Taxation of Pension Benefits
Annual Allowance

DEFENCE INSTRUCTIONS AND NOTICES

Title:	Pension Tax Relief - Annual Allowance Scheme Pays
Audience:	All Service Personnel
Applies:	Immediately
Expires:	When rescinded or replaced
Replaces:	DIN 2011 DIN01-106 DIN2011 DIN01-181
Reference:	[This section is completed by DMC Internal Communications]
Released:	[This section is completed by DMC Internal Communications]
Channel:	01 Personnel
Subject:	Confirmation of method for calculating the payment of tax incurred through exceeding the reduced Annual Allowance – Scheme Pays
Content:	Explanation of process to manage tax charges from pension benefits. Examples to explain how tax charge is calculated
Sponsor:	DCDS Pers PCV Pensions Team
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Keywords:	Pension, Tax, AFPS, Pension Input Periods, HM Treasury, Annual Allowance, Scheme Pays.
Related info:	DIN 2011DIN01-003
Classification:	UNCLASSIFIED

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INDEX

Key Messages:

- **In Apr 11 the Government introduced changes to Pension Tax Relief. These changes include a significant reduction (from £255,000 to £50,000) in the Annual Allowance (AA), which is the amount that an individual's pension pot can grow each year without being taxed.**

- **In normal circumstances Other Ranks and Junior Officers (below OF3) are very unlikely to be affected. OF3 on promotion to OF4 may be affected depending on their circumstances.**

- **Those most likely to face a tax charge will be OF3 and above who receive a significant pay increase as a result of promotion, or very senior officers who could be affected as a result of incremental progression.**

- **Individuals who have exceeded the AA in the Armed Forces Pension Scheme (AFPS) will be informed by Service Personnel & Veterans Agency (SPVA) by the October following the end of the tax year.**

- **The first tax bills resulting from the change to the AA will be for tax year (2011/12) and will have to be paid by 31 Jan 13.**

- **The Government has introduced a process called Scheme Pays to assist individuals in meeting part or all of any tax bill arising. AFPS members who incur an AA tax bill exceeding £2,000 may elect for the tax due to be paid by the AFPS. This amount will then be recovered by a reduction in the pension benefits paid on retirement.**

- **An election for Scheme Pays must be made while an individual is still in Service.**

Introduction

1.   Significant changes to the AA came into effect on 6 Apr 11 when the annual tax free allowance was reduced from £255,000 to £50,000. Only a small number of Service personnel will exceed the new limit on the basis of their Armed Forces pension alone. Other Ranks are highly unlikely to be affected by these changes, but some officers may incur a tax liability on promotion. This is likely to start to impact on promotion from OF3 (Major and equivalent) to OF4 (Lieutenant Colonel and equivalent), particularly for those promoting late in their career; but the most pronounced effect is expected at the ranks of OF5 (Colonel and equivalent) and above. Additionally, the most senior officers (OF7 and above) may also incur a tax liability as a consequence of annual pay increments.

2.   Individuals who exceed the AA because of the growth in the value of their AFPS benefits will be alerted by SPVA, via pension statements sent by the October following the end of the tax year. Where the AA is exceeded, individuals will need to declare this to HMRC via a Self Assessment Tax Return, due no later than 31 Jan 13 for the current tax year. SPVA cannot take into account any personal pension arrangements that individuals may have made when calculating potential AA tax charges. Individuals who believe that they may have exceeded the AA because of a combination of personal and AFPS pension savings must make their own independent calculations for the cumulative value of all pension schemes. Service personnel may request a pension statement to assist them with this calculation once per year free of charge by writing to SPVA.

What is the Annual Allowance?

3.　　The AA limits the amount of tax privileged savings (pension and lump sum) which may be made in a tax year to a registered pension scheme. For defined benefit pension schemes (such as the AFPS) the amount of tax privileged savings is deemed to be the increase over the year in the value of an individual's overall pension "pot". Where the increase in the pension pot exceeds the annual allowance in relation to a tax year, a tax liability may arise.

How to Determine if the AA has been Exceeded.

4.　　To determine whether the AA has been exceeded for a tax year, it is necessary to know the Pension Input Amount (PIA). The PIA is the net increase in the value of the pension pot between the beginning and end of the Pension Input Period (PIP), which is 6 Apr to 5 Apr for the AFPS.

5.　　The PIA is calculated by multiplying the annual pension at the start of the PIP (6 Apr) by 16 (which is the factor set by the Treasury) and adding the pension lump sum (3 x annual pension), which gives an overall multiplication factor of 19. This value is then up-rated for inflation, using the Consumer Price Index (CPI) rate as at Sep of the previous tax year (e.g for tax year 2011/12 this would be CPI at Sep 10). To calculate the pension pot at the end of the PIP, repeat the calculation using the pension value as at the following 5 Apr multiplied by 19, but without any up-rating for inflation. Where the difference in these two figures is greater than £50,000 then an AA tax charge may be incurred.

Illustrative Examples

6.　　**Promotion from OF2 to OF3**. In Apr 11 an AFPS 05 OF2 is on £40,000 pensionable pay and has completed six years' reckonable service. By Apr 12 he/she has been promoted to OF3 and has pensionable pay of £46,000 and he/she will have then completed seven years' reckonable service. The rate of CPI in Sep 10 is 3.1%. The annual pension for AFPS 05 is calculated by multiplying the salary by the number of years service and by the accrual rate (1/70).

> £40,000 x 6 x 1/70 = £3,429 annual pension.
> Pension pot at start of Input Period:
> Annual pension　£3,429 x 16　　　　　　= £54,864
> Lump Sum　　　£3,429 x 3　　　　　　= £10,287
> 　　　　　　　　　　　　　　　　　　= £65,151
> Uprated by CPI at 3.1%　　　　　　　= £　2,020
> Opening value of Pension Pot　　　　　= £67,170
>
> £46,000 x 7 x 1/70 = £4,600 annual pension.
> Pension pot at end of Input Period:
> Annual pension　£4,600 x 16　　　　　　= £73,600
> Lump Sum　　　£4,600 x 3　　　　　　= £13,800
> Closing value of Pension Pot　　　　　= £87,400
>
> Increase in Pension Pot　　　　　　　= £20,230
>
> The AA limit for 2011/12 is £50,000 therefore £20,230 is well within the limit and leaves £29,770 of unused allowance.

7.　　**Promotion from OF5 to OF6**. In Apr 11 an AFPS 05 OF5 is on £81,666 pensionable pay and has completed 30 years' reckonable service. By Apr 12 he/she has been promoted to OF6 and has pensionable pay of £98,000 and 31 years' reckonable service. The rate of CPI in Sep 10 is 3.1%.

> £81,666 x 30 x 1/70 = £35,000 annual pension.
> Pension pot at start of Input Period:
> Annual pension £35,000 x 16   = £560,000
> Lump Sum   £35,000 x 3   = £105,000
>   = £665,000
> Uprated by CPI at 3.1%   = £ 20,615
> Opening value of Pension Pot   = £685,615
>
> £98,000 x 31 x 1/70 = £43,400 annual pension.
> Pension pot at start of Input Period:
> Annual pension   £43,400 x 16   = £694,400
> Lump Sum   £43,400 x 3   = £130,200
> Closing value of Pension Pot   = £824,600
>
> Increase in Pension Pot   = £138,985
>
> The increase of £138,985 means the AA limit for 2011/12 of £50,000 has been exceeded by £88,985 and a tax charge may have been incurred.

More detailed, examples, together with additional guidance on how to calculate pension entitlements, are at Annexes to this DIN.

Carry Forward

8.   Where the AA is exceeded in a tax year, you may carry forward any unused AA from the three preceding tax years – calculated using the same method and at the new limit of £50,000 (note that the new limit of £50,000 should be used and not the old limit of £255,000) – against the excess. For example, carry forward of unused AA from the years 2008/09, 2009/10 and 2010/11 may be used against an excess of AA in 2011/12. Individuals must also take into account any private pension schemes they may also be contributing to.

9.   In the previous example, the AA limit has been exceeded by £138,985 - £50,000 = £88,985. However, any unused excess from the three preceding tax years can be offset against this amount. These calculations include up-rating the opening pension value for inflation by using the CPI rate. The following table shows the Sep CPI rates for the previous 5 years:

Year	2007	2008	2009	2010	2011
CPI Rate	1.8%	5.2%	1.1%	3.1%	5.2%

An example is as follows:

>   2008/09   2009/10   2010/11
>
> Opening Pension   £28,000   £29,000   £33,000
> CPI   1.8% (Sep 07) 5.2% (Sep 08) 1.1% (Sep 09)
> Uprated Opening
> Pension   £28,504   £30,508   £33,363
> Closing Pension   £29,000   £33,000   £35,000
> Difference   £496   £2,492   £1,637
> Pension Pot
> Increase (x19)   £9,424   £47,348   £31,103
> Annual Allowance   £50,000   £50,000   £50,000
> Unused AA
> carried forward   £40,576   £2,652   £18,897
>
> Total unused AA = £40,576 + £2,652 + £18,897 = **£62,125**

11.   The net excess of AA (Pension Input Amount) for the period for the year is therefore:

Excess in year	£88,985
Less:	
Unused AA Carry Forward	£62,125
Pension Input Amount	£26,860

The amount of £26,860 should be declared to HMRC on a Self-Assessment Tax Return (SA101). In this example, the individual has used all their available carry forward, therefore no further carry forward from these three years will be available to offset any excess that may occur in subsequent tax years.

Transitional Arrangements

12.   Transitional arrangements apply to the calculation of carry forward in the tax years 08/09, 09/10 and 10/11. An excess above the AA in one of these years will not be offset against any unused carry forward from earlier years, but will be set to zero. An example is as follows:

	2008/09	2009/10	2010/11
Opening Pension	£28,000	£29,000	£35,000
CPI	1.8% (Sep 07)	5.2% (Sep 08)	1.1% (Sep 09)
Uprated Opening Pension	£28,504	£30,508	£33,363
Closing Pension	£29,000	£35,000	£36,000
Difference	£496	£4,452	£1,637
Pension Pot Increase (x 19)	£9,424	£84,588	£31,103
Annual Allowance	£50,000	£50,000	£50,000
Difference	£40,576	(-£34,588)	£18,897

AA carry forward = £40,576 + **£NIL** + £18,897 = **£59,473**

Although there is an excess of £34,588 in 2009/10, this is set to zero and does not affect the carry forward in years 2008/09 and 2010/11, which remains available against an excess in 2011/12.

How is the tax calculated?

13.   An excess of AA is treated by HMRC as a freestanding tax liability and is added to earnings when calculating the tax due. For individuals who exceed the AA, tax will be calculated at 40% on all earnings up to the 50% tax rate limit (currently £150,000) and at 50% above that limit.

14.   The individual in the above example has an excess of AA of £26,860 after offsetting all available unused AA. He/She receives an Armed Forces salary of £98,000, with no earnings from other sources. Tax will be charged on the excess of AA as follows:

Salary	£98,000
Excess of AA	£26,860
Total	£124,860

As this amount is under £150,000 tax due = 40% x £26,860 = £10,744

15. If the above individual was in receipt of an Armed Forces salary of £125,000 with no earnings from other sources, the tax payable would be as follows:

Salary	£125,000
Excess of AA	£ 26,860
Total	£151,860
Tax due:	
£150,000 - £125,000 = £25,000 @ 40% =	£10,000
£151,860 - £150,000 = £1,860 @ 50% =	£ 930
Total	£10,930

If a tax charge is due, how is this paid?

16. It is the individual's responsibility to declare any excess over the AA to HMRC via a Self Assessment Tax Return (SA101) and make arrangements to pay HMRC by 31 January following the tax year in which the charge is incurred.

17. For tax charges of less than £2,000, individuals must pay the charge directly to HMRC in accordance with normal Self Assessment time limits. Where a tax charge arising from AFPS benefits is more than £2,000, an individual can choose to pay the tax bill themselves, or elect for the AFPS to pay all (or some) of the charge on their behalf. This arrangement is known as Scheme Pays.

Scheme Pays

18. Scheme Pays will only meet tax charges in excess of £2,000 which arise as a result of membership of the AFPS, and which will be repaid by a subsequent reduction in their pension benefits once they come into payment. Members who have exceeded the AA through membership of multiple pension schemes cannot elect for AFPS to meet those charges as well, but may approach their other pension scheme(s) with a request to do so on their behalf.

19. The reduction in pension benefits is calculated using actuarial factors, which are based on a number of criteria including the age of the individual at the time the tax charge is incurred and an assumed retirement age of 65. If an individual starts to receive their pension benefits earlier than 65, their Scheme Pays reduction will be adjusted accordingly. In practice the earlier you start to receive your benefits the lower the reduction. Members of AFPS 05 should note that Early Departure Payments (EDP) are unaffected by Scheme Pays. Therefore, for individuals in receipt of EDP, the reduction in pension benefits does not take effect until their AFPS 05 pension comes into payment at age 65. The relevant factor tables are available under related documents.

20. An election to pay an AA tax charge through Scheme Pays must be made while still in service and, once made, is irrevocable. Members who have exceeded the AA limit in the year of retirement will be notified by SPVA. If the member wishes to use Scheme Pays an election must be made prior to leaving the Armed Forces.

21. Individuals who wish to elect for Scheme Pays must inform HMRC of their intent by 31 Jan following the end of the tax year. For tax year 2011/12 this will be 31 Jan 13. The Scheme Pays time line for the AFPS is as follows (where X is any year from 2012 onwards):

Timeline	Activity
Between Apr & Oct X	SPVA issue pension statements confirming excess over AA for the tax year just ended, including any AA carried forward.
By 31 Oct X	Latest date for submission of paper Self Assessment Tax Return (SATR) forms SA100/101 to HMRC. HMRC will send back confirmation of the tax owed.
By 31 Jan X+1	Latest date for submission of on-line SATR Forms to HMRC. Tax due will be automatically calculated.
By 31 Jan X+1	Individual decides to pay tax due direct to HMRC or via Scheme Pays. Individual pays tax to HMRC or reports they intend to pay tax through Scheme Pays.
From 31 Jan X+1	Individual notifies SPVA they wish to elect for Scheme Pays. SPVA notifies individual of impact upon pension benefits. Individual confirms to SPVA they wish to proceed.
By 31 Jul X+1	Latest time that an irrevocable election for Scheme Pays can be made to SPVA. (This will be 31 Dec 13 for 2011/12).

22.   Individuals will need to request a Scheme Pays forecast from SPVA and full details of this process will be issued with the pension statement. Upon issuing a Scheme Pays forecast, SPVA will also <u>automatically</u> issue an election form for Scheme Pays. Members should give careful consideration as to which method of meeting the tax charge is most appropriate for them given their financial circumstance and should seek independent financial advice if needed. **The automatic issuing of the election form is not a recommendation that Scheme Pays is the most appropriate option nor is it a binding commitment to use Scheme Pays.**

23.   Individuals may receive a number of tax charges throughout their career and there is no limit on the number of times a member can elect to use Scheme Pays. A member can adopt different approaches for each tax charge, e.g. pay one charge directly, pay another charge by Scheme Pays, or use a mixture of both approaches for another.

In Year Leavers

24.   Members of the Armed Forces Pension Scheme (AFPS) who are leaving in the current tax year (April 12 to April 13) and whose annual pension value has increased by more than £50,000 in the current or previous tax year should contact SPVA at the earliest opportunity to request a pension statement to determine if they have exceed the Annual Allowance (AA).

25.   Members who have exceeded the AA can elect to use Scheme Pays to meet any tax charge resulting from membership of the AFPS, which exceeds £2,000. A lifetime reduction in pension benefits will be made as a result of this election.

26.   Members wishing to elect for Scheme Pays **must** do so whilst still in service. **Scheme Pays elections can not be made after discharge**. Upon request SPVA will issue a pension statement normally within 20 working days. Any Scheme Pays reduction will be based on an estimated tax charge, if your actual tax charge is lower then that estimate then your pension will be adjusted upwards, you are responsible for notifying SPVA of this change. If your actual tax charge is greater than you estimated, you will be responsible for meeting the excess.

27.   The entire Scheme Pays election process can take several months to complete and members of the AFPS are urged to factor this timescale in to their resettlement / retirement preparations.

Annual Allowance Calculator

28.   An Annual Allowance calculator has been developed that will **estimate** whether the AA has been exceeded and whether there is any unused allowance from the previous three years

available to carry forward to offset a current excess. The Annual Allowance calculator can be accessed via http://mod-abc.co.uk/

29.   If there is still an AA excess after the carry forward stage, the calculator will also estimate the effect on pension benefits if Scheme Pays is to be used to meet the resulting tax charge.

Scheme Pays Calculator

30.   There is also a standalone version of the calculator, which allows members of the Armed Forces Pension Scheme (AFPS) to enter their AA tax charge (when known) to estimate the effect of electing Scheme Pays without going through the Armed Forces Pension calculator first. It can also be accessed via: http://mod-abc.co.uk/ . Actual tax charges will be confirmed by HMRC as part of the Self-Assessment tax return process. The launch of the calculator was announced via DIN 2012DIN01-116: Pension Tax Relief - Annual Allowance – Calculator

Adjustment to Tax Codes

31.   For tax charges below £3,000 individuals can request HMRC to adjust their tax code to allow the tax charge to be recovered. A request for a tax code adjustment needs to be made directly to HMRC in the normal self assessment process. Individuals who would like further information can visit the HMRC website or contact HMRC directly, SPVA will not be able to provide advice or guidance on meeting the tax charge via tax code adjustments.

Specific circumstances where an adjustments to the Opening and Closing Values in the AA calculations are made.

32.   Adjustments may be made to opening/closing values of a pension for certain events. SPVA will make the necessary adjustment when calculating an individuals pension benefits. This includes:

   a.   **Pension Sharing on Divorce.** SPVA, when issuing a pension statement, will automatically allow for any pension debits in the opening and closing values and the PIA will reflect any pension debits or credits. See Example 4 at Annexes B and C.

   b.   **Additional Voluntary Contributions (AVC).** Individuals who are paying to either an in-house AVC or a Free Standing AVC through a third party will need to include the additional voluntary contributions they pay in their AA calculations. Individuals who are considering entering into a contract for AVC's may wish to consult an independent financial advisor to ascertain the impact of AVC's on their AA.

   c.   **Added Years.** Individuals who are purchasing Added Years under the AFPS need to include the additional pension benefits that they have accrued in respect of the added years, not the amount of additional contributions. See Example 2 at Annexes B and C.

   d.   **Pension Supplements**. Members of AFPS 75 who receive daily supplements to their pension e.g. Divers, Aviators, Medics etc, will need to include these in their AA calculations. Supplement codes are published annually alongside the AFPS 75 Pension Codes. The supplement is based on the number of days you have served since 1 Apr 92 multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code. See Example 3 at Annex B.

Further details on adjustments made to the opening/closing values of a pension can be found in the HMRC guidance.

Question and Answer Brief

Q)   Do the changes to AA affect me?

A)   The impact of these changes will depend very much on individual circumstances but it is unlikely that any Other Ranks or any Officer below OF 3 (i.e. Lt Commander, Major, Squadron Leader) will be subject to a tax charge.

Q)   How will I know if I have incurred a tax liability?

A)   SPVA will provide pension statements to those members who have been identified as having exceeded the AA through AFPS membership. The statement will allow potentially affected members to confirm if they have exceeded the AA limit and, subsequently, to complete the self-assessment tax process. SPVA will only provide statements on AFPS.

Q)   How will Scheme Pays affect my pension?

A)   Where a tax charge is met through Scheme Pays, pension benefits will be reduced. The exact adjustment will depend on the individual's circumstances but will include factors such as age and the amount of the tax charge. Illustrated examples are provided in Annex D of this DIN. Members should note that the reduction is for the life of the pension. Therefore the value of the reduction in the pension may over time exceed the original tax charge as the reduction is for the life of the pension and depends on how long the pension is in payment.

Q)   Is there a threshold for Scheme Pays?

A)   There is a £2,000 lower threshold, but there is no upper limit. For example if your tax charge is £1,500 you cannot elect for Scheme Pays to meet the charge. If your tax charge is £6,000 then you can elect for the scheme to meet the entire charge which will be recovered from your pension.

Q)   I have active private pension arrangements in addition to AFPS – how will Scheme Pays help me to meet a proportion of my AA tax bill if I exceed the AA threshold?

A)   The AFPS Scheme Pays will only meet tax charges over £2,000 which directly arise from exceeding the AA threshold within the Armed Forces Pension Scheme.

Q)   Can I elect to make a direct payment to HMRC rather than use Scheme Pays?

A)   Yes. You can make a direct payment to HMRC instead of using Scheme Pays and your benefits will not be reduced. You can also elect for a combined approach, e.g. for a tax bill of £6,000 you may wish to meet £3,000 of the charge yourself and elect for Scheme Pays to meet the remainder (the remaining tax charge must exceed £2000). You must do this in line with the normal reporting and payment period for Self Assessment.

Q)   In the event that I exceed the AA limits more than once in my career can Scheme Pays be used again?

A)   Yes. There is no limit on the number of times which an election for Scheme Pays can be made. Each time Scheme Pays is used it will result in a reduction being made to your pension benefits. If you wish to, you could choose to pay a tax charge directly on some occasions and use Scheme Pays on others.

Q) Is there any charge for using Scheme Pays such as an administration charge?

A)   No. You will not be charged any administration fees or other fees if you elect for Scheme Pays. Your pension will be reduced and this is calculated through the use of factors. These factors do not include fees.

Q)   By which date will I have to decide whether to use Scheme Pays?

A)   Individuals must decide if they wish to use Scheme Pays to meet tax charges incurred by no later than 31 Dec 13 for the 2011/12 tax year (31 July in subsequent years). They must notify HMRC of this decision by 31 Jan 13.

Q)   How do I calculate whether I have exceeded the AA limit if I don't want to wait to see if I receive a Pension Statement?

A)   An online calculator has been developed to assist individuals in performing their AA calculations. The AA calculator is an integral part of the Armed Forces Pension Calculator and can be accessed via: http://mod-abc.co.uk/

 Point of contact details:

PCV Pension Team - email DCDSPERS-PCV-AFPSGRPMAILBOX@MOD.UK

GUIDANCE ON HOW TO DETERMINE PENSION ENTITLEMENTS AND DETAILED EXAMPLES OF AA CALCULATIONS

1.   To assist individuals in determining their pension entitlements undertaking their AA calculations, the following guidance is provided.

Annex	Topic
A	**Guidance on calculating pension entitlements**.
B	**AFPS 75 Worked Examples:** 1. **Promotion**. Major (OF3) promoted to Lieutenant Colonel (OF4) after 31 years' service. 2. **Added Years**. Lieutenant Commander (OF3) promoted to Commander (OF4) after 18 years' service. 3. **Pension Supplements**. Medical Officer - Non Accredited Surgeon Commander (OF4) promoted to Non Accredited Surgeon Captain (OF5) after 26 years' service 4. **Pension Sharing On Divorce.** Squadron Leader (OF3) promoted to Wing Commander (OF4) after 18 years' service. 5. **Promoted before the IP point**. Squadron Leader (OF3) promoted to Wing Commander (OF4) after 14 years' service 6. **Senior Officer Promotion**. Air Commodore (OF6) promoted to Air Vice Marshal (OF7) after 27 years' service.
C	**AFPS 05 Worked Examples:** 1. **Promotion**. Major (OF3) promoted to Lieutenant Colonel (OF4) after 33 years' service 2. **Added Years**. Lieutenant Commander (OF3) promoted to Commander (OF4) after 18 years' service 3. **Pension Supplements**. Medical Officer - Non Accredited Surgeon Commander (OF4 at pay level 20) promoted to Non Accredited Surgeon Captain (OF5 at pay level 21) after 26 years' service 4. **Pension Sharing On Divorce**. Squadron Leader (OF3) promoted to Wing Commander (OF4) after 18 years' service.
D	**AFPS 75 / 05 Scheme Pays Worked Examples:** 1. **AFPS 75**. Rear Admiral (OF7) promoted to Vice Admiral (OF8) after 32 years' service. 2. **AFPS 05**. Major General (OF7) promoted to Lieutenant general (OF8) after 32 years' service.

2.   **Disclaimer:** These examples are based on HMRC AA guidance and regulations issued to date and are purely illustrative. They should not be taken as a recommendation to pursue (or not pursue) any particular course of action. The MOD or its employees cannot accept any responsibility or liability for any tax liability arising from any act or omission made in respect of them. They may not be relied upon in relation to an individual's own circumstances. **Members are advised to seek advice from their own Independent Financial Adviser or other professional adviser as appropriate.**

GUIDANCE ON THE CALCULATION OF PENSION ENTITLEMENTS

1.   Pension entitlements in the two main Armed Forces Pension Schemes (AFPS 75 and AFPS 05) are calculated differently, and within AFPS75 there are different calculations depending on your rank and whether you have reached the Immediate Pension Point (IPP) or not. The IPP is 16 years Reckonable Service (RS) for Officers and 22 years RS for Other Ranks.

2.   **AFPS 75.**

        a.   **OF6 and below.** The pension entitlement for AFPS 75 members of OF6 rank and below are based on representative rates of pay, which are reissued annually on 31 Mar, which can be found at the following links: 2008 2009, 2010, 2011 and 2012. A member of AFPS75 at the rank of OF6 and below does not accrue pension benefits in a specific rank until that rank has been held continuously for 12 months. After one year's continuous service in the new rank, as long as the individual is now substantive, 50% of the higher rank pension will have been built up. Over the next year, the pension benefit will increase proportionally until it reaches 100% of the higher rank pension at the end of the second year.[1] The profile is illustrated below.
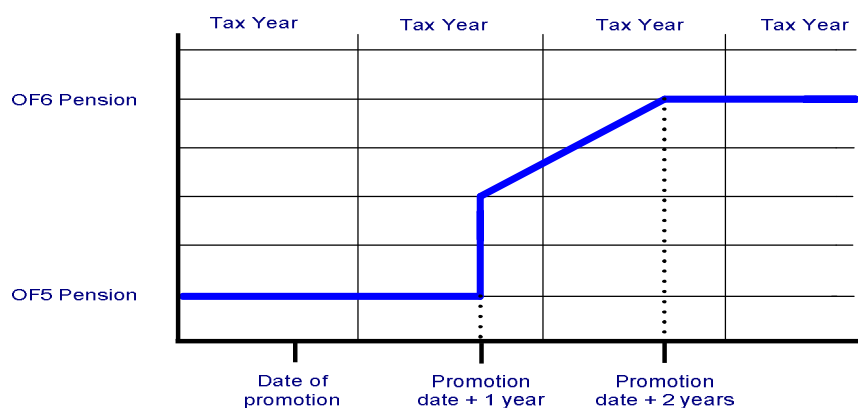
        b.   **Promotion to OF7.** For promotion from OF6 to OF7 the individual only needs to hold the substantive rank for 1 year before the full pension benefits[2] are earned. The profile is therefore as follows:

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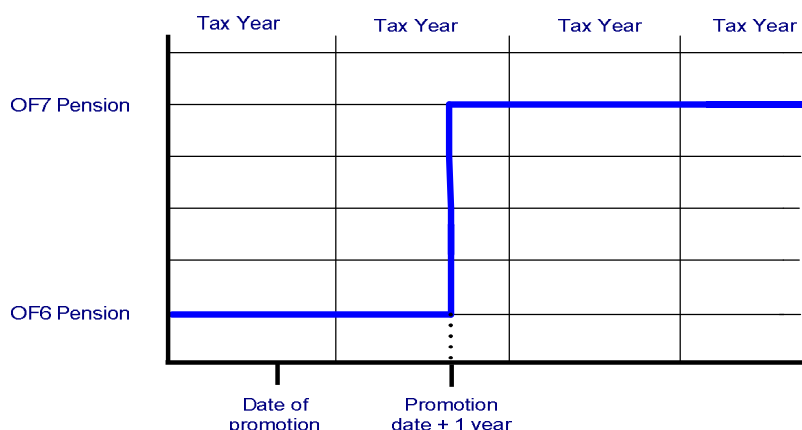
[1] Where an Officer holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 3 years (33.33% at the end of Year 1, 66.67% by the end of Year 2 and 100% by the end of Year 3). Where an Other Rank holds acting higher rank for at least one year (and retires before being made substantive) full pension benefits for the higher rank are earned pro-rata over 2 years (50% at the end of Year 1 and 100% by the end of Year 2).

[2] OF7 and above pensions are based on Final Pensionable Earnings calculated using percentage rates.

c.   **OF8 and above.**   Officers of OF8 rank and above begin to accrue pension benefits immediately on promotion and are calculated on pensionable pay. The percentage rates are published annually alongside the pension codes.

d.   **Pre IPP.**   Members of the AFPS 75 who have not yet reached their IPP need to use the following formula to establish their pension input (using 2011 pension codes):

> 1)   Officers: Full Career Pension (FCP) at 34 years service in the current rank x Accrual Rate (3%) x RS, e.g. OF4 with 14 years service = £37,644 x 3% x 14 = £15,810

> 2)   Other Ranks: FCP at 37 years service in the current rank x Accrual Rate (2.75%) x RS, e.g. OR8 with 20 years service = £19,473 x 2.75% x 20 = £10,710

e.   **Pension Supplements.** Members of AFPS 75 who receive daily supplements (Divers, Aviators, Medics etc, need to include these in their AA calculations. The supplement is based on the number of days you have served since 1 Apr 92 multiplied by the daily supplement for the relevant rank. This supplement is then added to the relevant pension code. See Example 3 at Annex C.

3.   **AFPS 05**.   For members of AFPS 05 pension benefits are based on the Final Pensionable Earnings, which is the highest pensionable salary earned for 365 consecutive days in the last 3 years. Benefits are earned at a rate of 1/70th of Final Pensionable Earnings for each year served. Where the consecutive 365 days is not in the current year, the pensionable salary is up-rated for inflation as appropriate. JSP 764 Part 1 (0304A) contains detailed information on calculating the Final   Pensionable   Earnings   and   adjusting   previous   years   earning   for   inflation.

AFPS 75 WORKED EXAMPLES

Example 1: AFPS75 - Major (OF3) promoted to Lieutenant Colonel (OF4) after 31 years' service on 31 Dec 09.

- At 6 Apr 10, pension £26,321 p.a. based on 32 years' accrued service at OF3.
- At 6 Apr 11, pension £33,038 p.a. recognising the 1 yr and 3 months as OF4 from 31 Dec 09.
- At 6 Apr 12, pension £37,644 p.a. the full OF4 pension after 2 years in rank.
- Sep 10 CPI figure is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension from the pension codes	£33,038 p.a.(33 yrs, 1yr and 3 months as OF4 from 2011 pension codes)	£37,644 p.a. (34 yrs – full OF4 pension after 2 years in rank from 2012 pension codes)
2. Calculate lump sum	£33,038 x 3 = £99,114	£37,644 x 3 = £112,932
3. Calculate value of pension	£33,038 x 16 = £528,608	£37,644 x 16 = £602,304
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£528,608 + £99,114) x 1.031 = £647,181	£602,304 + £112,932 = £715,236
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£715,236 - £647,181 = £68,055	
6. Calculate the excess above the AA Level of £50,000	£68,055 - £50,000 = £18,055	
7. Unused Annual Allowance	£0 (since £68,055 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	The unused AA from each of the three prior pension input periods are: 6 April 2010 to 5 April 2011 = £0 6 April 2009 to 5 April 2010 = £50,000 6 April 2008 to 5 April 2009 = £32,262 The total of the unused AA, **£82,262 (i.e. £32,262 + £50,000 + £0) is available to carry forward from prior years. This is enough to offset all of the AA excess.** The calculations of the carry forward amounts are shown in detail on the next page.	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = **£0**	
	In this example there is no tax charge.	

Carry Forward Calculations for years 2010/11, 2009/10 and 2008/09

Carry Forward Yr 2010/11:		
Stages of Calculation	**Start Year - 6 April 2010**	**End Year - 5 April 2011**
1. Calculate annual pension from the pension codes	£26,321 p.a. (32 yrs OF3 from 2010 pension codes)	£33,038 p.a. (33 yrs, 1yr and 3 months as OF4 from 2011 pension codes)
2. Calculate lump sum	£26,321 x 3 = £78,963	£33,038 x 3 = £99,114
3. Calculate value of pension	£26,321 x 16 = £421,136	£33,038 x 16 = £528,608
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£421,136 + £78,963) x 1.011 = £505,600	£528,608 + £99,114 = £627,722
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£627,722 - £505,600 = £122,122	
6. Calculate the excess above the AA Level of £50,000	£122,122 - £50,000 = £72,122	
7. Unused Annual Allowance	£0 (since £122,122 > £50,000)	

Carry Forward Yr 2009/10:		
Stages of Calculation	**Start Year - 6 April 2009**	**End Year - 5 April 2010**
1. Calculate annual pension from the pension codes	£25,108 p.a. (31 yrs, OF3 from 2009 pension codes)	£26,321 p.a. (32 yrs, OF3 from 2010 pension codes)
2. Calculate lump sum	£25,108 x 3 = £75,324	£26,321 x 3 = £78,963
3. Calculate value of pension	£25,108 x 16 = £401,728	£26,321 x 16 = £421,136
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£401,728 + £75,324) x 1.052 = £501,859	£421,136 + £78,963 = £500,099
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£500,099 - £501,859 = -£1,760	
6. Calculate the excess above the AA Level of £50,000	£0 (since -£1,760 < £50,000)	
7. Unused Annual Allowance	£50,000 (we end up with a negative increase of -£1,760, we have not used up any of our AA for this year)	

Carry Forward Yr 2008/09:		
Stages of Calculation	**Start Year - 6 April 2008**	**End Year - 5 April 2009**
1. Calculate annual pension from the pension codes	£23,747 p.a. (30 yrs, OF3 from 2008 pension codes)	£25,108 p.a. (31 yrs, OF3 from 2009 pension codes)
2. Calculate lump sum	£23,747 x 3 = £71,241	£25,108 x 3 = £75,324
3. Calculate value of pension	£23,747 x 16 = £379,952	£25,108 x 16 = £401,728
4. Calculate Pension Input Amount (for the start year up-rate by 1.8%)	(£379,952 + £71,241) x 1.018 = £459,314	£401,728 + £75,324 = £477,052
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£477,052 - £459,314 = £17,738	
6. Calculate the excess above the AA Level of £50,000	£0 (since £17,738 < £50,000)	
7. Unused Annual Allowance	£50,000 - £17,738 = £32,262	

Example 2: AFPS75 – Lieutenant Commander (OF3) promoted to Commander (OF4) on 1 Jul 09 after 18 years' service, with a contract to buy 3 added years

- Joined the Armed Forces at age 24 and immediately entered into a contract to buy 3 additional years of reckonable service.
- At 6 Apr 10, pension £18,223 p.a. based on 20.6 years' accrued service (of which 1.6 years is in respect of the added years) at rank OF3.
- At 6 Apr 11, pension £24,530 p.a. based on 21.7 years' accrued service (of which 1.7 years is in respect of the added years), taking into account 1 yr and 9 months as an OF4 from 1 Jul 09.
- At 6 Apr 12, pension £26,422 p.a. - full OF4 pension after 2 years in rank based on 22.8 years' accrued service (of which 1.8 years is in respect of the added years).
- Sep 10 CPI figure is of 3.1%

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension the pension codes	£24,530 p.a. (21.7 yrs of which 1.7 yrs is in respect of added years, 1yr 9 months as OF4 from 2011 pension codes)	£26,422 p.a. (22.8 yrs of which 1.8 yrs is in respect of added years, OF4 from 2012 pension codes)
2. Calculate lump sum	£24,530 x 3 = £73,590	£26,422 x 3 = £79,266
3. Calculate value of pensio	£24,530 x 16 = £392,480	£26,422 x 16 = £422,752
4. Calculate Pension Input (for the start year up-rate by	(£392,480 + £73,590) x 1.031 = £480,518	£422,752 + £79,266 = £502,018

Check if exceeded the AA level of £50,000	
5. Calculate the difference between the end year value and the start year value	£502,018 - £480,518 = £21,500
6. Calculate the excess above the AA Level of £50,000	£0 (since £21,500 < £50,000)
7. Unused Annual Allowance	£50,000 - £21,500 = £28,500

If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.	
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years

Do I have a tax charge after allowing for Carry Forward?	
9. Tax Payable at 40% rate	= 0.4 x £0 = £0 In this example there is no tax charge

Example 3: AFPS75 – Non Accredited Surgeon Commander (OF4) promoted to Non Accredited Surgeon Captain (OF5) on 1 Jun 09 after 26 years' service.

- At 6 Apr 10, pension £33,360 p.a. (which includes a pension supplement of £2,730 p.a.) based on 27 years' accrued service at rank OF4.
- At 6 Apr 11, pension £38,154 p.a. (which includes a supplement of £1,761 p.a.) based on 28 years' accrued service, taking into account 1 yr and 10 months as an OF5 from 1 Jun 09.
- At 6 Apr 12, pension £39,662 p.a. (which includes a supplement of £1,747 p.a.) based on 29 years' accrued service at rank OF5. This is the full OF5 pension after 2 years in rank.
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension from the pension and supplement codes	£36,393 + £1,761 = £38,154 p.a. (28 yrs, 1 yr 10 months as OF5 from 2011 codes where £1,761 is the supplement)	£37,915 + £1,747 = £39,662 p.a. (29 yrs, OF5 from 2012 codes where £1,747 is the supplement)
2. Calculate lump sum	£38,154 x 3 = £114,462	£39,662 x 3 = £118,986
3. Calculate value of pension	£38,154 x 16 = £610,464	£39,662 x 16 = £634,592
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£610,464 + £114,462) x 1.031 = £747,399	£634,592 + £118,986 = £753,578
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£753,578 - £747,399 = £6,179	
6. Calculate the excess above the AA Level of £50,000	£0 (since £6,179 < £50,000)	
7. Unused Annual Allowance	£50,000 - £6,179 = £43,821	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = £0 In this example there is no tax charge	

Example 4: AFPS75 – Squadron Leader (OF3) promoted to Wing Commander (OF4) on 1 Jul 09 after 18 years' service with a pension sharing order

- Joined the scheme at age 21 and on 6 Apr 09 received a pension sharing order of 40%.
- At 6 Apr 10, pension £17,086 p.a. based on 19 years' accrued service at rank OF3. The pension debit was £6,638 p.a.
- At 6 Apr 11, pension was £22,889 p.a. based on 20 years' accrued service, taking into account the 1 yr and 9 months as an OF4 from 1 Jul 09. The pension debit was £6,854 p.a.
- At 6 Apr 12, pension £24,618 p.a. This is the full OF4 pension after 2 years in rank and based on 21 years' accrued service. The pension debit will be £7,321 p.a.
- Sep 10 CPI figure is 3.1%

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension from the pension codes – pension debit	£22,889 - £6,854 = £16,035 p.a. (20 yrs, 1 yr 9 months as OF4 from 2011 pension codes where £6,854 is pension debit)	£24,618 - £7,321 = £17,297 p.a. (21 yrs, OF4 from 2012 pension codes where £7,321 is the pension debit)
2. Calculate lump sum	= £22,889 x 3 - £20,437 = £68,667 - £20,437 = £48,230 p.a. (where £20,437 is the lump sum debit)	= £24,618 x 3 - £21,656 = £73,854 - £21,656 = £52,198 p.a. (where £21,656 is lump sum debit)
3. Calculate value of pension	£16,035 x 16 = £256,560	£17,297 x 16 = £276,752
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£256,560 + £48,230) x 1.031 = £314,238	£276,752 + £52,198 = £328,950
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£328,950 - £314,238 = £14,712	
6. Calculate the excess above the AA Level of £50,000	£0 (since £14,712 < £50,000)	
7. Unused Annual Allowance	£50,000 - £14,712 = £35,288	

If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.	
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years

Do I have a tax charge after allowing for Carry Forward?	
9. Tax Payable at 40% rate	= 0.4 x £0 = £0 In this example there is no tax charge

Example 5: AFPS75 – Squadron Leader (OF3) promoted to Wing Commander (OF4) on 1 Jun 10 after 14 years' service i.e. before the immediate pension (IP) point

- At 6 Apr 10, pension £11,652 p.a. based on 14 years' accrued service at rank OF3.
- At 6 Apr 11, pension £12,484 p.a. based on 15 years' accrued service at rank OF3.
- At 6 Apr 12, pension £19,220 p.a. This takes into account the 1 yr and 10 months as an OF4 from 1 Jun 10.
- Sept 10 CPI figure is of 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension from the pension codes	£12,484 p.a. (15x3%x27,742 – 34 yr OF3 from 2011 pension codes)	£19,220 p.a. (16 yrs, 1yr 10 months as OF4 from 2012 pension codes)
2. Calculate lump sum	£12,484 x 3 = £37,452	£19,220 x 3 = £57,660
3. Calculate value of pension	£12,484 x 16 = £199,744	£19,220 x 16 = £307,520
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£199,744 + £37,452) x 1.031 = £244,549	£307,520 + £57,660 = £365,180
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£365,180 - £244,549 = £120,631	
6. Calculate the excess above the AA Level of £50,000	£120,631 - £50,000 = £70,631	
7. Unused Annual Allowance	£0 (since £120,631 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	The unused AA from each of the three prior pension input periods are: 6 April 2010 to 5 April 2011 = £36,627 6 April 2009 to 5 April 2010 = £40,625 6 April 2008 to 5 April 2009 = £32,700 The total of the unused AA, **£109,952** (i.e. £32,700 + £40,625 + £36,627) **is available to carry forward from prior years. This is enough to offset all of the AA excess.** The calculations of the carry forward amounts are shown in detail on the next page.	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = **£0** In this example there is no tax charge	

Carry Forward Calculations for years 2010/11, 2009/10 and 2008/09

Carry Forward Yr 2010/11:

Stages of Calculation	Start Year - 6 April 2010	End Year - 5 April 2011
1. Calculate annual pension from the pension codes	£11,652 p.a. (14 yrs, OF3 from 2010 pension codes)	£12,484 p.a. (15 yrs, OF3 from 2011 pension codes)
2. Calculate lump sum	£11,652 x 3 = £34,956	£12,484 x 3 = £37,452
3. Calculate value of pension	£11,652 x 16 = £186,432	£12,484 x 16 = £199,744
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£186,432 + £34,956) x 1.011 = £223,823	£199,744 + £37,452 = £237,196

Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£237,196 - £223,823 = £13,373	
6. Calculate the excess above the AA Level of £50,000	£0 (since £13,373 < £50,000)	
7. Unused Annual Allowance	£50,000 - £13,373 = £36,627	

Carry Forward Yr 2009/10:

Stages of Calculation	Start Year - 6 April 2009	End Year - 5 April 2010
1. Calculate annual pension from the pension codes	£10,607 p.a. (13 yrs, OF3 from 2009 pension codes)	£11,652 p.a. (14 yrs, OF3 from 2010 pension codes)
2. Calculate lump sum	£10,607 x 3 = £31,821	£11,652 x 3 = £34,956
3. Calculate value of pension	£10,607 x 16 = £169,712	£11,652 x 16 = £186,432
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£169,712 + £31,821) x 1.052 = £212,013	£186,432 + £34,956 = £221,388

Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£221,388 - £212,013 = £9,375	
6. Calculate the excess above the AA Level of £50,000	£0 (since £9,375 < £50,000)	
7. Unused Annual Allowance	£50,000 - £9,375 = £40,625	

Carry Forward Yr 2008/09:

Stages of Calculation	Start Year - 6 April 2008	End Year - 5 April 2009
1. Calculate annual pension from the pension codes	£9,525 p.a. (12 yrs, OF3 from 2008 pension codes)	£10,607 p.a. (13 yrs, OF3 from 2009 pension codes)
2. Calculate lump sum	£9,525 x 3 = £28,575	£10,607 x 3 = £31,821
3. Calculate value of pension	£9,525 x 16 = £152,400	£10,607 x 16 = £169,712
4. Calculate Pension Input Amount (for the start year up-rate by 1.8%)	(£152,400 + £28,575) x 1.018 = £184,233	£169,712 + £31,821 = £201,533

Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£201,533 - £184,233 = £17,300	
6. Calculate the excess above the AA Level of £50,000	£0 (since £17,300 < £50,000)	
7. Unused Annual Allowance	£50,000 - £17,300 = £32,700	

Example 6: AFPS75 – Air Commodore (OF6) promoted to Air Vice Marshal (OF7) on 20 Dec 08 after 27 years' service

- An Air Vice Marshal (OF7) having joined the AFPS on 19 Jul 81 (i.e. promotion occurred after 27 years and 154 days service).
- At 6 Apr 08, pension £38,147 p.a. based on 26 years and 261 days service at rank OF6.
- At 6 Apr 09, pension £40,294 p.a. based on 27 years and 261 days service at rank OF6.
- At 6 Apr 10, pension £46,376 p.a. based on 28 years and 261 days service and pay of £105,497 at rank OF7
- At 6 Apr 11, pension £50,729 p.a. based on 29 years and 261 days service and pay of £112,506 at rank OF7
- At 6 Apr 12, pension £53,064 p.a. based on 30 years and 261 days service and pay of £114,709 at rank OF7
- Sep 10 CPI figure is 3.1%.
- **See Appendix 1 for the detailed calculations for the above pension figures.**

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension	£50,729 p.a. (29 yrs and 261 days on pay of £112,506 as an OF7)	£53,064 p.a. (30 yrs and 261 days on pay of £114,709 as an OF7)
2. Calculate lump sum	£50,729 x 3 = £152,187	£53,064 x 3 = £159,192
3. Calculate value of pension	£50,729 x 16 = £811,664	£53,064 x 16 = £849,024
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£811,664 + £152,187) x 1.031 = £993,730	£849,024 + £159,192 = £1,008,216
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£1,008,216 - £993,730 = £14,486	
6. Calculate the excess above the AA Level of £50,000	£0 (since £14,486 < £50,000)	
7. Unused Annual Allowance	£50,000 - £14,486 = £35,514	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years	
Do I have a tax charge after allowing for Carry Forward?		
8. Tax Payable at 40% rate	= 0.4 x £0 = **£0** In this example there is no tax charge.	

APPENDIX 1 TO ANNEX B EXAMPLE 6 DETAILED PENSION CALCULATIONS

1.   **As at 6 Apr 08.** The member has 26 years and 261 days service and is eligible for benefits based on OF6 rank. The service is calculated as the number of completed years and days service from joining AFPS75 to the start of the pension input period i.e. from 19 Jul 81 to 6 Apr 08. To determine the pension at 6 Apr 08 we need to use the 2008 compulsory pension codes for officers:

Compulsory Pension at 26 years service based on rank OF6 = £37,397
Compulsory Pension at 27 years service based on rank OF6 = £38,446

However, we need to allow for the exact number of years and days service by including a proportion of the difference in the 27 year and 26 year pension codes. This additional proportion for the 261 days can be determined as follows:

= (Pension@27 years - Pension@26 years) × (no of days service ÷ 365)
= (£38,446 - £37,397) × (261 ÷ 365)
= £750.11

Adding this proportion to the 26 year pension gives the total compulsory pension at 26 years 261 days service based on rank OF6.

= Pension@26 years + Additional Proportion for 261 days
= £37,397 + £750.11
= £38,147 p.a.

2.   **As at 6 Apr 09**. The member has 27 years and 261 days service and is eligible for benefits based on rank OF6. This is because, although he was promoted to OF7 on 20 Dec 08, he will not have served a year as an OF7 by 6 Apr 09 to be eligible for benefits at the rank of OF7. The service is calculated as the number of completed years and days service from joining AFPS75 to the start of the pension input period i.e. from 19 Jul 81 to 6 Apr 09.

To determine the pension at 6 Apr 09 we need to use the 2009 compulsory pension codes for officers.:

Compulsory Pension at 27 years service based on rank OF6 = £39,522
Compulsory Pension at 28 years service based on rank OF6 = £40,601

However, we need to allow for the exact number of years and days service by including a proportion of the difference in the 28 year and 27 year pension codes. This additional proportion for the 261 days can be determined as follows:

= (Pension@28 years - Pension@27 years) × (no of days service ÷ 365)
= (£40,601 - £39,522) × (261 ÷ 365)
= £771.56

Adding this proportion to the 27 year pension gives the total compulsory pension at 27 years 261 days service based on rank OF6.

= Pension@27 years + Additional Proportion for 261 days
= £39,522 + £771.56
= £40,294 p.a.

3.   **As at 6 Apr 10.** The member has 28 years and 261 days service and is eligible for benefits based on rank OF7, since they have served in the rank OF7 for at least 1 year. The service is calculated as the number of completed years and days service from joining AFPS75 to the start of the pension input period i.e. from 19 Jul 81 to 6 Apr 10.

To determine the pension at 6 Apr 10 we need to obtain the appropriate percentage of basic pay based on total service. The appropriate percentage can be obtained from the senior annual rates of service retired pay table:

Percentage at 28 years service based on rank OF7 = 43.1%
Percentage at 29 years service based on rank OF7 = 44.3%

However, we need to allow for the exact number of years and days service by including a proportion of the difference in the 29 year and 28 year percentage rate. This additional percentage for the 261 days can be determined as follows:

= (Percentage@29 years - Percentage@28 years) × (no of days service ÷ 365)
= (44.3% – 43.1%) × (261 ÷ 365)
= 0.86%

Adding this percentage to the 28 year pension gives the total percentage at 28 years 261 days service based on rank OF7, as follows:

= Percentage@28 years + Additional Percentage for 261 days
= 43.1% + 0.86%
= 43.96%

We then need to determine the basic pay during the year ending 6 Apr 10 (for this illustration we assume the latest year is the highest in the last 3 years). This member was promoted on 20 Dec 08 to OF7 level 1. From 1 Apr 09 to 1 Apr 10 they were an OF7 on pay level 2. The basic pay can be obtained from the Senior Salary Review Body Report 2009 (SSRB 09). From 1 Apr 10 to 6 April 10 they were an OF7 on Pay Level 3. The basic pay can be obtained from SSRB Report 2010 (SRB10). From these reports the following basic pay figures are:

Basic Pay for an OF7 level 2 from SSRB09 = £105,400
Basic pay for an OF7 level 3 from SSRB10 = £112,476

This member was at OF7 pay level 2 for 360 days (i.e. from 6 Apr 09 to 1 Apr 10) and pay level 3 for 5 days (i.e. from 1 Apr 10 to 6 Apr 10). Therefore, the basic pay during the year to 6 Apr 10 is determined as follows:

= [(Basic Pay OF7 L2 × Number of days at OF7 L2) + (Basic Pay OF7 L3 × Number of days at OF7 L3)] ÷ 365
= [(£105,400 × 360) + (£112,476 × 5)] ÷ 365
= £105,497

The pension is then determined by multiplying the appropriate percentage by the basic pay, as follows.

= Percentage @26 years and 261 days × Basic Pay
= 43.96% × £105,497
= £46,376 p.a.

4.   **As at 6 Apr 11**. The member has 29 years and 261 days service and is eligible for benefits based on rank OF7, since they have served in the rank OF7 for at least 1 year. The service is calculated as the number of completed years and days service from joining AFPS75 to the start of the pension input period i.e. from 19 Jul 81 to 6 Apr 11.

To determine the pension at 6 Apr 11 we need to obtain the appropriate percentage of basic pay based on total service. The appropriate percentage can be obtained from the senior annual rates of service retired pay table. From this table we can obtain the following percentages:

Percentage at 29 years service based on rank OF7 = 44.3%
Percentage at 30 years service based on rank OF7 = 45.4%

However, we need to allow for the exact number of years and days service by including a proportion of the difference in the 30 year and 29 year percentage rate. This additional percentage for the 261 days can be determined as follows:

= (Percentage@30 years - Percentage@29 years) × (no of days service ÷ 365)
= (45.4% – 44.3%) × (261 ÷ 365)
= 0.79%

Adding this percentage to the 29 year pension gives the total percentage at 29 years 261 days service based on rank OF7, as follows:

= Percentage@29 years + Additional Percentage for 261 days
= 44.3% + 0.79%
= 45.09%

We then need to determine the basic pay during the year ending 6 Apr 11 (for this illustration we assume the latest year is the highest in the last 3 years). This member was promoted on 20 Dec 08 to OF7 level 1. From 1 Apr 10 to 1 Apr 11 they were an OF7 on pay level 3.The basic pay can be obtained from the Senior Salary Review Body Report 2010 (SSRB10). From 1 Apr 11 to 6 Apr 11 they were an OF7 on pay level 4. The basic pay can be obtained from the Senior Salary Review Body Report 2011 (SSRB11). From these reports the following basic pay figures are:

Basic Pay for an OF7 level 3 from SSRB10 = £112,476
Basic pay for an OF7 level 4 from SSRB11 = £114,678

This member was at OF7 pay level 3 for 360 days (i.e. from 6 Apr 10 to 1 Apr 11) and pay level 4 for 5 days (i.e. 1 Apr 11 to 6 Apr 11). Therefore, the basic pay during the year to 6 Apr 11 is determined as follows:

= [(Basic Pay OF7L3 × Number of days at OF7L3) + (Basic Pay OF7L4 × Number of days at OF7L4)] ÷ 365
= [(£112,476 × 360) + (£114,678 × 5)] ÷ 365
=£112,506

The pension is then determined by multiplying the appropriate percentage by the basic pay, as follows.

= Percentage @27 years and 261 days × Basic Pay
= 45.09% × £112,506
= £50,729 p.a.

5.   **As at 6 April 2012**. The member has 30 years and 261 days service and is eligible for benefits based on rank OF7, since they have served in the rank OF7 for at least 1 year. The service is calculated as the number of completed years and days service from joining AFPS75 to the start of the pension input period i.e. from 19 Jul 81 to 6 Apr 12.

To determine the pension at 6 Apr 12 we need to obtain the appropriate percentage of basic pay based on total service. The appropriate percentage can be obtained from the senior annual rates of service retired pay table. From this table we can obtain the following percentages:

Percentage at 30 years service based on rank OF7 = 45.4%
Percentage at 31 years service based on rank OF7 = 46.6%

However, we need to allow for the exact number of years and days service by including a proportion of the difference in the 31 year and 30 year percentage rate. This additional percentage for the 261 days can be determined as follows:

= (Percentage@31 years - Percentage@30 years) × (no of days service ÷ 365)
= (46.6% – 45.4%) × (261 ÷ 365)
= 0.86%

Adding this percentage to the 30 year pension gives the total percentage at 30 years 261 days service based on rank OF7, as follows:

= Percentage@30 years + Additional Percentage for 261 days
= 45.4% + 0.86%
= 46.26%

We then need to determine the basic pay during the year ending 6 Apr 12 (for this illustration we assume the latest year is the highest in the last 3 years). This member was promoted on 20 Dec 08 to OF7 level 1. From 1 Apr 11 to 1 Apr 12 they were an OF7 on pay level 4. The basic pay can be obtained from the Senior Salary Review Body Report 2011 (SSRB11). From 1 Apr 12 to 6 Apr 12 they were an OF7 on pay level 5. The basic pay can be obtained from the Senior Salary Review Body Report 2012 (For the purposes of this illustration we will use the SSRB11 since SSRB12 is not yet available). From these reports the following basic pay figures are:

Basic Pay for an OF7 level 4 from SSRB11 = £114,678
Basic pay for an OF7 level 5 from SSRB11 = £116,924

This member was at OF7 pay level 4 for 360 days (i.e. from 6 Apr 11 to 1 Apr 12) and pay level 5 for 5 days (i.e. 1 Apr 12 to 6 Apr 12). Therefore, the basic pay during the year to 6 Apr 12 is determined as follows:

= [(Basic Pay OF7L4 × Number of days at OF7L4) + (Basic Pay OF7L5 × Number of days at OF7L5)] ÷ 365
= [(£114,678 × 360) + (£116,924 × 5)] ÷ 365
=£114,709

The pension is then determined by multiplying the appropriate percentage by the basic pay, as follows.

= Percentage @28 years and 261 days × Basic Pay
= 46.26% × £114,709
= £53,064 p.a.

AFPS 05 WORKED EXAMPLES

Example 1: AFPS05 - Major (OF3) promoted to Lt Colonel (OF4) on 1 May 11 after 33 years' service
- At 6 Apr 10, pension £22,459 p.a. based on 32 years' accrued service and Final Pensionable Earnings (FPE) of £49,128 p.a. at rank OF3.
- At 6 Apr 11, pension £24,183 p.a. based on 33 years' accrued service and FPE of £51,298 p.a. at rank OF3.
- At 6 Apr 12, pension £31,969 p.a. based on 34 years' accrued service and FPE of £65,819 p.a. (includes 11 months at OF4 salary).
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (years of service / 70 x FPE)	33/70 x £51,298 = £24,183	34/70 x £65,819 = £31,969
2. Calculate lump sum	£24,183 x 3 = £72,549	£31,969 x 3 = £95,907
3. Calculate value of pension	£24,183 x 16 = £386,928	£31,969 x 16 = £511,504
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£386,928 + £72,549) x 1.031 = £473,721	£511,504 + £95,907 = £607,411

Check if exceeded the AA level of £50,000	
5. Calculate the difference between the end year value and the start year value	£607,411 - £473,721 = £133,690
6. Calculate the excess above the AA Level of £50,000	£133,690 – £50,000 = £83,690
7. Unused Annual Allowance	= £0 (since £133,690 > £50,000)

If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.	
8. Carry Forward from the prior years	The unused AA from each of the three prior pension input periods are: 6 April 2010 to 5 April 2011 = £21,938 6 April 2009 to 5 April 2010 = £36,411 6 April 2008 to 5 April 2009 = £22,060 The total of the unused AA, **£80,409** (i.e. £22,060 + £36,411 + £21,938) **is available to carry forward from prior years. The carry forward of £80,409 will be used to reduce the excess above the AA in 2011/12 from £83,690 to £3,281 (i.e. £83,690 - £80,409).** The calculations of the carry forward amounts are shown in detail on the next page.

Do I have a tax charge after allowing for Carry Forward?	
9. Tax Payable at 40% rate	= 0.4 x £3,281 = **£1,312** In this example the tax charge is less than £2,000. Therefore the individual would not be able to use "Scheme Pays".

Carry Forward Calculations for years 2010/11, 2009/10 and 2008/09

Carry Forward Yr 2010/11:		
Stages of Calculation	**Start Year - 6 April 2010**	**End Year - 5 April 2011**
1. Calculate annual pension (years of service / 70 x FPE)	32/70 x £49,128 = £22,459	33/70 x £51,298 = £24,183
2. Calculate lump sum	£22,459 x 3 = £67,377	£24,183 x 3 = £72,549
3. Calculate value of pension	£22,459 x 16 = £359,344	£24,183 x 16 = £386,928
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£359,344 + £67,377) x 1.011 = £431,415	£386,928 + £72,549 = £459,477
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£459,477 - £431,415 = £28,062	
6. Calculate the excess above the AA Level of £50,000	£0 (since £28,062 < £50,000)	
7. Unused Annual Allowance	£50,000 – £28,062 = £21,938	

Carry Forward Yr 2009/10:		
Stages of Calculation	**Start Year - 6 April 2009**	**End Year - 5 April 2010**
1. Calculate annual pension (years of service / 70 x FPE)	31/70 x £46,673 =£20,669	32/70 x £49,128 = £22,459
2. Calculate lump sum	£20,669 x 3 = £62,007	£22,459 x 3 = £67,377
3. Calculate value of pension	£20,669 x 16 = £330,704	£22,459 x 16 = £359,344
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£330,704 + £62,007) x 1.052 = £413,132	£359,344 + £67,377 = £426,721
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£426,721 - £413,132 = £13,589	
6. Calculate the excess above the AA Level of £50,000	£0 (since £13,589 < £50,000)	
7. Unused Annual Allowance	£50,000 – £13,589 = £36,411	

Carry Forward Yr 2008/09:		
Stages of Calculation	**Start Year - 6 April 2008**	**End Year - 5 April 2009**
1. Calculate annual pension (years of service / 70 x FPE)	30/70 x £44,005 = £18,859	31/70 x £46,673 = £20,669
2. Calculate lump sum	£18,859 x 3 = £56,577	£20,669 x 3 = £62,007
3. Calculate value of pension	£18,859 x 16 = £301,744	£20,669 x 16 = £330,704
4. Calculate Pension Input Amount (for the start year up-rate by 1.8%)	(£301,744 + £56,577) x 1.018 = £364,771	£330,704 + £62,007 = £392,711
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£392,711 - £364,771 = £27,940	
6. Calculate the excess above the AA Level of £50,000	£0 (since £27,940 < £50,000)	
7. Unused Annual Allowance	£50,000 – £27,940 = £22,060	

Example 2: AFPS05 - Lt Commander (OF3) promoted to Commander (OF4) after 18 years' service with a contract to buy added years

- A Commander (OF4) who was promoted from Lt Commander (OF3) on 1 Jul 09.
- Joined the Armed Forces at age 26 and immediately entered into a contract to buy 11 additional years of reckonable service.
- At 6 Apr 10, his/her pension was £23,605 p.a. based on 26.1 years' accrued service (of which 7.1 years is in respect of the added years) and Final Pensionable Earnings (FPE) of £63,307 p.a. The FPE includes 9 months at his/her higher OF4 salary (scale point 1).
- At 6 Apr 11, his/her pension was £26,683 p.a. based on 27.5 years' accrued service (of which 7.5 years is in respect of the added years) and FPE of £67,920 p.a. at rank OF4 (scale point 2).
- At 6 Apr 12, his/her pension will have increased to £28,405 p.a. based on 28.9 years' accrued service (of which 7.9 years is in respect of the added years) and FPE of £68,801 p.a. at rank OF4 (scale point 3).
- Sep 10 CPI figure is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (years of service / 70 x FPE)	(20 + 7.5)/70 x £67,920 = £26,683 where 7.5 years is in respect of the added years contract	(21 + 7.9)/70 x £68,801 = £28,405 where 7.9 years is in respect of the added years contract
2. Calculate lump sum	£26,683 x 3 = £80,049	£28,405 x 3 = £85,215
3. Calculate value of pension	£26,683 x 16 = £426,928	£28,405 x 16 = £454,480
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£426,928 + £80,049) x 1.031 = £522,693	£454,480 + £85,215 = £539,695
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£539,695 - £522,693 = £17,002	
6. Calculate the excess above the AA Level of £50,000	£0 (since £17,002 < £50,000)	
7. Unused Annual Allowance	£50,000 - £17,002 = £32,998	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = **£0** In this example there is no tax charge	

Example 3: AFPS05 – Non Accredited Surgeon Commander (OF4) promoted to Non Accredited Surgeon Captain (OF5) on 1 Jun 09 after 26 years' service

- At 6 Apr 10, pension £34,244 p.a. based on 27 years' accrued service and Final Pensionable Earnings (FPE) of £88,782. This takes into account 10 months as an OF5 (scale point 21) from 1 Jun 09.
- At 6 Apr 11, pension £36,282 p.a. based on 28 years' accrued service and FPE of £90,705 (scale point 22) as an OF5.
- At 6 Apr 12, pension £38,224 p.a. based on 29 years' accrued service and FPE of £92,265 (scale point 23) as an OF5.
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (years of service / 70 x FPE)	= 28/70 x £90,705 = £36,282	= 29/70 x £92,265 = £38,224
2. Calculate lump sum	£36,282 x 3 = £108,846	£38,224 x 3 = £114,672
3. Calculate value of pension	£36,282 x 16 = £580,512	£38,224 x 16 = £611,584
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£580,512 + £108,846) x 1.031 = £710,728	£611,584 + £114,672 = £726,256
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£726,256 - £710,728 = £15,528	
6. Calculate the excess above the AA Level of £50,000	£0 (since £15,528 < £50,000)	
7. Unused Annual Allowance	£50,000 - £15,528 = £34,472	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = **£0** In this example there is no tax charge	

Example 4: AFPS05 – Squadron Leader (OF3) promoted to Wing Commander (OF4) on 1 Jul 09 after 18 years' service with a pension sharing order.

- Joined the scheme at age 21 and on 6 Apr 09 received a pension sharing order of 40%
- At 6 Apr 10, pension £17,183 p.a. based on 19 years' accrued service and Final Pensionable Earnings (FPE) of £63,307 p.a. The FPE includes 9 months at his/her higher OF4 salary (scale point 1). The pension debit was £5,611.
- At 6 Apr 11, pension £19,406 p.a. based on 20 years' accrued service and FPE of £67,920 p.a. at rank OF4 (scale point 2). The pension debit was £5,611.
- At 6 Apr 12, pension £20,640 p.a. based on 21 years' accrued service FPE of £68,801 p.a. at rank OF4 (scale point 3). The pension debit will be £5,785.
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (years of service / 70 x FPE) – pension debit	= (20/70 x £67,920) - £5,611 = £19,406 - £5,611 = £13,795 p.a. (where £5,611 is the pension debit)	= (21/70 x £68,801) - £5,785 = £20,640 - £5,785 = £14,855 p.a. (where £5,785 is the pension debit)
2. Calculate lump sum	= (£19,406 x 3) - £16,833 = £58,218 - £16,833 = £41,385 p.a. (where £16,833 is the lump sum debit)	(£20,640 x 3) – £17,355 = £61,920 - £17,355 = £44,565 p.a. (where £17,355 is the lump sum debit)
3. Calculate value of pension	£13,795 x 16 = £220,720	£14,855 x 16 = £237,680
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£220,720 + £41,385) x 1.031 = £270,230	£237,680 + £44,565 = £282,245
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	£282,245 - £270,230 = £12,015	
6. Calculate the excess above the AA Level of £50,000	£0 (since £12,015 < £50,000)	
7. Unused Annual Allowance	£50,000 - £12,015 = £37,985	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	N/A – there is no excess, therefore there is no need to use any unused AA from previous years	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% rate	= 0.4 x £0 = **£0** In this example there is no tax charge	

AFPS 75 and AFPS 05 SCHEME PAYS EXAMPLES

Example 1 - AFPS75 – Rear Admiral 2* (OF7) promoted to Vice Admiral 3* (OF8) on 6 Apr 11 after 32 years' service who opts for Scheme Pays on 6 April 2012 to meet his full tax charge.

- 21 years old at joining scheme.
- At 6 Apr 10, pension £50,058 p.a. based on 31 years' accrued service which equates to 46.6% of basic pay of £107,420 p.a. (2* rank Scale Point 3).
- On 6 Apr 11, pension £54,701 p.a. based on 32 years' accrued service which equates to 47.7% of basic pay of £114,678 p.a. (2* rank Scale Point 4).
- On 6 Apr 12, pension £61,569 p.a. based on 33 years' accrued service which is 48.9% of basic pay of £125,908 p.a. (3* rank Scale Point 1).
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (accrual % from senior officer pension codes)	47.7% x £114,678 = £54,701 p.a.	48.9% x £125,908 = £61,569 p.a.
2. Calculate lump sum	£54,701 x 3 = £164,103	£61,569 x 3 = £184,707
3. Calculate value of pension	£54,701 x 16 = £875,216	£61,569 x 16 = £985,104
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£875,216 + £164,103) x 1.031 = £1,071,538	£985,104 + £184,707 = £1,169,811
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	1,169,811 - 1,071,538 = £98,273	
6. Calculate the excess above the AA Level of £50,000	£98,273 - £50,000 = £48,273	
7. Unused Annual Allowance	£0 (since £98,273 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	The unused AA from each of the three prior pension input periods are: 6 April 2010 to 5 April 2011 = £0 6 April 2009 to 5 April 2010 = £0 6 April 2008 to 5 April 2009 = £14,005 The total of the unused AA, **£14,005** (i.e. £14,005 + £0 + £0) **is available to carry forward from prior years. The carry forward of £14,005 will be used to reduce the excess above the AA in 2011/12 from £48,273 to £34,268 (i.e. £48,273 - £14,005).** The calculations of the carry forward amounts are shown in detail on the next page.	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% for total of earnings and AA excess < £150k Earnings and AA excess > £150k then everything over £150k is taxed at 50%.	£125,908 (salary) + £34,268 (AA excess) = £160,176 AA Excess > £150k = £160,176 - £150,000 = £10,176 taxed at 50% = 0.5 x £10,176 = £5,088 AA Excess < £150k = £34,268 - £10,176 = £24,092 taxed at 40% = 0.4 x £24,092 = £9,637 **Total Tax Charge** = £5,088 + £9,637 = **£14,725**	
In this example the tax charge is greater than £2,000. Therefore the individual would be eligible for "Scheme Pays". The individual could either, opt for "Scheme Pays" and have their pension benefits reduced (as shown below), or pay the tax charge themselves.		

Opting for Scheme Pays - Illustration of the reduction applied to the member's pension and lump sum at retirement age 65 and 55

At 6 Apr 12 the Vice Admiral has a pension of £61,569 p.a. and a lump sum of £184,707. During the tax year 2011/12 the Vice Admiral incurs a tax charge of £14,725 and subsequently elects for scheme pays to meet this tax charge. The relevant Scheme Pays factor for him is 14.35 (based on age 54 and assuming he retires at age 65). If this is his only tax charge and he retires at 65, his pension at 65 will be reduced by £1,272 per year and his lump sum at 65 will be reduced by £3,817 (assuming pension increases are 2% p.a. between calculating the offsets and retirement).

If the Vice Admiral actually retires at age 55 rather than age 65, the pension and lump sum offset is adjusted to reflect the fact that the tax charge is recovered from an earlier date. As a result his pension at 55 will be reduced by £603 per year and his lump sum at 55 will be reduced by £2,348 (assuming pension increases are 2% p.a. between calculating the offsets and retirement).

If I have a tax charge greater than £2k and I choose to meet my full AA tax charge through Scheme Pays, how will my pension benefits be affected?	
Pension benefit offsets determined at the calculation date	
Member's pension offset	= Tax charge ÷ scheme pays factor = £14,725 ÷ 14.35 = £1,026
Lump sum offset	= 3 x (Tax charge ÷ scheme pays factor) = 3 x £1,026 = £3,078
If I eventually retire at age 65 my pension benefits will be reduced by:	
Member's pension offset	= Member's Pension offset at calculation date x PI = £1,026 x 1.24 = £1,272
Lump sum offset	= Lump sum offset at calculation date x PI = £3,078 x 1.24 = £3,817
If I eventually retire at age 55 my pension benefit will be reduced by:	
Member's pension offset	= Member's Pension offset at calculation date x PI x Pension adjustment factor = £1,026 x 1.02 x 0.576 = £603
Lump sum offset	= Lump sum offset at calculation date x PI x Lump sum adjustment factor = £3,078 x 1.02 x 0.748 = £2,348

Notes:
1. The figures assume pension increases (PI) of 2% p.a. between the calculation date and retirement date.
2. The scheme pays factor reflects the member's age at the calculation date (which for the purpose of these examples is assumed to be 6 Apr 12) and assumes retirement at age 65.
3. The pension adjustment factor and lump sum adjustment factor is applied to reflect that the member retires at age 55 rather than 65, which is assumed within the scheme pays factor.
4. In this illustration we assume the member's pension and lump sum benefits are reduced proportionately. The pension will be reduced for life by the member's pension offset from retirement.

Carry Forward Calculations for years 2010/11, 2009/10 and 2008/09

Carry Forward Yr 2010/11:		
Stages of Calculation	**Start Year - 6 April 2010**	**End Year - 5 April 2011**
1. Calculate annual pension (accrual % from senior officer pension codes)	46.6% x £107,420 = £50,058 p.a.	47.7% x £114,678 = £54,701 p.a.
2. Calculate lump sum	£50,058 x 3 = £150,174	£54,701 x 3 = £164,103
3. Calculate value of pension	£50,058 x 16 = £800,928	£54,701 x 16 = £875,216
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£800,928 + £150,174) x 1.011 = £961,564	£875,216 + £164,103 = £1,039,319
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	1,039,319 - £961,564 = £77,755	
6. Calculate the excess above the AA Level of £50,000	£77,755 - £50,000 = £27,755	
7. Unused Annual Allowance	£0 (since £77,755 > £50,000)	

Carry Forward Yr 2009/10:		
Stages of Calculation	**Start Year - 6 April 2009**	**End Year - 5 April 2010**
1. Calculate annual pension (accrual % from senior officer pension codes)	45.4% x £98,291 = £44,624 p.a.	46.6% x £107,420 = £50,058 p.a.
2. Calculate lump sum	£44,624 x 3 = £133,872	£50,058 x 3 = £150,174
3. Calculate value of pension	£44,624 x 16 = £713,984	£50,058 x 16 = £800,928
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£713,984 + £133,872) x 1.052 = £891,945	£800,928 + £150,174 = £951,102
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£951,102 - £891,945 = £59,157	
6. Calculate the excess above the AA Level of £50,000	£59,157 - £50,000 = £9,157	
7. Unused Annual Allowance	£0 (since £59,157 > £50,000)	

Carry Forward Yr 2008/09:		
Stages of Calculation	**Start Year - 6 April 2008**	**End Year - 5 April 2009**
1. Calculate annual pension (accrual % from senior officer pension codes)	44.3% x £94,750 = £41,974 p.a.	45.4% x £98,291 = £44,624 p.a.
2. Calculate lump sum	£41,974 x 3 = £125,922	£44,624 x 3 = £133,872
3. Calculate value of pension	£41,974 x 16 = £671,584	£44,624 x 16 = £713,984
4. Calculate Pension Input Amount (for the start year up-rate by 1.8%)	(£671,584 + £125,922) x 1.018 = £811,861	£713,984 + £133,872 = £847,856
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£847,856 - £811,861 = £35,995	
6. Calculate the excess above the AA Level of £50,000	£0 (since £35,995 < £50,000)	
7. Unused Annual Allowance	£50,000 - £35,995 = £14,005	

Example 2: AFPS05 – Major General 2* (OF7) promoted to Lieutenant General 3* (OF8) on 6 Apr 11 after 32 years' service who opts for Scheme Pays on 6 April 2012 to meet all his tax charge.

- 21 years old at joining scheme.
- At 6 Apr 10, pension £47,572 p.a. based on 31 years' accrued service and Final Pensionable Earnings (FPE) of £107,420 p.a. (2* rank Scale Point 3).
- On 6 Apr 11, pension £52,424 p.a. based on 32 years' accrued service and Final Pensionable Earnings (FPE) of £114,678 p.a. (2* rank Scale Point 4).
- On 6 Apr 12, pension £59,357 p.a. based on 33 years' accrued service and Final Pensionable Earnings (FPE) of £125,908 p.a. (3* rank Scale Point 1).
- Sep 10 CPI is 3.1%.

Pension Input Period: 6 April 2011 to 5 April 2012

Calculate the Opening and Closing Pension Input Amounts		
Stages of Calculation	**Start Year - 6 April 2011**	**End Year - 5 April 2012**
1. Calculate annual pension (years of service / 70 x FPE)	32/70 x £114,678 = £52,424	33/70 x £125,908 = £59,357
2. Calculate lump sum	£52,424 x 3 = £157,272	£59,357 x 3 = £178,071
3. Calculate value of pension	£52,424 x 16 = £838,784	£59,357 x 16 = £949,712
4. Calculate Pension Input Amount (for the start year up-rate by 3.1%)	(£838,784 + £157,272) x 1.031 = £1,026,934	£949,712 + £178,071 = £1,127,783
Check if exceeded the AA level of £50,000		
5. Calculate the difference between the end year value and the start year value	1,127,783 - 1,026,934 = £100,849	
6. Calculate the excess above the AA Level of £50,000	£100,849 - £50,000 = £50,849	
7. Unused Annual Allowance	£0 (since £100,849 > £50,000)	
If I have exceeded the AA level (in step 6) then check if I have any Carry Forward to reduce my taxable amount.		
8. Carry Forward from prior years	The unused AA from each of the three prior pension input periods are: 6 April 2010 to 5 April 2011 = £0 6 April 2009 to 5 April 2010 = £0 6 April 2008 to 5 April 2009 = £8,876 The total of the unused AA, **£8,876** (i.e. £8,876 + £0 + £0) **is available to carry forward from prior years. The carry forward of £8,876 will be used to reduce the excess above the AA in 2011/12 from £50,849 to £41,973 (i.e. £50,849 - £8,876).** The calculations of the carry forward amounts are shown in detail on the next page.	
Do I have a tax charge after allowing for Carry Forward?		
9. Tax Payable at 40% for total of earnings and AA excess < £150k	£125,908 (salary) + £41,973 (AA excess) = £167,881 AA Excess > £150k = £167,881 - £150,000 = £17,881 taxed at 50% = 0.5 x £17,881 = £8,941	
Earnings and AA excess > £150k then everything over £150k is taxed at 50%.	AA Excess < £150k = £41,973 - £17,881 = £24,092 taxed at 40% = 0.4 x £24,092 = £9,637 **Total Tax Charge** = £8,941 + £9,637 = **£18,578**	
In this example the tax charge is greater than £2,000. Therefore the individual would be eligible for "Scheme Pays". The individual could either, opt for "Scheme Pays" and have their pension benefits reduced (as shown below), or pay the tax charge themselves.		

Opting for Scheme Pays - Illustration of the reduction applied to the member's pension and lump sum at retirement age 65 and 55

At 6 Apr 12 the Lieutenant General has a pension of £59,357 p.a. and a lump sum of £178,071. During the tax year 2011/12 the Lieutenant General incurs a tax charge of £18,578 and subsequently elects for scheme pays to meet this tax charge. The relevant Scheme Pays factor for him is 14.35 (based on age 54 and assuming he retires at age 65). If this is his only tax charge and he retires at 65, his pension at 65 will be reduced by £1,606 per year and his lump sum at 65 will be reduced by £4,817 (assuming pension increases are 2% p.a. between calculating the offsets and retirement).

If the Lieutenant General actually retires at age 55 rather than age 65 the pension and lump sum offset is adjusted to reflect the fact that the tax charge is recovered from an earlier date. As a result his pension at 55 will be reduced by £761 per year and his lump sum at 55 will be reduced by £2,964 (assuming pension increases are 2% p.a. between calculating the offsets and retirement).

If I have a tax charge greater than £2k and I choose to meet my full AA tax charge through Scheme Pays, how will my pension benefits be affected	
Pension benefit offsets determined at the calculation date	
Member's pension offset	= Tax charge ÷ scheme pays factor = £18,578 ÷ 14.35 = £1,295
Lump sum offset	= 3 x (Tax charge ÷ scheme pays factor) = 3 x £1,295 = £3,885
If I eventually retire at age 65 my pension benefits will be reduced by:	
Member's pension offset	= Member's Pension offset at calculation date x PI = £1,295 x 1.24 = £1,606
Lump sum offset	= Lump sum offset at calculation date x PI = £3,885 x 1.24 = £4,817
If I eventually retire at age 55 my pension benefit will be reduced by:	
Member's pension offset	= Member's Pension offset at calculation date x PI x Pension adjustment factor = £1,295 x 1.02 x 0.576 = £761
Lump sum offset	= Lump sum offset at calculation date x PI x Lump sum adjustment factor = £3,885 x 1.02 x 0.748 = £2,964
Notes: 1. The figures assume pension increases (PI) of 2% p.a. between the calculation date and retirement date. 2. The scheme pays factor reflects the member's age at the calculation date (which for the purpose of these examples is assumed to be 6 Apr 12) and assumes retirement at age 65. 3. The pension adjustment factor and lump sum adjustment factor is applied to reflect that the member retires at age 55 rather than 65, which is assumed within the scheme pays factor. 4. In this illustration we assume the member's pension and lump sum benefits are reduced proportionately. The pension will be reduced for life by the member's pension offset from retirement.	

Carry Forward Calculations for years 2010/11, 2009/10 and 2008/09

Carry Forward Yr 2010/11:		
Stages of Calculation	**Start Year - 6 April 2010**	**End Year - 5 April 2011**
1. Calculate annual pension (years of service / 70 x FPE)	31/70 x £107,420 = £47,572	32/70 x £114,678 = £52,424
2. Calculate lump sum	£47,572 x 3 = £142,716	£52,424 x 3 = £157,272
3. Calculate value of pension	£47,572 x 16 = £761,152	£52,424 x 16 = £838,784
4. Calculate Pension Input Amount (for the start year up-rate by 1.1%)	(£761,152 + £142,716) x 1.011 = £913,811	£838,784 + £157,272 = £996,056
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£996,056 - £913,811 = £82,245	
6. Calculate the excess above the AA Level of £50,000	£82,245 - £50,000 = £32,245	
7. Unused Annual Allowance	£0 (since £82,245 > £50,000)	

Carry Forward Yr 2009/10:		
Stages of Calculation	**Start Year - 6 April 2009**	**End Year - 5 April 2010**
1. Calculate annual pension (years of service / 70 x FPE)	30/70 x £98,291 = £42,125	31/70 x £107,420 = £47,572
2. Calculate lump sum	£42,125 x 3 = £126,375	£47,572 x 3 = £142,716
3. Calculate value of pension	£42,125 x 16 = £674,000	£47,572 x 16 = £761,152
4. Calculate Pension Input Amount (for the start year up-rate by 5.2%)	(£674,000 + £126,375) x 1.052 = £841,995	£761,152 + £142,716 = £903,868
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£903,868 - £841,995 = £61,873	
6. Calculate the excess above the AA Level of £50,000	£61,873 - £50,000 = £11,873	
7. Unused Annual Allowance	£0 (since £61,873 > £50,000)	

Carry Forward Yr 2008/09:		
Stages of Calculation	**Start Year - 6 April 2008**	**End Year - 5 April 2009**
1. Calculate annual pension (years of service / 70 x FPE)	29/70 x £94,750 = £39,254	30/70 x £98,291 = £42,125
2. Calculate lump sum	£39,254 x 3 = £117,762	£42,125 x 3 = £126,375
3. Calculate value of pension	£39,254 x 16 = £628,064	£42,125 x 16 = £674,000
4. Calculate Pension Input Amount (for the start year up-rate by 1.8%)	(£628,064 + £117,762) x 1.018 = £759,251	£674,000 + £126,375 = £800,375
Check if exceeded the AA Level of £50,000		
5. Calculate the difference between the end year value and the start year value	£800,375 - £759,251 = £41,124	
6. Calculate the excess above the AA Level of £50,000	£0 (since £41,124 < £50,000)	
7. Unused Annual Allowance	£50,000 - £41,124 = £8,876	