

armed forces pension scheme 75

AFPS75

05
Armed Forces Pension Scheme

Reserve
Forces Pension Scheme

Increasing Benefits



There are two Armed Forces pension schemes for members of the Regular Armed Forces. The first was introduced in 1975 and was closed to new entrants from 6 April 2005. This is known as Armed Forces Pension Scheme 1975 (AFPS 75). On 6 April 2005 a new scheme was introduced, the Armed Forces Pension Scheme 2005 (AFPS 05) for new entrants to the Regular Armed Forces. Members of AFPS 75 were given the opportunity to transfer to AFPS 05 on 6 April 2006.

This booklet provides a straightforward guide to the options available for increasing your benefits under AFPS 75, AFPS 05 and the Reserve Forces Pension Scheme (RFPS). There are some special terms that you need to know: you can find them on pages 2–4 and refer to them as you go along. They appear in ***bold italics***.

IMPORTANT: This booklet provides only a summary of some of the rules of the relevant schemes, more details relating to AFPS 75 are contained in the Order in Council made under the Naval and Marine Pay and Pensions Act, the Army Pensions Warrant, and the Queens Regulations for the Royal Air Force. More details relating to AFPS 05 can be found in Joint Service Publication 764 and Statutory Instrument 438/05. This booklet does not give a full explanation of the rules and are not the legal basis for any entitlement under the schemes. If there are any differences between the rules and an explanation in this booklet, the rules will be followed.

In addition, this booklet does not give you financial or legal advice. If you want financial or legal advice you should seek independent advice. Unit administrative or personnel staffs can offer information and an explanation of benefits, but will not take responsibility for your pensions decisions. They will be able to let you have a list of Services Insurance and Investment Advisory Panel (SIIAP) approved independent financial advisers, although you are free to use any independent financial adviser that you wish.

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TERMS YOU NEED TO UNDERSTAND

Here is a list which explains the meaning of some special terms used in this booklet.

AA – Annual Allowance

The limit on what can be added each tax year to the value of the pension without a tax charge. It is set at £215,000 in tax year 2006-07, rising in stages to £255,000 in 2010-11. The rule is that, when added together, the increase in the value of an individual's pensions savings in any 'input period' may not exceed the AA. Any excess over the AA is taxed at 40%, which is due as a lump sum when the tax liability is calculated.

AVCs – Additional Voluntary Contributions

Additional pension savings.

Civil Partner

An individual who has formed a legally recognised partnership with another person of the same sex under the procedure provided by the Civil Partnership Act (CPA) 2004. If the civil partnership is legally dissolved, the former civil partner is not entitled to benefits.

Defined Benefit

Benefits are based on a proportion of the member's final pensionable pay on leaving the Armed Forces for each year of pensionable service.

Defined Contribution

Benefits which are linked to the amount you invest and the performance of your investments.

Dependant

For AFPS 75 members – a member's spouse, civil partner or eligible children and, for attributable benefits only, an eligible partner.

For AFPS 05 members – a member's spouse, civil partner, eligible partner or eligible children.

Eligible Child

AFPS 75 members – a child whose parents were married when he or she was born provided that he or she was born within 12 months of the member's death. In certain circumstances the definition can include:

- a child whose parents are not married when he or she is born, a stepchild or an adopted child. (Further details

of eligible children, including children of partners, can be obtained from SPVA);

- in all cases the child must be dependent on the member and 16 or under or receiving full-time education or training and is under 23, or not able to support him or herself due to disability which was present at the time of death of the member and suffered before the age of 23.

Children born of a relationship entered into after the member leaves the Armed Forces are NOT eligible for benefits.

AFPS 05 members – a natural child and any child who is financially dependent on the member, who is:

- under 18, or
- in full-time education or vocational training and is under 23, or
- unable to engage in gainful employment because of physical or mental disability which was present at the time of death of the member and began before the age of 23.

This includes children born within one year of the member's death.

Eligible Partner

Someone with whom a member is cohabiting, in an exclusive (ie neither partner is married or a civil partner to someone else) and substantial relationship with financial and wider inter-dependence (this is not the same as a civil partnership) and they are not prevented from marrying or forming a civil partnership.

FSAVCs

Additional pension savings outside the scheme in a plan set up and run by an insurance company, building society or other commercial organisation.

LTA – Life Time Allowance

The limit on total pension savings eligible for tax relief. The limits for the five tax years 06/07 – 10/11 (at the time of printing figures not announced beyond that) are:

- £1.5m in 2006-07
- £1.6m in 2007-08
- £1.65m in 2008-09
- £1.75m in 2009-10
- £1.8m in 2010-11

For the latest information on LTA see HM Revenue and Customs website

Registered Pension Schemes
Manuals/ Technical Pages/Lifetime
Allowance web address,
[http://www.hmrc.gov.uk/manuals/
rpsmmanual/rpsm11101010.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/rpsm11101010.htm)

Reckonable Service

Reckonable service is the service which is used to calculate a member's pension:

For AFPS 75 members – for officers this starts at age 21 for a maximum of 34 years and for other ranks this starts at age 18 for a maximum of 37 years.

For AFPS 05 members – this starts from the first day of paid service in the Armed Forces, but may not exceed 40 years.

The value of any pension benefits transferred in from another scheme increases the service which counts towards a member's pension, as does a credit resulting from the purchase of added years. For those who transferred to AFPS 05 as a result of the Offer To Transfer, their service under AFPS 75 will count too.

Representative Pay

For AFPS 75 members only – Member's pensions below one star level are not based on individual earnings but on a representative rate of pay for each rank. This "all of one company" principle means that all those of the same rank with the same length of service leaving in the same year receive the same rate of pension, irrespective of their actual earnings.

Spouse

A legally married (including separated, but not divorced) husband or wife.

Stakeholder Pension

A Stakeholder pension is a private pension arrangement under which contributions are invested to provide a fund at retirement. This is separate from the Armed Forces pension schemes.

BACKGROUND

Occupational pension schemes like **AFPS 75**, **AFPS 05** and **RFPS** provide pension benefits in addition to those provided by the State (old age) pension, to ensure that members have an adequate income in retirement. Her Majesty's Revenue and Customs (HMRC) allow certain tax concessions to pension schemes which are not available to other forms of retirement savings. Full details of which may be found on their website: www.hmrc.gov.uk.

Initially Additional Voluntary Contributions (**AVCs**) were available in cases where a scheme did not provide benefits up to Revenue limits or where a member was not able to earn full benefits under the scheme. This allowed him or her to make tax efficient AVCs to increase benefits to the maximum possible. The Finance Act 2004 removed these limits with a view to controlling pensions by imposing an Annual Allowance (**AA**) and Life Time Allowance (**LTA**).

Additionally, in October 2001 the Government introduced a flexible, low cost personal pension arrangement known as a

Stakeholder Pension. Although initially targeted at those who had no access to an occupational pension scheme and those with earnings of less than £30K pa, it is now also available to anybody.

The options for increasing your benefits include the following, each of which will be explained in the pages that follow:

- The purchase of **Added Years**
- Payment of AVCs
- Taking out a Stakeholder Pension

Some of these options give a **defined benefit**, which allows you to purchase specific benefits within your occupational pension scheme, others are **defined contribution** arrangements (also known as money purchase arrangements), which do not purchase specific benefits within the occupational pension scheme. Instead they are linked to the amount you invest and the performance of your investments. The scheme limit on

improvements to define benefits is 15% but further tax efficient pension saving is available by means of commercial products.

Nothing in this document purports to give you legal or financial advice. If you require financial or legal advice you should consult an independent adviser.

PURCHASE OF ADDED YEARS

Added Years of service can be purchased within **AFPS 75** and **AFPS 05**, but not normally within **RFPS**. The exclusion of **RFPS** is linked to the fixed term nature of the engagements offered to certain members of the Reserve Forces. However, **RFPS** members who are seconded to UN, NATO or other similar collaborative arrangements can, on return to Reserve service, opt to pay both elements of the severance payment into the Scheme as a one-off lump sum to convert this time into **reckonable service**. For **AFPS 75** members Added Years can be paid for by regular contributions or a one-off lump sum within the first year of service; for **AFPS 05** members payment will be by regular contribution only, unless the member had service with the UN or other collaborative arrangements and wished on return to Regular service to pay both elements of the severance payment into the Scheme to convert this time into reckonable service. The limit on contributions towards the purchase of Added Years is 15% of pensionable pay in both **AFPS 75** and **AFPS 05**.

Added Years can be bought as whole or part years but the maximum number that can be bought depends on being within the 15% limit for the Scheme, the age at which reckonable service started (for **AFPS 75**) and the number of years until retirement. **AFPS 75** and **AFPS 05** have separate tables with which to work out the limit which may apply in respect of the number of years which may be purchased. Different tables are needed because **AFPS 05** allows service to count from the date of entry into the Regular Armed Forces whereas **AFPS 75** limits this to service from age 21 for Officers and age 18 for Other Ranks. These tables are held by SPVA but are also available on the Defence Internet and Intranet (for addresses see page 13).

The purchase of Added Years is a **defined benefit** within the Scheme and, for **AFPS 75** once a contract is entered into, the level of contribution cannot be increased or decreased, and only in very exceptional circumstances can it be stopped. **AFPS 05** members can increase, decrease or stop contributions.

If an **AFPS 05** member cancels an Added Years contract regular contributions will cease from the first pay period following receipt of the notice. He will not receive a refund of contributions already paid but will receive a pro-rata credit for the **reckonable service** he has purchased. However, should he wish to recommence contributions at a later date, he will not be able to do so at the same rate as before as the actuarial considerations underpinning the premium will have changed.

The actuary takes into account the member's age, sex and other factors (eg mortality rates) in arriving at the premium. However, should a member wish to increase the number of years he is purchasing, there is nothing to prevent him having more than one Added Years contract, provided that they are entered into before the age of 53.

The purchase of Added Years will provide a guaranteed benefit payable at retirement. If a member who has an Added Years contract dies or is medically discharged, it

will be deemed that his Added Years were paid for in full and he will be credited with the additional reckonable service that he has been paying for. These Added Years will automatically increase the benefits of any eligible **dependants** the member might have, subject to the 37.3 years limit on **AFPS 05** pensions for **spouses, civil partners** or **eligible partners**.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

In-House AVCs

The original idea behind **AVCs** is that members should be able to top up their pension benefits to meet Revenue maximums where their occupational pension scheme does not do so. The Finance Act 2004 removed a lot of the previous limits controlling pensions savings imposing instead an Annual Allowance (**AA**) and Life Time Allowance (**LTA**) instead.

AVCs can be either **defined benefit** or **defined contribution**. **AFPS 75** offers defined benefit AVCs (because its benefits fall short of pre-April 2006 Revenue limits). **AFPS 05**, which offers significant improvements in terms of death-in-service lump sum and adult dependant's pension, and calculates pensions by reference to final salary, does not.

The defined benefit AVCs available in **AFPS 75** increase the following:

- **Death-in-service lump sum** from three times representative pay to the better of four times

representative pay at the full career point or four times pensionable pay at the date of death. This lump sum in **AFPS 75** was increased to three times pay on 6 April 2005, which resulted in adjustments to premiums after 6 April 2006.

- **Maximise Spouse's pension.**

The Scheme offer's a spouses' pension of 50% of the member's entitlement, and the AVCs pays for this to be topped up to 66.67%. Contribution rates relate to whether members are an Officer, Other Rank or a Medical and Dental Officer. These rates are available on the internet and intranet (for addresses see page 13)

- **The rate of pay upon which the pension is calculated.**

Pensions in **AFPS 75** are calculated on **representative pay**, which is a fixed level for each rank. If a member has a lot of seniority in his rank, his representative rate of pay will

be lower than his actual rate of pay. This AVC allows him to have his actual rate of pay used instead of the representative rate. This increases total retirement benefits and all benefits payable to the survivor or estate on death. The contribution rates are available on the internet and intranet (for addresses see page 13)

How Do I Apply For An In-House AVC?

You should complete the relevant application form which is available from either your unit administrator, Defence Intranet or Defence Internet (addresses on page 13). The contribution rates are also publicised on the Intranet and Internet and in JSP 764 Part 4.

These benefits are tied in with the pension scheme and can only be realised on death or retirement. Because they are tied to the Scheme, there are risks. If the member does not die in service, his spouse dies before him or he is promoted shortly before retirement, he will have paid for something that he will not get the benefit of.

Free-Standing AVCs (FSAVCs)

FSAVCs are contributions which build up free of tax and used to buy an annuity (pension income). FSAVCs are different from **defined benefit** AVCs in the following ways:

- Being money purchase arrangements, the yield of the invested contributions forms a pension pot which can be used for whatever improvement the member chooses. So if a member's pension priorities change, he can channel the money towards whichever pension improvement he wishes.
- The arrangement is made to a commercial provider.
- The realisation of the funds is not inextricably linked to retirement age.
- The size of the fund will depend upon the amount contributed and the performance of the investments.
- Contributions can be by regular payment or by lump sum and contributions can be increased, decreased or stopped (with appropriate notice) within any limits, which may be set by the Revenue.
- The provider will levy an administrative charge. As part of their decision making process, members will need to compare charges levied by different providers.

Anybody can take out FSAVCs. As FSAVCs are not linked to Armed Forces occupational schemes there is no 15% contribution limit. However, you need to take care that your pension provisions do not exceed the **LTA** or **AA**.

STAKEHOLDER PENSIONS

The **Stakeholder Pensions** is a flexible, low cost, private pension that was introduced by the Government to help people save for their retirement.

Stakeholder Pensions are money purchase arrangements under which contributions are invested to provide a fund at retirement. They do not top up benefits under **AFPS 75**, **AFPS 05** or **RFPS** but are in addition to and separate from those provided by these occupational pension schemes.

Prior to 6 April 2006, eligibility for members of occupational pension schemes to contribute additionally to a Stakeholder Pension was limited to those earning £30,000 pa or less (before tax): this limit does not apply to arrangements post 6 April 2006.

When considering whether to take out a Stakeholder Pension, you need to take care that your total pension provision (from all pension funds – AFPS, AVC and stakeholder) does not exceed the **LTA**. As with other money purchase arrangements, the pension provided at retirement is not

guaranteed as it depends on the amount of money saved, the investment return on these savings, the age at which retirement benefits are drawn and the annuity rates at the time of retirement.

Scottish Widows has been designated as the preferred provider of Stakeholder Pensions to the Armed Forces. Their contact details are:

Scottish Widows,
Port Hamilton,
PO Box 17037,
Edinburgh EH3 0BR

Telephone: 0845 608 0376 or
+44 131 655 6600

Email:
armedforces@scottishwidows.co.uk

The administrative charge for handling a Stakeholder Pension is capped at a maximum of 1% of the fund.

FURTHER INFORMATION

Other Booklets in this Series

Your unit administrator can obtain these booklets from Forms and Publication Section, Bicester Operation Centre, Bicester, by quoting the relevant MMP number.

Relating to **AFPS 75**:

- **Your Pension Scheme Explained – MMP/106**
- **Commutation – MMP/107**
- **Family Pension Benefits – MMP/114**
- **Invaliding – MMP/115**

Relating to **AFPS 05**:

- **Your Pension Scheme Explained – MMP/124**
- **Family Pension Benefits – MMP/126**
- **Ill-Health Benefits – MMP/127**

Relating to the **AFCS**:

- **Your Armed Forces Compensation Scheme Explained – MMP/125**

Relating to the **RFPS**:

- **Reserve Forces Pension and Compensation Benefits – MMP/123**

Relating to **AFPS 75**, **AFPS 05** and **RFPS**:

- **Re-employment – MMP/116**
- **Transferring Benefits – MMP/129**
- **Internal Disputes Resolution Procedures (MMP/130)**
- **Pension Benefits on Divorce – MMP/131**
- **Armed Forces Redundancy Schemes (MMP/138)**

Other Sources of Information

More on pensions and compensation, **including all the booklets in the series** can be found on the Defence Intranet at: <http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions>

or on the internet at:

www.armedforcespensions.mod.uk

