. RFPS, FTRS 97 (on Limited or Home Commitment) and NRPS have a NPA of 60.

This means members of AFPS 75, AFPS 05 or FTRS 97 (FC) who were aged 45 or over on 1 April 2012, stayed on their current pension scheme and their benefits were unaffected. Members of the RFPS (including those on Additional Duties Commitment), FTRS 97 (on LC or HC) or NRPS who were aged 50 or over on 1 April 2012, remained in their current pension scheme and their benefits were unaffected.

This Transitional Protection was a government decision for all public service schemes, for those personnel who were nearest to

7 Armed forces pensions - 2015 onwards

their NPA and who, therefore, had less time to adjust their financial plans in response to the changes to their pension scheme. Approximately 15,000 members benefited from Transitional Protection.

Key features of the new Scheme include:

- The EDP will normally be paid as a monthly income and one-off lump sum. However, in light of views expressed by Service personnel during consultation, the new Scheme will also offer the choice to forego the lump sum and convert it into additional monthly income. This additional option is not currently available to members of any current Armed Forces Pension Scheme.
- A NPA of 60 and a Deferred Pension Age linked to the State Pension Age.
- The option to convert pension income into a tax-free lump sum at a transfer rate of £12 lump sum for £1 per annum pension income (up to HM Revenue and Customs limits).⁷

For a detailed account of the development of the scheme to 2009, see [HC Deb, 19 June 2009, c590-606](#) [Kevan Jones].

1.1 The new scheme – AFPS 15

A new scheme for members of the armed forces – [Armed Forces Pension Scheme 2015 \(AFPS 15\)](#) - was introduced on 1 April 2015. Active members of the existing schemes – AFPS 75 and AFPS 05 – transferred to this scheme on that date unless covered by transitional protection arrangements.

Key features of AFPS 15 are:

- Members will continue making no contributions;
- A pension calculated on Career Average Revalued Earnings (CARE);
- An Early Departure Payment (EDP) Scheme, available to members who leave before Normal Pension Age (NPA), on completion of 20 years Service having reached a minimum age of 40 years, comprising an annual income of at least 34% of the value of the deferred pension and a tax-free lump sum of 2.25 times the value of the deferred pension. Service personnel will also have the option to convert their total EDP lump sum into additional monthly income payments.
- A NPA of 60 and a Deferred Pension Age (DPA) linked to the State Pension Age (SPA);
- A pension accrual rate of 1/47th of pensionable earnings each year;
- Revaluation of active members' benefits will be in line with average earnings;
- Pensions in payment and deferred benefits to increase by CPI;
- The option to convert pension income into a tax-free lump sum at transfer rate of £12 lump sum for £1 per annum pension income up to HM Revenue & Customs limits;
- The option for scheme members to pay Additional Voluntary Contributions calculated on an actuarially fair basis;

⁷ [AFPS Annual Accounts 2014-15, HC 33](#), July 2015, p2-3

- Abatement will not apply to service in the new scheme. Abatement rules for the current schemes will remain unchanged;
- No maximum service and no upper age limit for the earning of benefits;
- Members transferring between public service schemes to be treated as having continuous Service;
- Members rejoining after a period of deferment of less than 5 years can link new Service with previous Service;
- Early retirements from age 55, with benefits to be actuarially reduced;
- EDP monthly income ceases at the Deferred Pension Age, when it will be replaced by the deferred pension in full;
- Ill-health, death and survivors' benefits (ancillary benefits) based on those currently provided in AFPS 05;
- No additional transitional arrangements beyond the Government's 10 year promise; and
- An employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks.⁸

The detailed rules are regulations made under the [Public Service Pensions Act 2013](#), in particular:

- [The Armed Forces Pensions Regulations 2014 \(SI 2014/2336\)](#)
- [The Armed Forces Early Departure Scheme Regulations 2014 \(SI 2014/2328\)](#)

[Armed Forces Pension Scheme 2015: guidance](#) is on Gov.UK
[AFPS 2015 FAQs](#) are addressed in a document produced by the MoD.

The Government introduced transitional protection arrangements for those within ten years of normal retirement age on 1 April 2012.⁹ In the context of the schemes for members of the armed forces, this means:

AFPS 75, AFPS 05 and FTRS 97 (Full Commitment) have a NPA of 55. RFPS 05, FTRS 97 (on Limited or Home Commitment) and NRPS have a NPA of 60. This means that if you are a member of AFPS 75, AFPS 05 or FTRS 97 (FC) and were aged 45 or over on 1 April 2012, if you are a member of RFPS 05 (including those on Additional Duties Commitment), FTRS 97 (on LC or HC) or NRPS and were aged 50 or over on 1 April 2012, you will remain in your current pension scheme and your benefits will be unaffected.¹⁰

1.2 The existing schemes

Armed Forces Pension Scheme 1975

The AFPS 75 was closed to new entrants on 6 April 2005.¹¹ A leaflet for scheme members provides an overview of scheme benefits:

GENERAL

⁸ MoD, [A New Armed Forces Pension Scheme – Final Agreement](#), October 2012, p1-2

⁹ [Public Service Pensions Act 2013, s18](#)

¹⁰ [The Armed Forces Pension Scheme 2014 \(AFPS 15\) – Frequently asked questions \(FAQs\)](#)

¹¹ AFPS 75, [Your pension scheme explained](#), (MMP/106, re-issued May 2008), p 10. An exception was those who transferred as part of the Gurkha Offer to Transfer, see Library Standard Note SN/BT 4375 [Gurkha Pensions](#)

9 Armed forces pensions - 2015 onwards

You will be entitled to pension benefits provided you have at least 2 years' reckonable service. Your benefits are based on final rank and reckonable service.

FULL CAREER (MAXIMUM) PENSION AT AGE 55

If you retire at age 55 with 34 years' reckonable service (Officer) and 37 years (Other Ranks), you will be entitled to a full career (maximum) pension and a lump sum (normally tax-free) of 3 times the annual rate of pension. These are your "*Terminal Benefits*".

IMMEDIATE PENSION (IP)

If you have completed 16 years' reckonable service as an officer or 22 years' reckonable service other ranks, when you retire, you will be entitled to an Immediate Pension (IP) and a *terminal grant* of 3 times the annual rate of pension. The terminal grant is normally tax-free.

PRESERVED PENSION

If you leave the Armed Forces before reaching the IP Point having completed at least 2 years' reckonable service, you will be entitled to a preserved pension and a terminal grant of 3 times your annual pension, which is payable when you reach the age of 60 for service before 6 April 2006 and at age 65 for service after 6 April 2006. The terminal grant is normally tax-free. You can have all your pension benefits paid at age 60 but they will be actuarially reduced to reflect the early payment.

INVALIDING BENEFITS

If your career is cut short by illness or injury (which is not your fault) and you have completed more than 2 years' reckonable service, you will receive an invaliding pension and lump sum.

ATTRIBUTABLE INVALIDING

Attributable¹² benefits are not paid under *AFPS 75* which offers invaliding pensions whatever the cause of the condition. Benefits are paid under 2 schemes depending on the date when the injury or condition was caused.

For injuries or illnesses caused before 6 April 2005, a top-up may be made to the *AFPS 75* pension under the *Armed Forces Attributable Benefits (AFAB)* Scheme and additional benefits under the *War Pensions Scheme (WPS)*.

For injuries or illnesses caused on or after 6 April 2005, pain and suffering lump sums and Guaranteed Income Payments (GIP) (where appropriate), are paid under the *Armed Forces Compensation Scheme (AFCS)*.

DEPENDANTS' BENEFITS

When you die – either in service or during retirement – benefits may be due to your spouse or civil partner, and also to eligible children born during your service.

NOTE: Spouse's or civil partner's benefits *cannot* be left by will or awarded to anyone other than a legal spouse or civil partner. A spouse from whom you are separated, but not divorced, retains his/her entitlement to these benefits, as does a civil partner where

¹² The term generally used to describe where: - an injury or illness was caused or aggravated by service; a death was caused or significantly hastened by service. '*AFPS75, Your pension scheme explained*', p5

the relationship has not been legally dissolved. Unmarried partners are not entitled to receive non-attributable benefits. Children's benefits can be paid to a legal guardian.

DEATH OF A MEMBER WITH NO DEPENDANTS

If you are single with no eligible children and die in service or with a preserved pension in retirement, a tax-free terminal grant will be paid to your estate as part of the assets you leave. More information is available in the AFPS 75 booklet: "Family Pension Benefits" — MMP/114.

RESETTLEMENT GRANT (RG)

If you complete more than 9 years from age 21 (or date of entry if later) (Officers) or 12 years from age 18 or (date of entry if later) (Other Ranks) and leave the Armed Forces with no other immediate benefits, you may qualify for a tax-free resettlement grant to aid your resettlement into civilian life.¹³

The detailed rules for AFPS 75 are set out in "Prerogative Instruments" that derive their authority from Her Majesty the Queen and are not subject to approval, annulment or amendment by Parliament:

The current prerogative instruments are the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010 and the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010. The AFPS 75 regulations are set out in Schedule 1 to the prerogative instruments.¹⁴

They are on Gov.UK – [Armed Forces Pension Scheme 1975 Regulations](#). The enabling legislative powers are to be found respectively in the *Naval and Marine Pay and Pensions Act 1865*, the *Pensions and Yeomanry Pay Act 1884* and the *Air Force (Constitution) Act 1917*.¹⁵

Armed Forces Pension Scheme 2005

From 6 April 2005, the Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces. Members of AFPS 75 were given on option to transfer to AFPS 05 on 6 April 2006.¹⁶ A leaflet for scheme members provides an overview of scheme benefits:

GENERAL

You will be entitled to pension benefits provided you have at least two years' reckonable service. Your benefits are based on your final pensionable pay – that is the greatest amount of pensionable pay you received for 365 consecutive days over the last three years of reckonable service. This service starts from your first day of paid service in the Armed Forces.

PRESERVED PENSION

If you leave the Armed Forces before age 55 having completed at least two years' reckonable service, you will be entitled to a preserved pension and a pension lump sum (normally tax-free) of

¹³ AFPS75, [Your pension scheme explained](#), (MMP/106, re-issued May 2008), p 10

¹⁴ [Armed Forces Pension Scheme – Annual Account 2013-14](#), HC 182, July 2014, p

¹⁵ HC Deb, 31 July 2007, c337-8

¹⁶ Armed Forces Pension Scheme – Resource Accounts 2007-08, AFPS75, [Your pension scheme explained](#), (MMP/106, re-issued May 2008), p2

11 Armed forces pensions - 2015 onwards

three times your annual pension, which is payable when you reach the age of 65. (See page 9 for further details.)

PENSION AT AGE 55

If you retire at age 55 or over you will be entitled to a pension paid immediately and a pension lump sum (normally tax-free) of three times your annual pension. (See page 10 for further details.)

EARLY DEPARTURE PAYMENTS SCHEME

If you leave the Armed Forces before age 55, but having reached at least age 40 AND having served at least 18 years (the EDP 18/40 Point), you will get a tax-free lump sum and an income paid until age 65. (See pages 11-12 for details, including examples.)

ILL-HEALTH BENEFITS

If your career is cut short by illness or injury and you have completed more than two years' reckonable service, you will receive an ill-health award. The amount is based on a three tier system. For less serious conditions, Tier 1 provides a tax-free lump sum only. If you have a serious condition, covered by Tiers 2 and 3, the ill-health pension will be based on your actual service, plus an enhancement. (See pages 14-15 for further details.)

ATTRIBUTABLE ILL-HEALTH BENEFITS

There are no attributable ill-health benefits under AFPS 05. If you are discharged on medical grounds, your pension entitlement will normally be calculated under AFPS 05. Any attributable benefits to which you may be eligible will be considered under the War Pensions Scheme (WPS), AFAB or the Armed Forces Compensation Scheme (AFCS), depending on the date that your injury or illness was caused.

If your ill-health pension is paid under AFPS 05, it is payable irrespective of any award from the AFCS, AFAB or WPS, but these payments may be reduced to take account of AFPS 05 pension benefits. See the booklet "Armed Forces Compensation Scheme" – MMP/125 and the website www.armedforcespensions.mod.uk for further details.

DEPENDANTS' BENEFITS

When you die – either in service or after leaving service – benefits may be due to your spouse, civil partner, eligible partner or to your eligible children. (See page 16-19 for further details.) More information on dependants' benefits is available in the booklet "Family Pension Benefits" – MMP/126.

DEATH OF A MEMBER WITH NO DEPENDANTS

If you are single, with no partner or eligible children and die, payments will be made as follows:

- in service, a tax-free lump sum of four times pensionable pay will be paid to your nominee or estate as part of the assets you leave;
- after service but before your preserved pension comes into payment, a tax-free lump sum of three times your annual preserved pension will be paid to your nominee or estate as part of the assets you leave. Your pension dies with you;

- within two years of drawing your pension, a lump sum equivalent to the balance of two years' worth of pension to your estate. Again, your pension dies with you.

RESETTLEMENT GRANT

The Resettlement Grant (RG) is intended to help you adjust to civilian life. You are entitled to a RG when you leave the Armed Forces provided you:

- have served at least 12 years;
- are not entitled to any other immediate payments, eg ill-health pension or EDP;
- are not a member of the Reserve Forces Pension Scheme (RFPS), which does not offer a RG, or AFPS 75, which has its own RG arrangements.

And have:

- not previously received a RG (under new arrangements or under AFPS 75); or
- received a RG under new arrangements, and have rejoined voluntarily in 30 days or less of your discharge, and have repaid it; or
- received a RG under AFPS 75, and have rejoined voluntarily in 121 days or less of your discharge, and have repaid any necessary portion of the lump sum. Should you leave again and still qualify for the payment, your entitlement will be limited to the same proportion of the RG as was repaid.¹⁷

The detailed rules are provided for in the [Armed Forces Pension Scheme Order 2005](#) (SI 2005 No. 438). The enabling legislative powers are in the [Armed Forces \(Pension and Compensation\) Act 2004](#).

A table comparing the main features of AFPS 75 and AFPS 05 is in [MoD, The New Armed Forces Pension Scheme: Initial Consultation](#) (March 2012), section 3. There are separate schemes for members of the Reserve Forces.¹⁸

Reserve Forces pensions

Prior to April 2005, reservists could accrue pension entitlement under the Full-time Reserve Section (FTRS) of the Armed Forces Pension Scheme 75 (AFPS 75). Volunteers who were mobilised for permanent service had an option to join:

Pension entitlement for reservists is determined by the type of Reserve Service undertaken. Members entering Full-Time Reserve Service (FTRS) and those undertaking Additional Duties Commitment (ADC) may be entitled to pension benefits under the reservists' section of the Armed Forces Pension Scheme. Members of the Volunteer Reserve Forces are not entitled to membership of the Armed Forces Pension Scheme, except when they are called-

¹⁷ AFPS 05, [Your Pension Scheme Explained](#), (MMP/124, Re-issued Jan 07)

¹⁸ Information about the RFPS can be found on the [MoD website](#)

13 Armed forces pensions - 2015 onwards

out or mobilised for permanent service; in these circumstances, the Department will alternatively, if they so wish, pay the employer contribution to their civilian pension arrangement. Members of the regular forces are entitled to membership of the Armed Forces Pension Scheme. All members of the armed forces, whether regular, FTRS, ADC or volunteer reserve, may be entitled to benefits for an injury, illness or death that is due to military service; in these circumstances, arrangements are designed to provide that there is, at least, a broadly comparable level of benefit.¹⁹

In April 2005, a separate scheme was introduced for reservists – the [Reserve Forces Pension Scheme](#) (RFPS).²⁰ Members of the Reserve Forces in service on 6 April 2005 and still in service on 6 April 2006 had the opportunity to transfer the pension benefits they had built up to the RFPS.²¹ So, there are now two schemes depending on the date of joining:

There are two non contributory Reserve Forces occupational Pension Schemes for members of the Reserve Armed Forces: FTRSPS 97 is the scheme applicable to those who gave Full Time Reserve Service as a member of the Reserve Forces before 6 April 2005. It was closed to new entrants and those starting new commitments from 6 April 2005.

RFPS 05 is the scheme applicable to those starting or renewing a Full Time Reserve Service (FTRS) commitment, including those on Additional Duties Commitment (ADC) terms on or after 6 April 2005. Personnel mobilised under parts 4, 5 or 6 of the Reserve Forces Act 1996, (or corresponding provisions of the Reserve Forces Act 1980) from that date may choose to become members of RFPS. Members of FTRSPS 97 were given an opportunity to transfer to RFPS 05 from this date.²²

A table comparing the key features of the two existing schemes is in section 3 of [MoD, The New Armed Forces Pension Scheme: Initial Consultation](#) (March 2012).

A note to members of the Pensions Bill Committee in 2008 explained that the pension arrangements for members of the reserve forces reflected the service that being performed:

The reserve forces are maintained and administered under the *Reserve Forces Act 1996*. Section 1 (2) of that Act defines the term “reserve forces” as meaning the following forces:- The Royal Fleet Reserve; the Royal Naval Reserve; the Royal Marines Reserve; the Territorial Army; the Royal Air Forces Reserve; and the Royal Auxiliary Air Force. Members of the Territorial Army are therefore reservists.

The pension arrangements for members of the reserve forces reflect the particular form of service that is being performed. Reservists may accrue benefit under the Reserve Forces Pension Scheme if they enter an Additional Duties Commitment under section 25 of the 1996 Act or Full Time Reserve Service under

¹⁹ [HC Deb, 29 October 2003, c227W](#)

²⁰ The relevant legislation is the [Reserve Forces Act 1996](#) and the regulations made under it, for example, the [Reserve Forces Pension Scheme Regulations 2005](#).

²¹ Reserve Forces Offer to Transfer (OTT) – A guide to making your pension scheme choice, J224125 03/05

²² [Armed Forces Pension Scheme – Annual Accounts 2010-11](#), HC 979, 19 July 2011

section 24. Membership of the Reserve Forces Pension Scheme is also one of the options open to reservists who are called out to permanent (mobilised) service. In this latter case, the other options are: for the reservist to continue in his civilian occupational pension scheme, in which case MoD will pay the employer's contribution; enter into or continue with a personal pension arrangement; join, or remain with, the State 2nd Pension (S2P).

The position of reservists when serving on Man Training Days under sections 22 and 27 (i.e. attendance for drill nights, week-end training and annual camp) is different from the other forms of reserve service in that reservists do not accrue benefit under the Reserve Forces Pension Scheme. This reflects the fact that such training is intermittent as reservists have considerable choice regarding their attendance and can select mutually convenient dates. Also the Act itself places limits on the duration of such training: section 22 limits the duration of week-end training to 36 hours and annual camp to 16 days. Most members of the volunteer reserve forces are expected to complete 27 training days per year although certain specialists have a lower commitment. Members of the volunteer reserve forces who meet their training commitment receive a tax-free 'bounty' ranging from £405 for those in their first year to £1,596 in their fifth year. About 55% of members of the Territorial Army qualify for 'bounty' in a typical year.

The vast majority (nearly 75%) of members of the Territorial Army who undertake training under section 22 or 27 of the Act are employed or self-employed; the remainder is made up of approximately equal proportions of students and unemployed people.²³

RFPS 05 was closed from 31 March 2015 and replaced by AFPS 15. With the exception of those personnel within 10 years of their normal pension age on April 2012, all members were automatically transferred to AFPS 15 on 1 April 2015.²⁴

1.3 Costs and numbers

The table below shows the number of scheme members as at 31 March 2015:

Membership as at 31 March 2015	
Active members	165,598
Deferred members	461,022
Pensions in Payment	422,963

The average pension in payment in 2009-10 was £8,834.²⁵

The AFPS has relatively more pensioner and deferred members (compared to, for example, the NHS scheme) due to the young age at

²³ Letter from Mike O'Brien to Sir Nicholas Winterton, 20 February 2008, 'Pensions Bill: Armed and Reserve Forces' [Dep 2008-0488](#)

²⁴ [AFPS, Annual Accounts 2014-15, HC 33, July 2015](#)

²⁵ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, Table 1C, page 31

which most members leave and the reduction in the size of the armed forces since the 1950s.²⁶

The AFPS is non-contributory for members, so contributions are paid by the employer only. The 2014/15 Annual Report says:

Pension costs

16. The cost of benefits accruing in the year ended 31 March 2015 (the Current Service Cost) is based on a standard contribution rate of 56.9% of Officer pensionable salaries, and 44.8% of Other Ranks pensionable salaries. The AFPS is non-contributory for members.

17. Table F shows the Current Service Cost, which is met fully by the employer. The corresponding figures for 2013-14 are also included in the table.

Table F – Contribution rate

Percentage of pensionable pay	1 April 2014 to 31 March 2015	1 April 2013 to 31 March 2014
Officers	56.9%	51.8%
Other Ranks	44.8%	39.8%

18. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Annual Accounts is not the same as the actual rate of contributions payable by employers, 41.6% for Officers and 28.2% for Other Ranks over the period 2014-15, which was determined based on the methodology and the financial and demographic assumptions adopted for the financing of the scheme in the actuarial valuation as at 31 March 2005.²⁷

A valuation of [Armed Forces pension arrangements](#) as at 31 March 2012 was published on 24 February 2015.²⁸

1.4 Pension increases

The legislation requires "official pensions" (a definition which includes the main public service schemes, such as those for teachers, the NHS and civil servants) to be uprated by the same percentage as the additional State Pension.²⁹ The Secretary of State is required to uprate the additional State Pension at least in line with the increase in the general level of prices, "estimated in such manner as the Secretary of State sees fit."³⁰ For many years, the September RPI was the index used. However, in the June 2010 Budget, the Government announced that it would in future use the Consumer Prices Index:

1.106 The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation

²⁶ Ibid, para 1.17

²⁷ [AFPS Annual Accounts 2014-15](#), HC 33, July 2015, p14

²⁸ GAD, [Armed Forces pension arrangements: Valuation as at 31 March 2012](#), February 2015

²⁹ The *Pensions Increase Act 1971*, as amended by sections 59 and 59A of the *Social Security Pensions Act 1975*

³⁰ Section 150 of the *Social Security Administration Act 1992*

experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.³¹

The move has proved controversial because increases in the CPI tend to be lower than RPI.³²

The Armed Forces Pensions Scheme is not included in the list of official pensions.³³ However, increases in pensions for the Armed Forces "are provided for under arrangements 'by analogy' with those for 'official pensions.'"³⁴ Accordingly, in April 2011, Armed Forces pensions, along with other public service pensions, were increased in line with the increase in the CPI to September 2011.³⁵ The Government has said on a number of occasions that it does not believe the Armed Forces should be exempt from the switch to the CPI. On 17 January 2011, for example, Defence Minister, Gerald Howarth said:

Such is the scale of the country's economic problems that we inherited, no part of society - not even the armed forces - can be fully exempt from the need to find ways to reduce the budget deficit, and some tough policy decisions have therefore had to be made. Armed forces pensions and compensation benefits cannot be treated in isolation from other public sector schemes and benefits.³⁶

On 8 March 2011, Minister for the Armed Forces, Nick Harvey, said:

The armed forces are part of the society they serve. Service pensioners do not live in a different world where prices move in different ways and the economy operates in a different fashion.³⁷

For more on the background to this, see Library Note SN 5434 [Public service pension increases](#) (May 2012).

³¹ HM Treasury, [Budget 2010](#), June 2010

³² For detail, see Library Standard Note SN 5830 [The CPI – uprating benefits and pensions](#)

³³ The [Pensions Increase Act 1971](#), Schedule 2

³⁴ HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), May 2011

³⁵ For more detail, see Library Standard Note SN 5434, [Public service pension increases](#).

³⁶ [HC Deb, 17 January 2011,c588-9](#)

³⁷ [HC Deb, 8 March 2011,c186WH](#)

2. Introduction of AFPS 05

The Labour Government introduced reforms of the main public service schemes in its period of office. The uniformed services were among the first to have their pensions reformed.³⁸

2.1 Consultation

A consultation document on the review of the AFPS was published in March 2011.³⁹ This identified a number of features of the scheme which were “inconsistent with other public sector schemes” and that some provisions fell short of best practice in modern pension schemes generally.⁴⁰ It was proposed that the reforms should be cost neutral:

It is Government policy that improvements in public service pensions should generally be paid for either by savings elsewhere in the scheme, or by scheme members through contributions. The recommended new scheme would introduce important modernisations compared with the current arrangements, and a number of worthwhile improvements; resources have been provided for the improvements by adjusting some other provisions of the scheme. The recommendations are cost neutral as a package.⁴¹

A Framework document for the new Armed Forces Pension Scheme in October 2003 proposed measures to address some of the anomalies that had been identified. For example:

- instead of using a “representative” rate of pay to calculate the pension, individual earnings would be used;
- reckonable service would start from the first day of service, rather than from age 21 for officers and 18 for other ranks;
- accrual would be the same for officers and other ranks (1/70ths) and would be even throughout service;
- instead of an Immediate Pension available from, at the earliest, age 38 for officers and age 40 for other ranks, there would be a system of Early Departure Payments to those leaving after age 40 with at least 18 years’ service, regardless of rank;
- reform of ill-health benefits, with the introduction of a three-tier system, dependent on the seriousness of the disability;
- improvements to survivors’ benefits, including an increased death-in-service lump sum.⁴²

The Armed Forces Pension Scheme 2005 (AFPS 05) was introduced for new entrants from April 2005. It was legislated for the [Armed Forces \(Pensions and Compensation\) Act 2004](#). Existing members of the AFPS

³⁸ [Independent Public Service Pensions Commission: Interim report](#), October 2010, para 2.2

³⁹ Ministry of Defence, [The Armed Forces Pension Scheme Review: a consultation document](#), March 2001

⁴⁰ *Ibid*, para 3.1

⁴¹ MoD, [The Armed Forces Pension Scheme Review. A consultation document](#). March 2001, para 6.3

⁴² MoD, *A Framework Document for the new Armed Forces Pension Scheme*, October 2003 (Dep 03/2568)

75 in April 2005, who were still members in April 2006, were given an offer to transfer.

The issues considered as part of the review are discussed in more detail in Library Standard Note SN 5892 [Armed forces pension reform, 1995-2005](#).

2.2 Impact

In April 2004, the then Parliamentary Under-Secretary of State for Defence, Ivor Caplin, announced that the Government had decided to give the Armed Forces Pay Review Body a role in “externally validating” the provisions of the AFPS.⁴³ The Minister hoped this would provide for more independence in reviewing the scheme:

The Parliamentary Under-Secretary of State for Defence (Mr. Ivor Caplin): During Standing Committee consideration of the Armed Forces (Pensions and Compensation) Bill in February, concern was expressed that the Government should provide more independent oversight of the arrangements provided for the armed forces in this area. I made clear to Committee members that I recognised the intent behind these concerns and we have considered how we might respond. We have now decided that we will give the independent Armed Forces Pay Review Body (AFPRB) a role in externally validating the provisions of the Armed Forces Pension Scheme (AFPS); we plan that this will be done in the context of their quinquennial valuation of the AFPS, though more frequent examinations of the scheme provisions could be undertaken if wider developments justified this.

The broad intent is that the AFPRB would compare the scheme provisions with practice elsewhere in the economy and consider the extent to which they meet the recruitment and retention needs of the armed forces. The Review Body's observations would then be made public in a supplement to the following annual report and the Government would also make public their response to these observations. I am pleased to say that the Chairman of the Review Body and his colleagues have agreed to take on this additional responsibility and we are now in discussion on the detail to determine the timing of the first such review. I am confident that this change will provide for more independence in reviewing the terms of the AFPS while equally helping us to ensure coherence across the broader remuneration package, comprising both pay and pensions. It should also provide additional reassurance for service personnel by ensuring effective independent validation of the appropriateness of the pension provisions for our armed forces.⁴⁴

The AFPRB's first periodic independent assessment of Armed Forces Pension Scheme 05 was published in 2011. It concluded that:

6.53 APFS05 is a non-contributory DB [scheme] and compares favourably with other public and private sector schemes. In a fighting Service, where risk of death or injury is likely to be higher than most other occupations, pension and related benefits are a

⁴³ The AFPRB provides independent advice to the Prime Minister and Secretary of State for Defence on remuneration and charges for members of the armed forces. In setting pay, it takes account of the value of the pension scheme.

⁴⁴ [HC Deb, 30 April 2004, c66WS](#)

19 Armed forces pensions - 2015 onwards

significant aspect of the remuneration package. The review of the remit group is that AFPS-5 is an important part of the current remuneration package and has been generally well received.

6.54 It has not been a strong recruitment tool in the past but may become more so as the spotlight falls increasingly on pension rights. There is strong evidence that the pension acts, like its predecessor, as a very powerful retention tool, particularly for experienced personnel.⁴⁵

The Independent Public Service Pensions Commission found that expected savings from the reforms would build up over time:

2.8 The overall cost savings from these reforms, compared with the costs that might otherwise have arisen, vary considerably between schemes. Over the next 30 years, expected savings under the reforms of the uniformed service schemes range from under a tenth of overall cost for the armed forces to about a fifth for police and a third for firefighters. However, the savings will build up gradually, in line with the gradual increase in the proportion of members accruing benefits under the new pension terms. Consequently, because of protections for existing members' past and future service, overall costs for these schemes are predicted to remain at over a third of pensionable pay for much of the next decade.⁴⁶

⁴⁵ [Armed Forces' Pay Review Body, Fortieth Report – 2011](#), Cm 8019; See also PPI, [An assessment of the Government's reforms to public sector pensions](#), October 2008

⁴⁶ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, para 2.8

3. Introduction of AFPS 15

3.1 Independent Public Service Pensions Commission

Budget 2010 announced the establishment of the Independent Public Service Pensions Commission, to be chaired by former Labour Work and Pensions Secretary of State, Lord Hutton of Furness. The Commission would:

...undertake a fundamental, structural review of public service pension provision by Budget 2011 and consider the case for short-term savings in the Spending Review period, by September 2010.⁴⁷

The review covers the main public service schemes, including that for the armed forces.⁴⁸

Interim Report

In its interim report, published in October 2010, the Commission said it had concluded that an increase in member contribution rates was the most effective way of making short-term savings. However, it did not recommend introducing contribution rates for the armed forces at this time:

Ex 29 It is a matter for the Government to decide the manner and level of any increases in contributions necessary. However, the Commission feels that any increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates. The Commission does not recommend introducing contribution rates for the armed forces at this time.⁴⁹

The AFPS is non-contributory for members but the value of the pension scheme is taken into account when their pay is set. The Armed Forces Pay Review Body has explained:

2.16 Armed Forces' personnel have non-contributory pension schemes – that is there are no deductions from their pay to fund the schemes. The AFPS 75 was introduced in 1975 and the AFPS05 in 2005 for new entrants and those serving personnel who elected to transfer to the new scheme. We periodically value military pensions relative to civilian pensions so that we can take the value, expressed as a percentage of pay, into account as part of our assessment of broad pay comparability. We do not deduct the pension value from military pay but deduct it from civilian comparator pay (excluding employer national insurance contributions and employer pension contributions) as part of our pay comparability calculations and then make a judgement on pay recommendations.⁵⁰

⁴⁷ HM Treasury, [Budget 2010](#), HC 61, June 2010, para 1.42

⁴⁸ [Independent Public Service Pensions Commission: Interim Report, 7 October 2010](#), p23

⁴⁹ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010

⁵⁰ [Armed Forces' Pay Review Body, Thirty-Sixth report – 2007](#), Cm 7016, March 2007

In response to the Commission's interim report the Government said it intended to introduce "progressive" increases to employee contributions from April 2012, to be phased in from April 2012. However, the armed forces would be exempt from this.⁵¹ In May 2011, it said this was likely to be reviewed with the introduction of future schemes:

Following Lord Hutton's interim report, the Government announced in the Spending Review, that Service personnel would be exempt from an increase in employee contributions, although this is likely to be reviewed with the introduction of future pension schemes.⁵²

Final Report

In its interim report, the Commission said it had concluded that long-term structural reform of public service pensions was needed:

The issues around fairness, sustainability, promoting productivity and the need for transparency and simplicity mean there is a need to consider long-term structural reform of public service pensions.⁵³

The main recommendation of the Commission's Final Report, published on 10 March 2011, was that members of the current public service schemes should be moved to the new schemes for future service, with pension benefits based on career average earnings rather than final salary.⁵⁴ It also recommended that the Government consider setting a new normal pension age of 60 across the uniformed services, including the armed forces, and keep this under regular review.⁵⁵

The Commission summarised its key recommendations as follows:

The main recommendation of the report is that existing final salary public service pension schemes should be replaced by new schemes, where an employee's pension entitlement is still linked to their salary (a "defined benefit scheme") but is related to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.

The report suggests that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.

Other key recommendations in the report include:

Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;

Introducing a Normal Pension Age of 60 for those members of the uniformed services – armed forces, police and firefighters – who currently have a NPA of less than 60;

⁵¹ HM Treasury, [Spending Review – policy costings](#), October 2010. The announcement on the details was later postponed to the summer, [Independent Public Service Pensions Commission website - FAQs](#)

⁵² Ministry of Defence, [The Armed Forces Covenant: Today and Tomorrow](#), May 2011, p54

⁵³ [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011, Ex.

26

⁵⁴ Ibid, recommendations 5 and 7

⁵⁵ Ibid, p112, recommendation 14

Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees’ pensions – with automatic stabilisers to keep future costs under more effective control;

Honouring, in full, the pension promises that have been earned by scheme members (their “accrued rights”) and maintaining the final salary link for past service for current members;

Introducing more independent oversight and much stronger governance of all public service pension schemes;

Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and

Overhauling the current legal framework for public service pensions to make it simpler.⁵⁶

3.2 Legislation

The Government accepted Lord Hutton’s recommendations as the basis for consultation, recognising that the position of the uniformed services would require particularly careful consideration:

In his final report Lord Hutton recommended a number of significant changes to public service pension provision in order to make it possible for public service employees to have continued access to good quality, sustainable and fairer defined benefit pension schemes. These recommendations include (but are not limited to); the future model for pension provision should be a Career Average Revalued Earning (CARE) pension scheme, which provides a defined benefit pension based on a percentage of the salary earned in each year of a working life; the Armed Forces Normal Pension Age should move from 55 to 60; and pension scheme members should have greater choice over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age, with their pension adjusted accordingly on an actuarially fair basis. He also recommended that accrued rights should be protected. The Government has accepted Lord Hutton’s recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. We will work to ensure that the Armed Forces Pension Schemes continue to reflect the unique role that Service personnel fulfil and that any new pension scheme remains a valuable component of the total remuneration package.⁵⁷

The Government legislated in the [Public Service Pensions Act 2013](#) to introduce new public service schemes from 1 April 2015 (April 2014 for local government). The Act set the framework for the new schemes, key features of which will be:

- A normal pension age of 60 for the armed forces, police and firefighters (section 10);
- Pension benefits based on career average rather than final salary (section 8);

⁵⁶ [Independent Public Service Pensions Commission press release, 10 March 2011, Lord Hutton publishes his final report on public service pensions](#)

⁵⁷ MoD, [The Armed Forces Covenant: Today and Tomorrow](#), May 2011, p54

- Transitional protection for those closest to retirement (section 18).

The details of the new scheme are in regulations (see below).

Consultation on scheme design

The Ministry of Defence published an initial consultation document in March 2012. This set out a number of commitments the Government had made in connection with the AFPS:

New schemes will be introduced from April 2015.

No further reform is anticipated for the next 25 years.

You will not have to join the new AFPS if you are within 10 years of your Normal Pension Age (NPA) on 1 April 2012 (i.e. those born on or before 1 April 1967 (on or before 1 April 1962 for Reserves)) – see Section 4.

The benefits you have already earned will be protected on adopting the new scheme and will remain linked to your final rank and salary – see Section 4.⁵⁸

Those within ten years of normal pension age on 1 April 2012 would remain in their existing scheme:

The Government has offered additional transitional protection, above and beyond the accrued rights below, for all members of public service pension schemes who are within ten years of their Normal Pension Age (NPA) on 1 April 2012; those people will see no change to the amount of pension they will receive or the date from which it can be drawn. This means that:

- If you are a member of AFPS 75, AFPS 05 or FTRS 97 (Full Commitment) and are aged 45 or over on 1 April 2012 (i.e. born on or before 1 April 1967), you will be able to remain in your current pension scheme and your benefits will be unaffected.
- If you are a member of the RFPS (including those on Additional Duties Commitment) or FTRS 97 on Limited (LC) or Home Commitment (HC) and are aged 50 or over on 1 April 2012 (i.e. born on or before 1 April 1962), you will be able to remain in your current pension scheme and your benefits will be unaffected. This also applies to members of the Non-Regular Permanent Staff scheme.⁵⁹

For those who are transferred to the new scheme, accrued rights would be protected, meaning that “individuals will be able to draw these benefits at the same age as now and they will be based on their final salary at the date of retirement.”⁶⁰

The Government said it had already decided on some features of the new scheme:

Unless you are covered by the additional transitional protection outlined in Section 4, you will be automatically enrolled in the new Armed Forces Pension Scheme when it is introduced. [...]

You will not be asked to pay personal contributions to your pension scheme when the new AFPS is introduced. [...]

⁵⁸ [MoD, The New Armed Forces Pension Scheme. Initial Consultation](#), March 2012, p3

⁵⁹ *Ibid*, p11

⁶⁰ *Ibid*; For more detail of what protection for accrued rights means in the context of the different armed forces schemes, see section 4.

The new AFPS will be based on Career Average Revalued Earnings (CARE or 'career average'). AFPS 75 and 05 are final salary schemes (although AFPS 75 pensions are based on a representational rate of pay for each rank).[...]

There will be a Normal Pension Age (NPA) of 60. [...]

The Deferred Pension Age (DPA) will be linked to the State Pension Age (SPA). [...]

Benefits in payment should be annually uprated by the Consumer Prices Index (CPI). [...]

Pension Lump sum will not be automatic but will still be available by commutation. [...]

Annual Pension Statements will be provided. [...]

Cost Cap. Once the design of the new scheme has been agreed, the Government will set a cap on the employer's contribution with a view to constraining costs which arise from unforeseen pressures (such as further increases in longevity). If costs rise above the cap in future, MOD will consider the best approach to managing the increasing costs. [...].⁶¹

Decisions were still to be made on other issues, including the length of service needed to qualify for an Early Departure Payment (EDP). This was important because, although the EDP was an important tool to encourage the retention of the necessary experience, at present some two thirds of spending on armed forces pensions went to the one third personnel who serve long enough to qualify for it (or, for members of AFPS 75, an Immediate Pension).⁶² The consultation document asked for views:

What is not fixed?

Benefits earned under the new scheme while serving will be uprated by an average earnings index. Under a career average scheme, your 'pension pot' (the amount of pension built up each year) will increase each year by the amount of benefit earned in that year's service. It will also be increased annually by an amount that reflects inflation.

Accrual rate. This is the rate by which pension benefits are calculated each year as a percentage of your annual salary (before inflationary increases are also factored in); i.e. the amount of your annual salary that MOD puts into a pension pot on your behalf. The accrual rate for the Armed Forces scheme will be set to meet the operational requirements of the future Armed Forces, and ensure that the scheme remains amongst the best available.

Overall Costs. No specific target has been set for future costs, however, a new scheme must be affordable and sustainable in the long term. If the cost cap outlined above is exceeded, MOD would be required to take measures to bring expenditure back into line.

The balance between the Accrual Rate and the EDP. The Government will need to strike the right balance between setting an accrual rate, which provides an appropriate level of benefits for all scheme members, and setting the value of an EDP replacement

⁶¹ Ibid

⁶² [MoD, Future Armed Forces Pension Scheme – Consultation Presentation](#) (viewed 19 June 2012), slide 25

which encourages the retention of the necessary experience and ensures that the Service manpower requirement is maintained. The accrual rate and value of the EDP will determine the majority of the costs of the new scheme; a more generous accrual rate may result in a less generous EDP replacement and vice versa.

Ancillary Benefits. Lord Hutton said that ancillary benefits (dependants' benefits, ill health etc) should be broadly retained in their present form. MOD will ensure that the new AFPS meets this commitment.

Maximum pensionable years' service. AFPS 75, AFPS 05, RFPS and FTRS 97 each have a cap on the amount of years of service in respect of which you can accrue pension benefits (AFPS 75 and FTRS 97 maximum accrual is 34 years from age 21, or date of entry, for officers, and 37 years, from age 18 or date of entry, for other ranks, and AFPS 05 and RFPS allow accrual up to 40 years from the first day of paid service). MOD will seek to lift the maximum cap and allow accrual to continue for the duration of paid service.

Additional Voluntary Contributions. Currently Service personnel have the option to purchase Additional Voluntary Contributions (AVCs) in a variety of forms (including additional years); it is the intention that you will continue to be able to purchase AVCs, but the detail has yet to be agreed.

Removal of abatement. Currently if you re-join the Armed Forces, and already have an EDP under AFPS 05, dependent on the length of the break in your military service, you may have to pay back some of your lump sum. Under either AFPS 75 or AFPS 05, you may also have your pension suspended or reduced to ensure that your pension and your new rate of pay do not exceed your old rate of pay (adjusted for inflation). MOD will seek to remove such restrictions on re-employment in the Armed Forces or other public service.

The EDP point. MOD considers that some form of incentive, payable before the new scheme's NPA of 60, is required to encourage Service personnel to serve longer in the Armed Forces. The current qualification points for payments in the AFPS 75 and AFPS 05 schemes are outlined at Section 3. It may be that New Employment Model work on career/length of service structures results in changes to these. MOD would like your views on what you consider to be an appropriate length of qualifying service for an EDP. See Section 6 (Q7).

EDP and Lump Sum. The Armed Forces pension schemes are unique, compared with the other schemes, in offering a lump sum and a monthly income after relatively short periods of service (details at Section 3). This is because, unlike other public services, the Armed Forces can only guarantee a full career to a minority of its workforce. There is a balance to be struck between the value of the lump sum and the monthly income, which is something we would welcome your views on - see Section 6 (Q8, 9 and 10).

Governance. The Armed Forces Pension Schemes are the responsibility of the Secretary of State for Defence who discharges this responsibility through MOD. One of Lord Hutton's recommendations was that each public service pension scheme should have a properly constituted, trained and competent pension management structure, with member nominees, responsible for meeting good standards of governance including effective and efficient administration. MOD is interested in your

thoughts on how you would wish your individual or collective views to be represented. See Section 6 (Q11)⁶³

Further information to support the consultation is on the MoD website – [here](#).

Final agreement

The final agreement for the new scheme was published on 16 October 2012. It said:

2. The main parameters of the new scheme design are set out below:
 - a. Members will continue making no contributions;
 - b. A pension calculated on Career Average Revalued Earnings (CARE);
 - c. An Early Departure Payment (EDP) Scheme, available to members who leave before Normal Pension Age (NPA), on completion of 20 years Service having reached a minimum age of 40 years, comprising an annual income of at least 34% of the value of the deferred pension and a tax-free lump sum of 2.25 times the value of the deferred pension. Service personnel will also have the option to convert their total EDP lump sum into additional monthly income payments.
 - d. A NPA of 60 and a Deferred Pension Age (DPA) linked to the State Pension Age (SPA);
 - e. A pension accrual rate of 1/47th of pensionable earnings each year;
 - f. Revaluation of active members' benefits will be in line with average earnings;
 - g. Pensions in payment and deferred benefits to increase by CPI;
 - h. The option to convert pension income into a tax-free lump sum at transfer rate of £12 lump sum for £1 per annum pension income up to HM Revenue & Customs limits;
 - i. The option for scheme members to pay Additional Voluntary Contributions calculated on an actuarially fair basis;
 - j. Abatement will not apply to service in the new scheme. Abatement rules for the current schemes will remain unchanged;
 - k. No maximum service and no upper age limit for the earning of benefits;
 - l. Members transferring between public service schemes to be treated as having continuous Service;
 - m. Members rejoining after a period of deferment of less than 5 years can link new Service with previous Service;
 - n. Early retirements from age 55, with benefits to be actuarially reduced;
 - o. EDP monthly income ceases at the Deferred Pension Age, when it will be replaced by the deferred pension in full;
 - p. Ill-health, death and survivors' benefits (ancillary benefits) based on those currently provided in AFPS 05;

⁶³ Ibid

- q. No additional transitional arrangements beyond the Government's 10 year promise; and
- r. An employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks.⁶⁴

The transitional protection arrangements were explained as follows:

3. There will be full protection for accrued rights for all members as follows:

a. All benefits accrued under final salary arrangements will be linked to the member's final salary when they exit service, in accordance with the rules of the member's current scheme as follows:

The Armed Forces Pension Scheme 2005;

The Armed Forces Pension Scheme 1975;

The Reserve Forces Pension Scheme;

The Full Time Reserve Service Pension Scheme 1997 (Full Commitment and

Limited or Home Commitment);

The Non-Regular Permanent Staff Pension Scheme.

b. Members will be able to access their benefits from these schemes when they expected to do so based on current rules.

4. There will be transitional statutory protection for qualifying existing members, as follows;

a. All active scheme members who, as at 1 April 2012, had ten years or less to their current Normal Pension Age, will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. This protection will be achieved by the member remaining in their current scheme until they retire or leave the Armed Forces.

Arrangements for specific groups which require more work (e.g. members of the Gurkha Pension Scheme and Gibraltar Regiment Pension Scheme) will be announced in due course.⁶⁵

Regulations

The Government consulted on [Armed Forces Pension Scheme 2015: draft legislation](#) between June and July 2014. The details are now in regulations which came in on 1 April 2015. See, for example:

- [The Armed Forces Pension Regulations 2014 \(SI 2014/2336\)](#);
- [The Armed Forces Early Departure Payment Scheme Regulations 2014 \(SI 2014/2328\)](#) and
- Towards the end of 2014 it consulted on [\(draft\) Armed Forces \(Transitional and Consequential Provisions\) Regulations 2014](#).

Further details are on [Armed Forces Pension Scheme 2015](#), See, for example: [Armed Forces Pension Scheme 2015: frequently asked questions](#) (last updated August 2014).

⁶⁴ [HC Deb 16 October 2012 c15-16WS](#); MoD, [A New Armed Forces Pension Scheme – Final Agreement](#), 16 October 2012

⁶⁵ Ibid

3.3 Impact Assessment

The Government Actuary's Department has estimated the cost of the new scheme as 31.4% of pensionable pay. It notes that "it is not comparable to the current or future employer contribution rates that may be payable in respect of the scheme." This would be decided once a formal actuarial valuation had been carried out.⁶⁶

HM Treasury has also conducted an overarching Equalities Impact Analysis covering the final provisions applying across all the new schemes (e.g. transitional protection arrangements, the move from final salary to career average schemes, the new normal pension age and the cost control mechanism). This said that the reforms might impact on persons differently by virtue of their age and/or gender but not in a way that was unlawful or disproportionate:

2.2 The overall value of a pension depends on unique individual factors that are outside the scope of the pension scheme structure itself. These factors include period of employment, career progression, salary and personal financial decisions. Provisions may impact on persons differently by virtue of their age and / or gender. However, the Government does not consider that these impacts are unlawful or disproportionate. There is a clear justification for the approach we propose to take, as set out later in the chapter.⁶⁷

It believes that, "taking full equalities impacts into consideration", the reforms are "a proportionate means of achieving its legitimate aim":

2.4 The reforms – along with a full state pension – will deliver at least benchmark replacement rates* for scheme members who work full careers in public service. In return for working longer most members will see no reduction in the pension income they receive at normal pension age and many low and middle income earners will receive a better pension than they do now. Therefore, the Government believes that the revised scheme designs should not be a disincentive to future participation in the schemes.

2.5 There remains a strong economic rationale for most members to continue active membership in the new schemes.

*The Turner Commission said a benchmark replacement rate of 45 per cent for a typical earner was an adequate level of income in retirement. The Independent Public Service Pensions Commission considered this an appropriate benchmark that should be considered when assessing overall impact of the reforms on scheme members. (Pensions Commission, [Final Report](#), December 2005, p41).

The key drivers for reform were described as follows:

Longevity - people are living much longer. Current public service pension provision is no longer affordable because people are spending longer in retirement. This is the main risk to the sustainability of public service pensions.

⁶⁶ [GAD, Future Armed Forces Pension Scheme – Cost of final scheme design](#), 16 October 2012.

⁶⁷ [HM Treasury, Public Service Pensions: central equalities impact analysis](#), September 2012

Flexibility - pension provision no longer reflects the way the modern labour force lives and works.

Fairness - the predominantly final salary scheme designs in place mean that lower-paid public service workers are subsidising the pensions of the highest paid.⁶⁸

⁶⁸ MoD, [A New Armed Forces Pension Scheme – Equalities Impact Analysis](#) on 16 October 2012.

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