



Ministry  
of Defence

# A New Armed Forces Pension Scheme **Outline Scheme Design**



31 July 2012

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# Foreword by the Secretary of State, The Rt Hon Philip Hammond MP

In March 2011, Lord Hutton's Independent Public Service Pension Commission final report made recommendations for the reform of public service pension schemes, including of the Armed Forces. Earlier this year, the Ministry of Defence launched a Consultation exercise to make sure that we took account of the views of Service personnel and other interested groups when setting up the new Armed Forces Pension Scheme, which will be introduced from April 2015.

Change is never easy and I appreciate many of you are concerned about what the impact will be. However, the reason for reform is clear. With people living longer, we have to ensure that Service pensions are affordable, sustainable and fair – both for existing Service personnel and future generations, as well as for taxpayers who ultimately bear the costs.



I want to thank all of you who responded to the consultation exercise and the subsequent debate. There is no doubt about how important pension arrangements are to Service personnel and I am grateful for the active participation of so many individuals and units.

The Service Chiefs and I have listened to what Service personnel have had to say and have sought to ensure that these views have been reflected within the design of the new scheme. This document provides an outline of what the new pension scheme will look like.

I believe that the new pension scheme continues to recognise and reward the unique commitment which all Service personnel make to the defence of the Nation by remaining amongst the very best available. All existing pension benefits earned up to the start of the new scheme are guaranteed – they will be protected. No-one will be asked to pay personal contributions to the new scheme.

## Foreword by the Chief of the Defence Staff, General Sir David Richards, GCB CBE DSO ADC Gen

This document describes the outline design of the new Armed Forces Pension Scheme which the Service Chiefs and I believe will meet the future demands of the Services and be affordable to Defence and the taxpayer. We recognise that pensions are an important part of the financial package provided to Servicemen and women, and the new scheme properly reflects the special nature of service in the Armed Forces.

You will recognise many of the features of the new scheme, while others are new. We have retained the Early Departure Payment and are not asking Service personnel to contribute to their pension. These are very important aspects of the scheme and are unique to the Armed Forces, who will continue to enjoy the best levels of public service pension provision. The new pension scheme will remain a defined benefit scheme, which means it will provide a guaranteed level of pension – calculated as a percentage of each year's annual pensionable salary. It will also continue to provide other valuable benefits, such as ill-health and dependants' pensions. We have taken the opportunity during this change to abolish some of the current constraints.

Some of the details are still to be finalised, for instance, on the potential for greater flexibility in how you receive your Early Departure Payment benefits. The results will be announced when the final agreement on the scheme design is announced in September 2012.

I thank all of you who took the trouble to complete the survey, attend a presentation or focus group or submit your views and comments. We have listened to what you have said and used the results from the initial Consultation phase to inform the development of the new scheme. I encourage you to familiarise yourself with this document which clearly sets out the outline scheme design for the new pension scheme. The Service Chiefs and I are determined that the new Armed Forces Pension Scheme will remain amongst the very best available and ensure we recruit and retain sufficient personnel to deliver the operational capability our Nation requires.



# Section 1

## Initial Consultation Results

### Key Points

- Initial phase (March-May 2012): 17,500 Service personnel responded to the Consultation Document saying that they:
  - Were prepared to work slightly longer to reach an Early Departure Payment (EDP) point;
  - Would like greater choice in how the EDP is paid, and;
  - Wanted independent representation on a new Armed Forces Pension Board
- Final phase (July-September 2012): publication and refinement of the outline design for the new scheme.

### Background

The Initial Consultation Document explained the background to the Government's reform of public service pensions (see [Links 1 and 2 of Section 5](#)). All public service pension schemes – including the Armed Forces schemes – are being replaced by new schemes from April 2015.

### Consultation Process

A Future Armed Forces Pension Scheme (FAFPS) Team, which includes uniformed members of each Service, is responsible for developing the new Armed Forces Pension Scheme and conducting the Consultation process.

The Consultation consists of two phases:

- Initial phase (March-May 2012): The initial phase gathered the views of Service personnel and other interested parties via a Consultation Document, questionnaire, focus groups and briefings.
- Final phase (July-September 2012): Publication of the outline scheme design (see Section 2). A further opportunity for Service personnel and external groups to submit comments (see [Link 4 of Section 5](#)).

### Initial Consultation

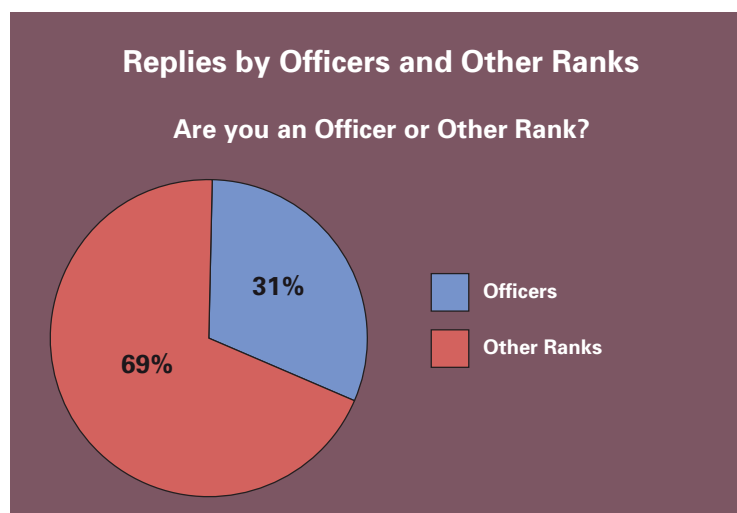
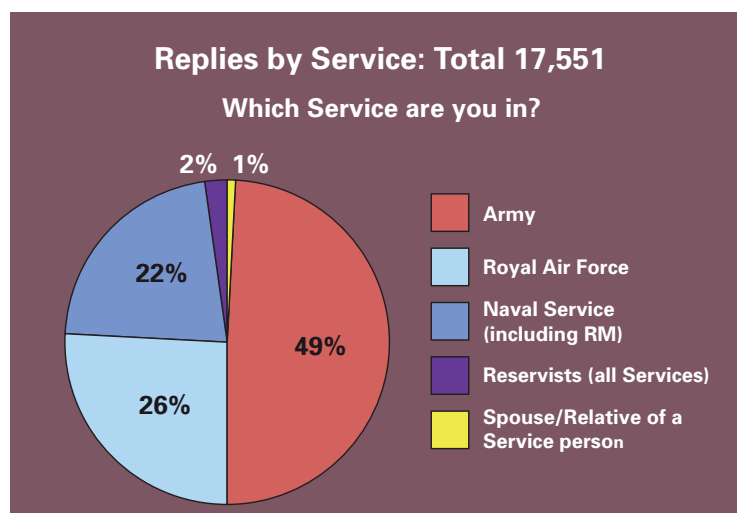
Over a thirteen week period, the Future Armed Forces Pension Scheme team:

- Visited 52 sites, including Afghanistan, Germany, Gibraltar and the Falkland Islands.
- Gave 69 presentations to 8,800 people (including families).
- Held 154 focus groups with 2,100 people (including families).



In addition to the face to face briefings and focus groups, 17,500 Service personnel completed the survey questionnaire. Comments were also received from interested groups, including the Royal British Legion, Forces Pension Society and Forces Families Federations. Briefings were also given to the Armed Forces Pay Review Body and members of the Central Advisory Committee on Pensions and Compensation.

Full survey results are available at [\(Link 3 of Section 5\)](#). The participation levels broadly reflected the make-up of the Services, with no significant differences between the views of the three Services or Officers/Other Ranks:



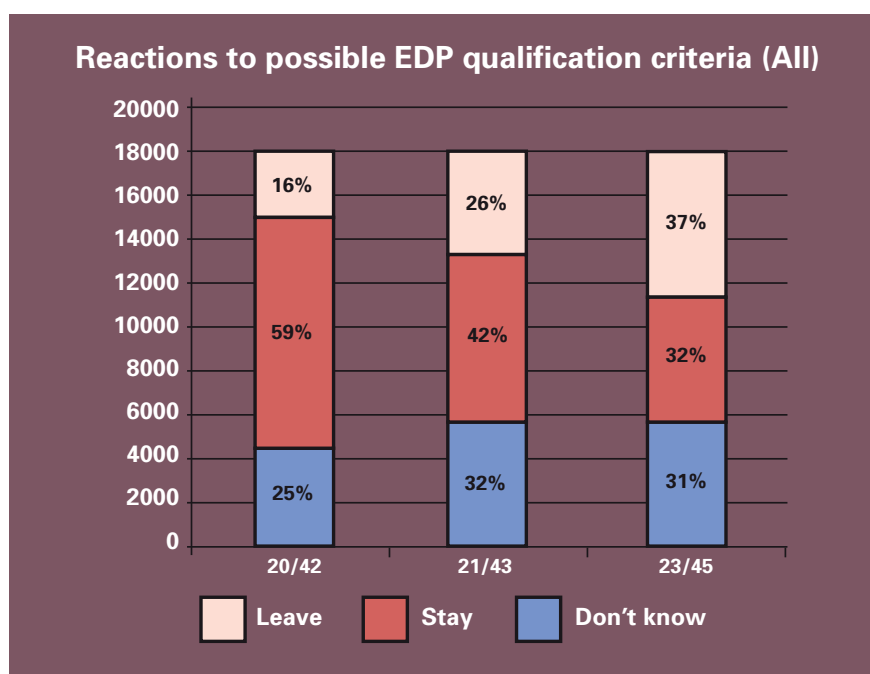
## Results

The Consultation Document explained that, although elements of the new scheme had already been accepted as Government policy (see Section 2), MOD had some discretion in a number of areas, including the timing and composition of Early Departure Payments (EDP) and the membership of a new Armed Forces Pension Board, on which the views of Service personnel were sought specifically. It also explained that, as Armed Forces Pension Scheme 75 (AFPS 75) was now a closed scheme (unavailable to new entrants), the design of the new scheme would be set against Armed Forces Pension Scheme 05 (AFPS 05).

### The EDP qualification point

AFPS 05 pays an EDP from age 40 if an individual has served for a minimum of 18 years. No other public service scheme pays a regular retirement income from such an early age and this is a substantial element of the scheme's costs. MOD therefore considered whether the design of the EDP remained both fit for purpose and affordable. As all public servants will have to work longer before receiving a pension in the new schemes, MOD considered the status-quo unsustainable and Service personnel were therefore asked for their views on a range of EDP qualifying service options.

**Service personnel said:** 59% of Service personnel said they would be willing to complete 20 years' service (with a minimum age of 42) to earn an EDP. This reduced to 42% for 21 years' service (and aged 43), and fell to 32% for 23 years' service (and aged 45). During the briefings and focus groups, many Service personnel raised concerns about starting a second career in their mid/late 40s. The focus groups in particular were concerned about being given a realistic opportunity to serve to the new EDP qualification point and were unwilling to consider any move unless their Terms and Conditions of Service (commission/engagement lengths) were adjusted at the same time.



**MOD response:** The Armed Forces Pension Schemes are unique in offering a lump sum and a monthly income after relatively short periods of service. This is because, unlike other public service employers, the Armed Forces can only guarantee a full career to a minority of



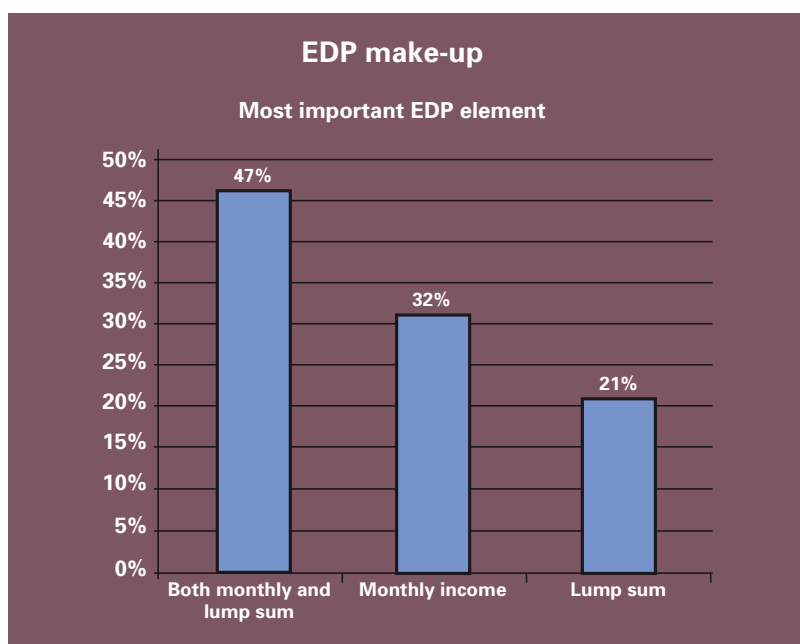
its workforce. MOD considers some form of incentive is required, payable before the new scheme's Normal Pension Age of 60, to encourage Service personnel to serve to their mid-career point to meet operational requirements. MOD also considered it vitally important to retain an EDP in order to recognise the unique commitment of the Armed Forces over a relatively short Service career. To ensure the sustainability of the EDP in the future scheme and in recognition of the Government's position that everyone must work longer to receive their pension, the EDP qualification point will be moved from 18 years' service to 20. Given the strength of feeling expressed in the focus groups about moving the age qualification to 42, the minimum age will stay at 40. **In the new scheme an EDP will be payable after 20 years' service and a minimum age of 40.**

Service Principal Personnel Officers (the Second Sea Lord, the Adjutant General and the Air Member for Personnel and Capability) have agreed that the Services' career structures should be amended to reflect the new EDP qualification point and this will occur at the same time as the new pension scheme is introduced. The single Services are currently considering potential transitional arrangements for existing scheme members.

## The composition of the EDP

AFPS 05 members, who serve to the current qualification point, receive both an EDP income stream and an automatic tax-free lump sum of 3 times the Preserved Pension. Service personnel were asked for their views on the relative importance of the EDP lump sum and monthly income stream. It is important to remember that the EDP is only paid between exit from the Armed Forces (after the EDP qualification point, subject to having completed the minimum service length) and the State Pension Age (SPA), when it is replaced by the Preserved Pension (which will be known as the Deferred Pension in the new scheme).

**Service personnel said:** Both elements were important to those who completed the questionnaire. However, there was feedback from all focus groups that it was difficult to assess the relative importance of each EDP element early in a Service career, as it was dependent on personal circumstances towards the end of service. Focus groups expressed a preference for maximising choice between the three elements, close to the point of exit from the Armed Forces.



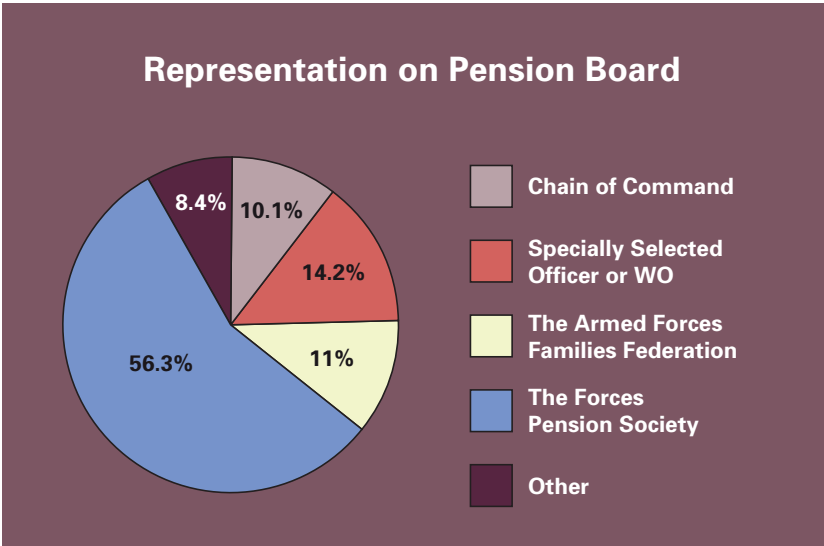


**MOD response:** MOD has recognised that Service personnel want choice in how they take their EDP benefits; i.e. whether to have a monthly income stream, lump sum or a combination of both. **The default position in the new scheme will be the same as AFPS 05 (an EDP lump sum and monthly income stream from leaving the Service after the EDP point until the Deferred Pension is paid at the SPA).** Further work is being undertaken to investigate the potential for giving Service personnel greater flexibility in how they receive their EDP. The results of this work will be announced when a final agreement on the scheme design is announced in September.

### Representation on a new Pension Scheme Governance Board

Responsibility for the Armed Forces Pension Schemes rests with the Secretary of State for Defence, who discharges this responsibility through MOD civil servants working closely alongside Service pay and pensions personnel. MOD considers that members should have more say in the way that their pension schemes are run and Service personnel were asked for their views on how they would wish their individual or collective views to be represented.

**Service personnel said:** A majority of respondents favoured some independent representation, such as the Forces Pension Society, to help represent their interests.



**MOD response:** MOD will establish a new Armed Forces Pension Scheme Board before the new scheme is delivered. It will include some independent representation, such as the Forces Pension Society, as well as other competent individuals. The Board will be responsible for meeting good standards of governance including effective and efficient administration.

## Section 2

### Outline Scheme Design

#### Key Points

Main features of the new scheme are (**new features in bold**):

- **One scheme for all – including Reservists.**
- **A Career Average scheme (rather than final salary).**
- No personal contributions.
- **A pension accrual rate of 1/47th for all.**
- **Benefits earned under the new scheme while serving will be increased ('revalued') annually by an average earnings index.**
- **The Deferred Pension age (known as the Preserved Pension age in the current schemes) will be linked to the State Pension Age.**
- An Early Departure Payment (EDP), consisting of a lump sum and income stream, with further work being undertaken to investigate the potential for allowing greater flexibility in how the EDP is taken.
- **Normal Pension Age of 60, though pension can be taken earlier (from 55), actuarially reduced from the Deferred Pension Age, as it will be paid for longer.**
- **No automatic pension lump sum, but with the option of generating a lump sum by commuting (reducing), the pension income.**
- Pensions in payment and Deferred Pensions to increase in line with the Consumer Prices Index.
- Dependants' benefits, ill-health pensions and death-in-service benefits in line with AFPS 05 provisions.
- **Abolition of abatement if an individual returns to the Services after retirement.**
- **A break of five years or less will be treated as continuous service for indexation.**
- **Annual pension forecast statements.**
- **A Government commitment that there should be no further changes to public service pensions for the next 25 years.**

#### Background

The Consultation Document stated that all public service pension schemes would change in response to rising costs due largely to people living longer. It also explained that the new Armed Forces scheme would incorporate some elements of the existing scheme (AFPS 05), as well as pension changes arising from recommendations made in Lord Hutton's review and accepted by the Government ([see Links 1 and 2 of Section 5](#)). The document also described the additional features that would be included in the design of the new pension scheme. This

section provides further background, a 'quick look' comparison table between the 'old' and 'new', and some examples of typical scenarios.

This document is designed to outline the design of the new scheme, not describe in detail how the changes affect those currently serving. A DIN has already been published detailing Accrued Rights to pension benefits and Transitional Protection (see [Link 6 of Section 5](#)). It is important to note at the outset that the full effects of the new scheme will not be felt before 2035 i.e. by Service personnel who join after 2015 and leave at the new scheme's Early Departure Payment (EDP) point 20 years later (explained below); and those joining the new scheme will still join a pension scheme which is among the very best available. The alignment of the Terms and Conditions of Service (TACOS) of serving Service personnel with the new EDP point is being considered as a priority and further information will follow in due course. The Service Chiefs have endorsed the proposed changes outlined below and have agreed that the new scheme will continue to meet future operational recruiting and retention requirements.

A short explanatory video outlining the design of the new scheme is available at [Link 11 of Section 5](#).

## Features Retained from AFPS 05

**Service personnel will not be asked to pay personal contributions.** Service personnel currently do not pay personal contributions towards their pension benefits. This will continue in the new scheme with all costs being paid by the Government. The independent Armed Forces Pay Review Body (AFPRB) periodically values Service pensions with civilian pensions so that it can take the relative value into account as part of its assessment of broad pay comparability. The AFPRB has been kept fully up to date with the potential changes to pensions, and will take these into account when making its pay recommendations in future.

**EDP.** The new pension scheme will have an EDP, paid on departure from the Armed Forces before the Normal Pension Age (NPA), provided a Service person has reached the length of service and minimum age qualification point. The changes to the EDP qualification point are outlined below.

**Deferred Pensions (known as Preserved Pensions in the current schemes) and benefits in payment will be increased annually by the Consumer Prices Index (CPI).** This is the same as now for all Armed Forces' pensions.

**Ancillary Benefits.** Ancillary benefits (e.g. dependants' benefits and ill health pensions) will be retained in their present form.

**Additional Voluntary Contributions.** Service personnel have the option to purchase Additional Voluntary Contributions (AVCs) in a variety of forms in the current schemes. Feedback from focus groups indicated many Service personnel would consider buying AVCs in the new scheme to increase pension benefits. The new scheme will therefore allow scheme members to purchase AVCs calculated on an actuarially fair basis.

## New Features

### Pension

**A Career Average Scheme.** The Initial Consultation Document explained how a Career Average Revalued Earnings (CARE or 'career average') scheme works, compared with the current Armed Forces pension schemes which are based on final salary/rank (see [Link 1 of Section 5](#)). It is

important to note that CARE will only take effect from 1 April 2015; pension benefits before this date are protected as an accrued right. ***See examples later in this section.***

**A Pension Accrual Rate of 1/47th.** This is the rate by which pension benefits are calculated each year as a percentage of annual pensionable pay. It determines the amount that MOD pays into an individual's 'pension pot' each year (for example if an individual earns £17,300 in a year MOD will pay 1/47th of that (£368) into their 'pension pot', if they earn £18,600 the following year, MOD will put a further 1/47th of that (£396) into the pot; and this will continue throughout a career). The accrual rate varies amongst the current schemes, but in AFPS 05 it is 1/70th, plus 3/70th for a lump sum (which equates to an average accrual rate of 1/56th). The new pension accrual rate of 1/47th is highly competitive when set alongside other public service pensions.

**Benefits earned under the new scheme while serving will be increased annually by average earnings.** In a CARE system, it is important to ensure that the real spending value of an individual's 'pension pot' is adjusted to take inflation into account. This is known as revaluation of accruals (the term indexation is also used). Each MOD payment to an individual's 'pension pot' will increase in line with earnings indexation each year and this will continue while they are in the Armed Forces. Changes in average earnings, which have historically been higher than other measures of inflation (such as Consumer Prices Index or Retail Prices Index), will be used for revaluation of accruals in the new scheme. The final pension (the 'pension pot') will be worked out by adding each year's revalued pension amounts together and will be paid either at the Normal Pension Age of age 60 or, if exit from the Armed Forces is before that date, as a Deferred Pension, payable on reaching the individual's State Pension Age (SPA)<sup>1</sup>

## Early Departure Payment

**The EDP Qualification Point will move.** As outlined in Section 1, the age element of the EDP qualification remains unchanged at 40 years, but the minimum length of service has increased from 18 to 20 years.

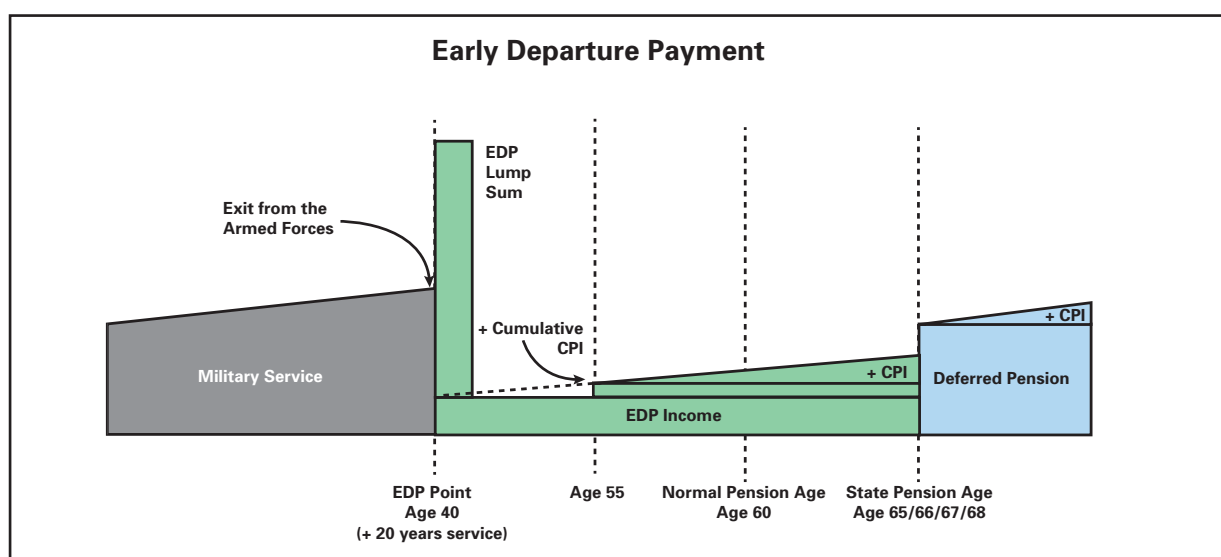
**EDP design.** The new EDP will continue to consist of a monthly income plus a tax-free lump sum. The monthly income will be 34% of the value of the 'pension pot' based on 1/47ths, plus a tax-free EDP lump sum of 2.25 times the 'pension pot' (in AFPS 05 it is 50% based on 1/70ths and 3 times the Preserved Pension respectively). It is important to note that direct comparisons between old and new schemes are difficult to make as the Deferred Pension can potentially be greater in the new scheme (than the Preserved Pension in the current schemes) as the accrual rate is better. A lump sum of 2.25 x the new scheme's 'pension pot' based on 1/47th is also broadly equivalent to the current AFPS 05 lump sum of 3 x the Preserved Pension based on 1/70th. Both calculations deliver a tax-free lump sum of around 25% of the overall EDP benefits (which is the maximum allowable under tax legislation) as the more generous accrual rate in the new scheme requires smaller multiples to deliver a similar effect. A balance has been struck between the pension accrual rate and the value of the EDP which the Service Chiefs believe will continue to provide an attractive financial incentive to serve to the EDP point and beyond and also provide decent and fair pensions for everyone, whether or not they earn an EDP. Further work is being undertaken to investigate the potential for giving Service personnel greater flexibility in how they receive their EDP benefits, in light of the responses to the initial consultation. The results of this work will be announced when a final agreement on the scheme design is announced in September.

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1. The Government has committed to legislate for the SPA to rise to 66 in 2020, 67 2028 and 68 by 2046. Click here to calculate your SPA: <http://pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp>

**The EDP income stream uplift has been retained, but the rate will change.** The AFPS 05 EDP monthly income (payable from exit to the Preserved Pension age of 65) increases for each additional year of service after reaching the EDP point, at a rate of 1.6667 percentage points for every year. This will continue, but the rate of increase will change to 0.85 percentage points per year. This reflects the fact that the EDP is calculated differently and is payable for longer in the new scheme. Thus an individual who serves an additional 10 years beyond the EDP point will be able to draw 34% of the pension pot, plus an additional 8.5% (10 x 0.85) i.e. 42.5% of his Deferred Pension as his monthly income. In AFPS 05 the EDP monthly income increases to 75% of the Preserved Pension (payable on reaching the Normal Pension Age (NPA)(55)). As part of the simplification process this step up will not be a feature of the new scheme and the same EDP rate will be payable from exit to reaching SPA. The value of the step-up has been absorbed into the overall value of the EDP. This does not affect the cumulative CPI indexation that currently occurs at age 55 and this will continue in the new scheme.

The new EDP model is outlined below:



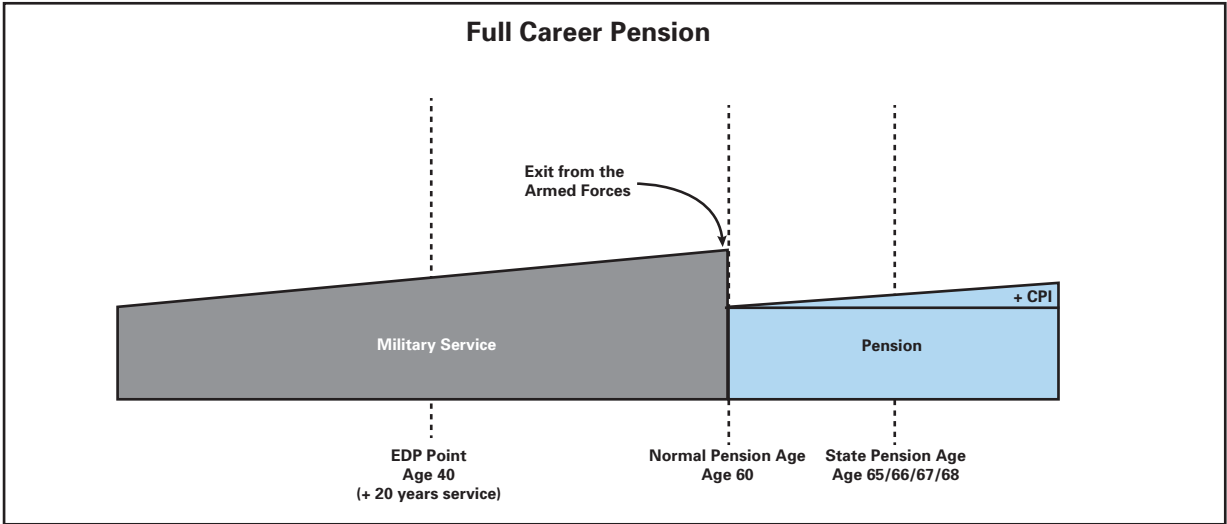
## Full Pension Entitlement

**There will be a Normal Pension Age (NPA) of 60.** The NPA is the earliest age at which an individual may receive their full pension benefits immediately (although reduced benefits will be available before this age through an EDP if an individual has sufficient qualifying service). The NPA is already 60 for RFPS, most FTRS 97 commitments and NRPS. For AFPS 75, AFPS 05 and FTRS 97 (Full Commitment), the NPA is 55. Under existing regulations an actuarially reduced pension is payable within 5 years of the current NPA. This will continue in the new scheme and an actuarially reduced pension could be paid from age 55. The actuarial reduction would be for the life of the pension from the point of exit from the Armed Forces.

**A pension lump sum will no longer be automatic, but will still be available by commutation.** AFPS 05 currently provides a tax-free pension lump sum of 3 times the annual pension payable at the current NPA (55) to those who are eligible. For Service personnel who leave before their NPA (including those who leave with an EDP), it is paid at age 65. The new scheme will not automatically pay a pension lump sum at either the new NPA or the State Pension Age. However, if they choose to do so, individuals will be able to receive a tax-free lump sum by 'giving up' (known as commutation) a part of their annual pension. HM Revenue and Customs currently allow up to 25% of the overall pension benefits to be taken as a lump sum.

The commutation rate is fixed at 12 to 1; i.e. for each £1 of their pension for life given up, an individual ‘buys’ a lump sum of £12. The EDP tax-free lump sum will remain, as set out above.

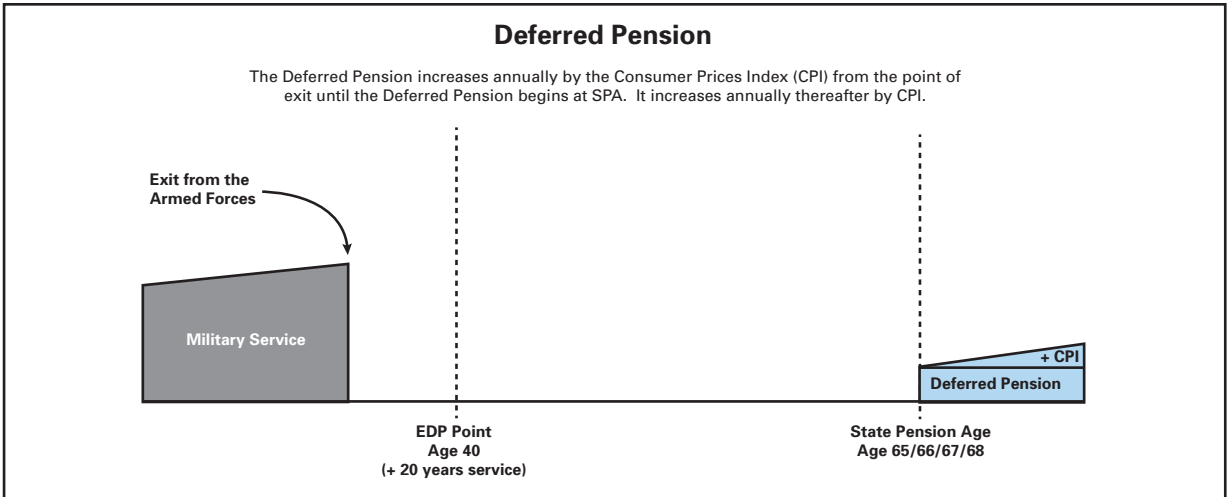
The new full career pension model is outlined below:



**Deferred Pension Entitlement**

The term ‘Preserved Pension’ is used in current schemes but the new scheme will use the term ‘Deferred Pension’. For all service in the new scheme, the start date for the payment of a Deferred Pension will be linked to an individual’s State Pension Age (SPA). Pensions are ‘Deferred’ when an individual leaves the Services before the EDP qualification point. A Deferred Pension also replaces the EDP once the Service person reaches their SPA. Currently, Preserved Pensions are payable from age 65 for existing schemes (apart from service before 6 Apr 2006 for members of AFPS 75 and FTRS 97, where it will remain at age 60). The Government has committed to legislate for the SPA to rise to 66 in 2020, 67 by 2028 and 68 by 2046. In the new scheme, the start date for payment of Deferred Pensions will track future changes to the SPA.

The new Deferred Pension model is outlined below:



## Other Changes

**The maximum accrual cap will be abolished.** AFPS 75 and FTRS 97 have a maximum accrual for Officers of 34 years from age 21, or date of entry, and for Other Ranks 37 years from age 18 or date of entry. AFPS 05 and RFPS allow accrual up to 40 years from the first day of paid service. In the new scheme, the maximum accrual cap will be abolished to allow accrual for the duration of paid service.

**Pension abatement will be removed.** In the current schemes, if a Service person in receipt of an Immediate Pension (IP) or EDP re-joins the Armed Forces (e.g. on an FTRS contract), their monthly IP or EDP may be abated (reduced) or stopped and they may also be required to refund part of their lump sum to ensure their pension and new salary do not exceed their old rate of pay (adjusted for inflation). These restrictions will be removed for benefits earned in the new scheme. The restriction will continue to apply for benefits earned under the current schemes.

**Breaks of 5 years or less will be treated as continuous service.** In the current schemes if a Service person leaves the Armed Forces for more than 6 months, and subsequently re-joins, they can aggregate their service for pension purposes but cannot treat it as continuous service. Under the new scheme, when an individual re-joins within 5 years of leaving, the original 'pension pot' earned to the point of exit will be increased by the cumulative revaluation throughout the gap in service to ensure that it retains its relative value.

**Annual Pension Statements will be provided.** Service personnel will receive annual pension statements from the introduction of the new scheme. Annual statements will also be provided to those who are covered by the transitional protection and remain on the old schemes.

**There should be no further changes to the new scheme for the next 25 years.** The Government has said that new public service pension schemes should endure for 25 years, and has committed to no further changes during this period. The Government will set a cost cap on MOD's contribution to future Armed Forces pensions; this will constrain costs which arise from unforeseen pressures (such as further increases in longevity). Provided the scheme remains within this cost cap, no changes to scheme design, benefits or contribution rates should be necessary. If costs were to rise above, or fall below, the cap in future, the new Pensions Board would consider the best approach to managing the increasing costs. Service personnel would be consulted about any changes.



## Comparisons between AFPS 75, AFPS 05 and the New Scheme

Benefit	AFPS 75	AFPS 05	New Scheme
Funding Structure	Unfunded and non-contributory	Unfunded and non-contributory	Unfunded and non-contributory
Overall Scheme Design	Defined benefit based on representative pay <sup>2</sup>	Defined benefit based on final pensionable pay	Defined benefit based on career average pensionable pay
When do pension benefits start to build up?	From age 21 for Officers and from age 18 for Other Ranks or date of joining if later	First day of paid service in the Armed Forces for both Officers and Other Ranks regardless of age	First day of paid service in the Armed Forces for both Officers and Other Ranks regardless of age
Normal Pension Age	Age 55	Age 55	Age 60
Maximum number of years' pensionable service	34 years for Officers and 37 years for Other Ranks	40 years for both Officers and Other Ranks	No maximum
Accrual Rate	Uneven accrual rate – faster up to Immediate Pension (IP) point	Even accrual rate at 1/70th of pensionable earnings for each year of service	Accrual rate of 1/47th will be applied to each year's pensionable earnings.
Rate of pension increases	Consumer Prices Index (CPI) increases: IP – from age 55 Invaliding Pension – on payment Preserved Pension – increases applied from date of exit from the Armed Forces	CPI increases: EDP – from age 55 Ill-health Pension – on payment Preserved Pension – increases applied from date of exit from the Armed Forces	CARE – annual revaluation of accruals by changes to average earnings. CPI increases: EDP – from age 55 Ill-health Pension – on payment Deferred Pension – increases applied from date of exit from the Armed Forces

2. All those of the same rank with the same length of service retiring in the same year receive the same rate of pension, regardless of their actual earnings.

Benefit	AFPS 75	AFPS 05	New Scheme
Lump sum (at NPA or State Pension Age)	Automatic tax-free lump sum when first receive pension (of three times pension)	Automatic tax-free lump sum when first receive pension (of three times pension)	Optional lump sum commutation at rate of 12:1 (in accordance with HMRC limits and regulations)
Abatement for those who leave and re-join	Abatement can apply	Abatement can apply	Abatement will not apply for service in the new scheme if SP returns from retirement. Abatement rules for current schemes continue.
Benefits for those who leave before the IP or EDP points	Preserved pension paid from age 65 (age 60 for service before 6 April 2006) with an automatic tax-free lump sum worth three times pension	Preserved pension paid from age 65 with a tax-free lump sum worth three times pension	Preserved pension renamed Deferred pension and paid from State Pension Age (currently 65) with an optional tax-free lump sum commutation at the rate of 12:1 (in accordance with HMRC limits and regulations)
Earliest age individuals can receive an income on leaving Services <sup>3</sup>	IP paid at age 37 and after 16 years for Officers (RAF is age 38) and age 40 and after 22 years for Other Ranks. Level of IP income set at full pension value plus a tax-free lump sum worth three times annual pension	EDP paid after 18 years service and reaching age 40 for both Officers and Other Ranks. Value of an EDP income at least half of Preserved Pension plus a tax-free lump sum worth three times Preserved Pension	EDP paid after 20 years' service and reaching age 40 for both Officers and Other Ranks. EDP income at least 34% of Deferred pension plus a tax-free lump sum of 2.25 times Deferred pension. Further work to be undertaken to investigate the potential to provide greater flexibility in how the EDP is taken.

3. Separate arrangements exist for MODOs under the current schemes.

Benefit	AFPS 75	AFPS 05	New Scheme
Non-attributable ill-health benefits	Service Invaliding Pension plus tax-free terminal grant of three times pension. Level of pension based on length of service and normally enhanced (if served longer than 5 years)	<p>Three tier system dependent on seriousness of disability:</p> <p><b>Tier 1<sup>4</sup></b> – Tax-free lump sum related to salary and number of years served.</p> <p><b>Tier 2<sup>5</sup></b> – pension enhanced by one-third of remaining service to age 55 plus tax-free lump sum of three times pension.</p> <p><b>Tier 3<sup>6</sup></b> – pension enhanced by half of remaining service to age 55 (with minimum pension based on 20 years' service) plus tax-free lump sum of three times pension</p>	To be confirmed but based on the same provision as AFPS 05
Value of lump sum if the member dies in Service	A tax-free lump sum of about 3 times representative pay	A tax-free lump sum of four times pensionable pay	A tax-free lump sum of four times pensionable pay
Spouse's pension received on the member's death (not due to Service)	Normally 50% of member's pension but ceases on cohabitation or remarriage. Short term pension payable at level of member's earnings up to 9 months	Up to 62.5% of member's pension paid for life. No short term pension	Up to 62.5% of member's pension paid for life. No short term pension

4. Tier 1 – for those with a condition that is not deemed to significantly impair their ability to get gainful employment in civilian life.

5. Tier 2 – for those with a condition that is deemed to significantly impair their ability to get gainful employment in civilian life, but are not permanently incapable of employment.

6. Tier 3 – for those who have a serious disability which is deemed to leave them permanently incapable of any further full-time employment.

Benefit	AFPS 75	AFPS 05	New Scheme
Is a partner <sup>7</sup> entitled to a pension?	No (unless death was due to Service)	Yes, if evidence of a substantial relationship at time of member's death	Yes, if evidence of a substantial relationship at time of member's death
Will a civil partner be entitled to a pension?	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts	Yes. Provided member was serving on or after 1 October 1987, all appropriate service, including that given before that date counts towards survivors' benefits, except that where a member registers a partnership after leaving the scheme, only service from 6 April 1978 counts
Children's pensions	Children's pensions payable but not to children of post-retirement marriages or post-retirement civil partnerships	Children's pensions payable including pensions for children born after leaving the Armed Forces	Children's pensions payable including pensions for children born after leaving the Armed Forces
Additional Voluntary Contributions (AVCs)	Options to increase death-in-service lump sum, widow's pension, purchase added years and top up AFPS 75 benefits	Options to buy in-scheme added years. AVCs available from commercial sources.	To be confirmed but new scheme will include the opportunity to buy AVCs
Specialist Pay	Not pensionable	Not pensionable	Not pensionable
Members who leave and rejoin	Members who rejoin after a gap in service of more than six months cannot treat their service as continuous.	Members who rejoin after a gap in service of more than six months cannot treat their service as continuous.	Members who leave the new scheme and return <b>within 5 years</b> will have their pension benefits revalued as if they had been an active member throughout

Further information about the current schemes is available at [Link 5 of Section 5](#).

7. An eligible partner is someone (same sex or otherwise) with whom an individual has an established and exclusive relationship of dependence or interdependence.

## Examples

The following examples are indicative only. The examples are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below. An individual's pension benefit entitlement is unique and the examples below are designed to build upon the accrued rights outlined in [Link 6 to Section 5](#) and show how a career average scheme will affect future benefits. Service personnel will be able to look at their own circumstances when the pension calculator is updated in 2013. In the meantime a guide to establishing an outline personal entitlement follows these examples.

### Example 1: OR-2 (AB, Mne, Pte/Tpr/Gnr/Spr/Fus, Jnr Tech/SAC/LAC/AC)

<b>Original Pension:</b>	<b>AFPS 05</b>	<b>Year of birth:</b>	<b>1993</b>
<b>Joined the Armed Forces:</b>	<b>2012</b>	<b>Leaves the Armed Forces:</b>	<b>2021</b>

An OR-2 has 3 years of service at the point of scheme transition. He leaves the Armed Forces at age 28, after 9 years of pensionable service. He did not serve long enough to qualify for the AFPS 05 EDP (18 years service and age 40) or the FAFPS EDP (20 years service and age 40).

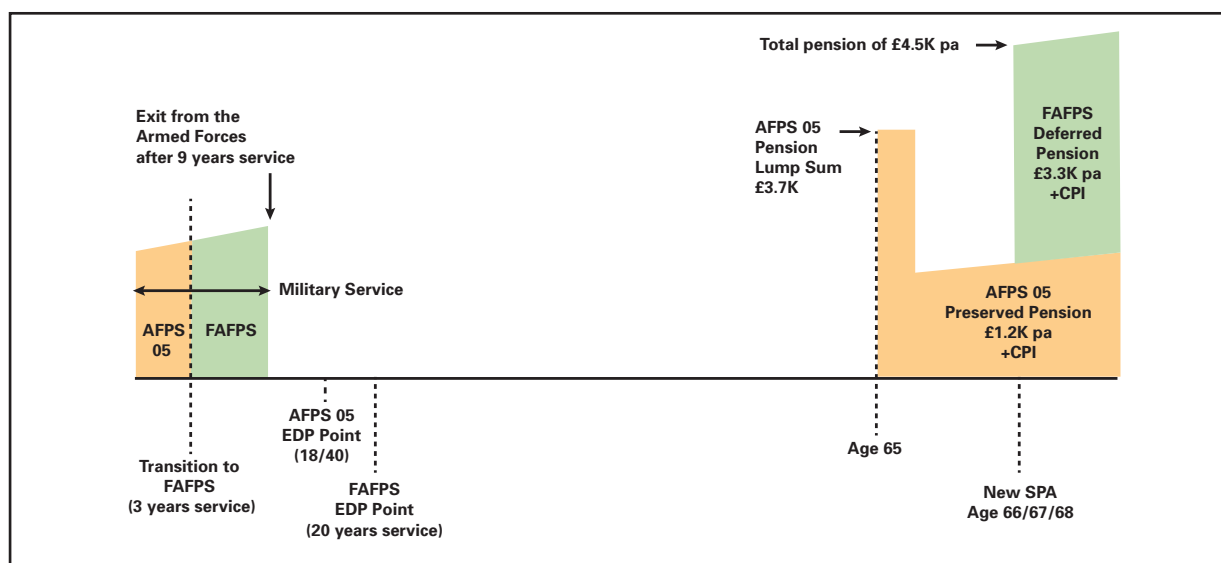
When the OR-2 exits the Armed Forces he will not be entitled to any immediate pension benefits.

**At age 65**, he will be entitled to draw his AFPS 05 Pension which will be around £1,200 per year. He will also be entitled to a tax-free lump sum of around £3,700.

**At his State Pension Age (68)**, he will be entitled to draw his FAFPS Pension, which will be around £3,300 per year, giving a total income of around £4,500 per year. At this point, the OR-2 will have an opportunity to commute some of his FAFPS Pension to generate a further lump sum.

Consumer Prices Index (CPI) increases for both these pensions will be applied immediately.

**Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:**



Example 2: OR-7 (CPO, SSgt/CSgt, Flt Sgt/Ch Tech)

Original Pension: AFPS 05                      Year of birth: 1985  
Joined the Armed Forces: 2005                      Leaves the Armed Forces: 2025

An OR-7 has 10 years of service at the point of scheme transition. He leaves the Armed Forces at age 40, after 20 years of pensionable service, having reached the AFPS 05 EDP point (18 years service and age 40) and the FAFPS EDP point (20 years service and age 40).

As soon as he exits the Armed Forces he will be entitled to the following:

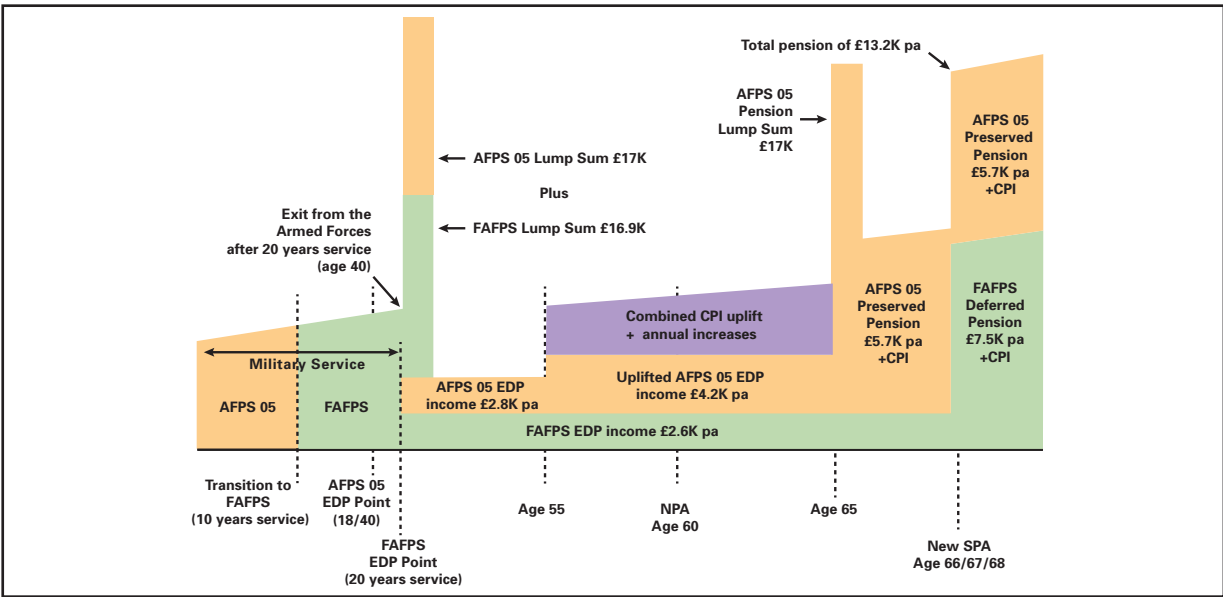
AFPS 05 Pension	10 years	Tax-free lump sum	Around £17,000	Total lump sum around £33,900
		Early Departure Payment	Around £ 2,800 pa	
FAFPS Pension	10 years	Tax-free lump sum	Around £16,900	Total income around £5,400 pa
		Early Departure Payment	around £ 2,600 pa	

At age 55, his income will be increased by the cumulative application of the Consumer Prices Index (CPI) since he left the Armed Forces. CPI will be applied every year thereafter. In addition, the AFPS 05 portion of his pension will increase to around £4,200 per year giving a total income of around £6,800 per year.

At age 65, his AFPS 05 income will increase to around £5,700 per year giving a total income of around £8,300 per year (plus CPI increases). In addition, he will receive his second AFPS 05 lump sum of around £17,000.

When he reaches his Deferred Pension Age (68, equal to his SPA), his FAFPS Pension will be increased to around £7,500 per year (plus CPI increases).

Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:



### Example 3: OR-9 (WO/WO1)

**Original Pension:** AFPS 75  
**Joined the Armed Forces:** 1998

**Year of birth:** 1979  
**Leaves the Armed Forces:** 2020

An OR-9 has 17 years of service at the point of scheme transition. She leaves the Armed Forces at age 41, after 22 years of pensionable service, having reached the AFPS 75 Immediate Pension point (22 years service from age 18) and the FAFPS EDP point (20 years service and age 40).

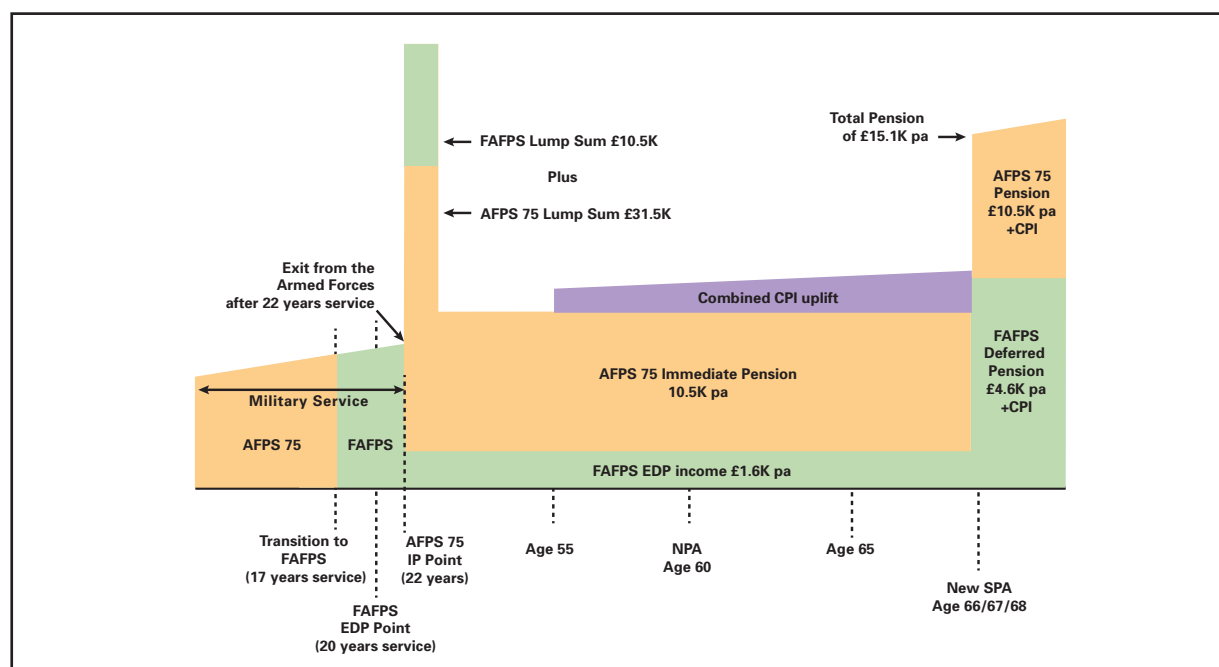
As soon as she exits the Armed Forces she will be entitled to the following:

AFPS 75 Pension	17 years	Tax-free lump sum	around £31,500	Total lump sum around £42,000
		Immediate Pension	around £10,500 pa	
FAFPS Pension	5 years	Tax-free lump sum	around £10,500	Total income around £12,100 pa
		Early Departure Payment	around £1,600 pa	

**At age 55**, her income will be increased by the cumulative application of the Consumer Prices Index (CPI) since she left the Armed Forces. CPI will be applied every year thereafter.

When she reaches her **Deferred Pension Age (68, equal to her SPA)**, her FAFPS Pension will be increased to around £4,600 per year giving her a **total annual pension of around £15,100** (plus CPI increases). At this point, the OR-9 will have an opportunity to commute some of her FAFPS Pension to generate a further lump sum.

**Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:**





## Example 4: OF-3 (Lt Cdr, Maj, Sqn Ldr)

**Original Pension:** AFPS 05      **Year of birth:** 1981  
**Joined the Armed Forces:** 2005      **Leaves the Armed Forces:** 2025

An OF-3 has 10 years of service at the point of scheme transition. He leaves the Armed Forces at age 44, after 20 years of pensionable service, having reached the AFPS 05 EDP point (18 years service and age 40) and the FAFPS EDP point (20 years service and age 40).

As soon as he exits the Armed Forces he will be entitled to the following:

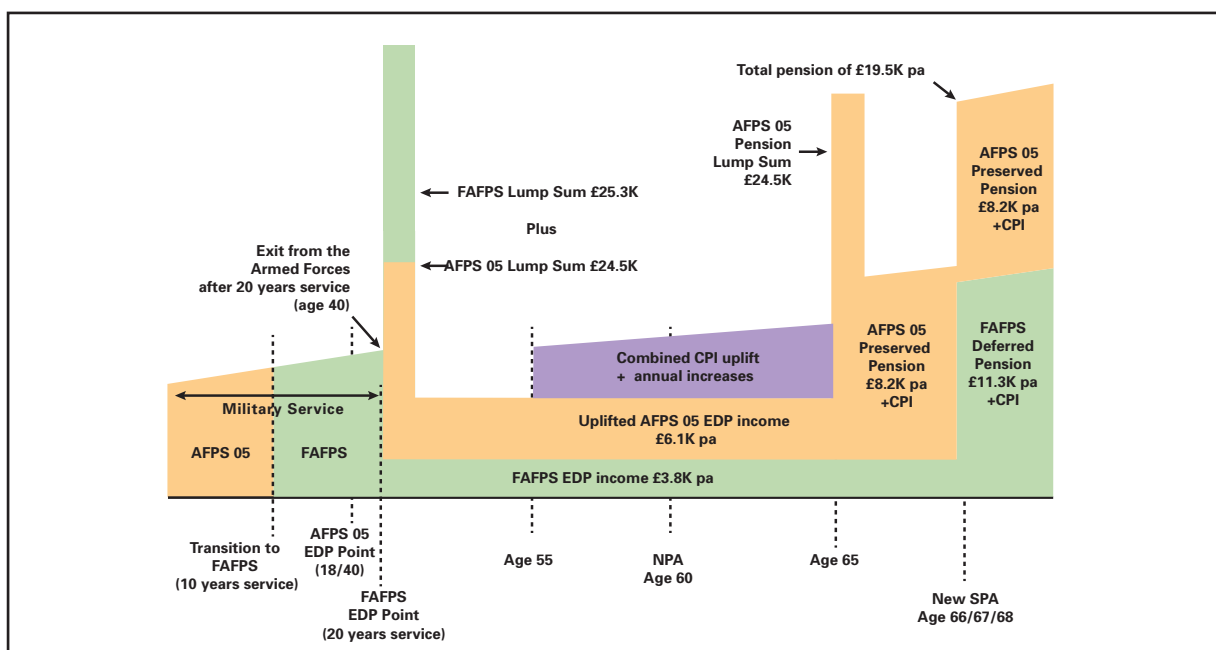
AFPS 05 Pension	10 years	Tax-free lump sum	around £24,500	<b>Total lump sum around £49,800</b>
		Early Departure Payment	around £ 4,400 pa	
FAFPS Pension	10 years	Tax-free lump sum	around £25,300	<b>Total income around £ 8,200 pa</b>
		Early Departure Payment	around £ 3,800 pa	

**At age 55**, his income will be increased by the cumulative application of the Consumer Prices Index (CPI) since he left the Armed Forces. CPI will be applied every year thereafter. In addition, the AFPS 05 portion of his pension will increase to around £6,100 per year giving a **total income of around £9,900** per year.

**At age 65**, his AFPS 05 income will increase to around £8,200 per year giving a **total income of around £12,000 per year** (plus CPI increases). In addition, he will receive his second **AFPS 05 lump sum of around £24,500**.

When he reaches his **Deferred Pension Age (68, equal to his SPA)**, his FAFPS Pension will be increased to around £11,300 per year giving him a **total annual pension of around £19,500** (plus CPI increases). At this point, the OF-3 will have an opportunity to commute some of his FAFPS Pension to generate a further lump sum.

**Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:**



## Example 5: OR-7 (FTRS LC (CPO, SSgt/CSgt, Flt Sgt, Ch Tech))

<b>Original Pension:</b>	<b>FTRS 97</b>	<b>Year of birth:</b>	<b>1985</b>
<b>Joined the Armed Forces:</b>	<b>2003</b>	<b>Leaves the Armed Forces:</b>	<b>2019</b>

An FTRS LC OR-7 has 12 years of service at the point of scheme transition. He leaves the Armed Forces at age 34, after 16 years of pensionable service. He therefore had 12 years of total service on the FTRS 97 Scheme and a further 4 years on the new Pension Scheme.

He did not serve long enough to qualify for the FAFPS EDP (20 years service and age 40). He is therefore entitled to Deferred Pensions.

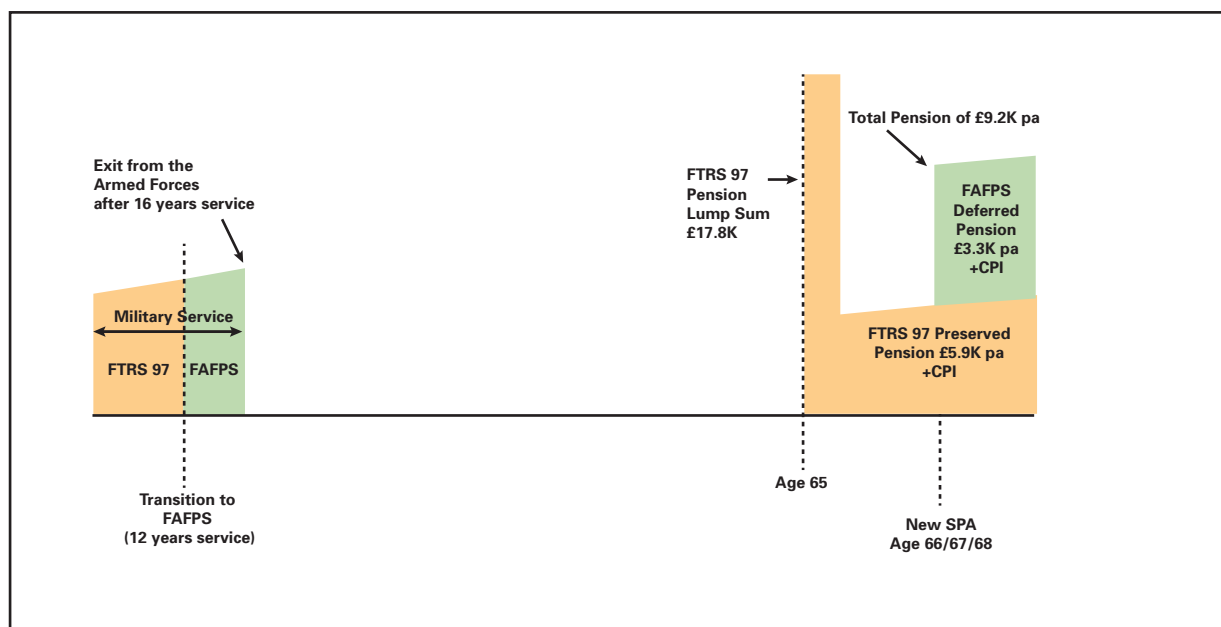
When the OR-7 exits the Armed Forces he will not be entitled to any immediate pension benefits.

**At age 65**, he will be entitled to draw his FTRS 97 pension which will be **around £5,900 per year**. He will also be entitled to a tax-free lump sum of around £17,800 (a proportion of this can be drawn at age 60 for service prior to 6 Apr 2006).

**At his Deferred Pension Age (68, equal to his SPA)**, he will be entitled to draw his FAFPS Pension, which will be around £3,300 per year, giving a **total income of around £9,200 per year**. At this point, the OR-7 will have an opportunity to commute some of his FAFPS Pension to generate a further lump sum.

CPI increases for both these pensions will be applied immediately.

**Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:**



Example 6: OF-4 (CDR, LT COL, WG CDR)

Original Pension: AFPS 75                      Year of birth: 1981  
Joined the Armed Forces: 2005              Leaves the Armed Forces: 2025

An OF-4 has 10 years of service at the point of scheme transition. He leaves the Armed Forces at age 44, after 20 years of pensionable service, having reached the AFPS 75 Immediate Pension point (16 years service from age 21) and the FAFPS Early Departure Point (20 years service and age 40).

As soon as he exits the Armed Forces he will be entitled to the following:

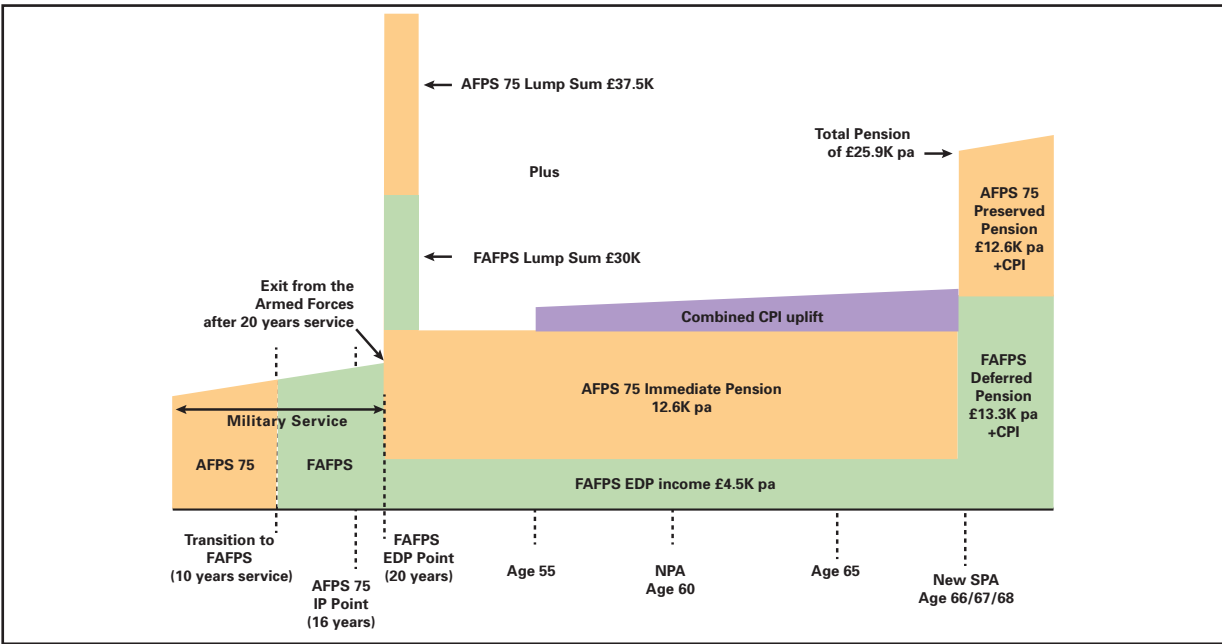
AFPS 75 Pension	10 years	Tax-free lump sum	around £37,800	Total lump sum around £67,800
		Immediate Pension	around £12,600 pa	
FAFPS Pension	10 years	Tax-free lump sum	around £30,000	Total income around £17,100 pa
		Early Departure Payment	around £ 4,500 pa	

There is a difference between the AFPS 75 Immediate Pension (around £12,600 pa) and the FAFPS Early Departure Payment (around £4,500 pa). AFPS 75 will pay the pension immediately (hence why it is called the Immediate Pension), whereas under AFPS 05 the Early Departure Payment is 50% of the Preserved Pension and under FAFPS, the Early Departure Payment is 34% of the Deferred Pension. It should be noted that the AFPS 75 Immediate Pension above includes the accrued right to a link to final salary. This means that the initial AFPS 75 10 years is actually worth proportionately more than it would have been if the OF-4 had completed 20 years in AFPS 75.

At age 55, his income will be increased by the cumulative application of the Consumer Prices Index (CPI) since he left the Armed Forces. CPI will be applied every year thereafter.

When he reaches his State Pension Age (68), his FAFPS Pension will be increased to around £13,300 per year giving him a total annual pension of around £25,900 (plus CPI increases). At this point, the OF-4 will have an opportunity to commute some his FAFPS Pension to generate a further lump sum.

Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:



## Example 7: OR-6 (PO, SGT)

**Original Pension:** AFPS 05  
**Joined the Armed Forces:** 2005

**Year of birth:** 1983  
**Leaves the Armed Forces:** 2030

An OR-6 has 10 years of service at the point of scheme transition. He leaves the Armed Forces at age 47, after 25 years of pensionable service, having served beyond the AFPS 05 Early Departure Payment (EDP) point (18 years service and age 40) and the FAFPS EDP point (20 years service and age 40).

As soon as he exits the Armed Forces he will be entitled to the following:

AFPS 05 Pension	10 years	Tax-free lump sum	around £14,400	Total lump sum around £38,000
		Early Departure Payment	around £ 2,900 pa	
FAFPS Pension	15 years	Tax-free lump sum	around £23,600	Total income around £6,900 pa
		Early Departure Payment	around £ 4,000 pa	

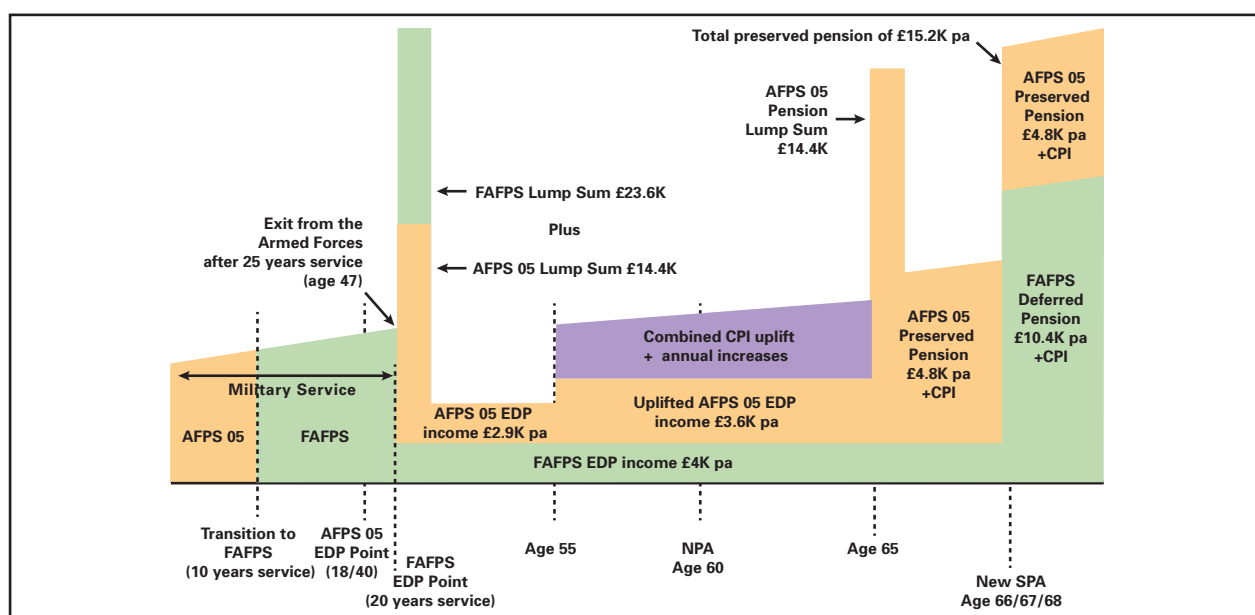
Note that the OR-6's AFPS 05 EDP has been further increased because he served beyond the 05 EDP point.

**At age 55**, his income will be increased by the cumulative application of the Consumer Prices Index (CPI) since he left the Armed Forces. CPI will be applied every year thereafter. In addition, the AFPS 05 portion of his pension will increase to around £3,600 per year giving a **total income of around £7,600** per year.

**At age 65**, his AFPS 05 income will increase to around £4,800 per year giving a **total income of around £8,800** per year (plus CPI increases). In addition, he will receive his second **AFPS 05 lump sum of around £14,400**.

When he reaches his **Deferred Pension Age (68, equal to his SPA)**, his FAFPS Pension will be increased to around £10,500 per year giving him a **total annual pension of around £15,300** (plus CPI increases). At this point, the OR-6 will have an opportunity to commute some of his FAFPS Pension to generate a further lump sum.

**Pension benefits will therefore be as outlined below - the figures are based on 2012 pay rates and do not include future pay rises, promotions or indexation increases. The benefits eventually delivered are therefore expected to be higher than the figures below:**



## Section 3

### Accrued Rights and Transitional Protection

#### Key Points

- The benefits you have already built up in your existing pension scheme will be protected and you will receive them when you would have expected to, linked to your final rank and pensionable pay – these are known as your accrued rights.
- You will remain on your current scheme if you were born on or before 1 April 1967 (or for RFPS, FTRS (LC) & (HC) and NRPS, if you were born on or before 1 April 1962) – this is known as transitional protection.
- If you are not covered by the transitional protection and are still serving when the new scheme is introduced, you will be automatically enrolled in the new scheme (from April 2015). In addition to your accrued rights, you will build up further pension benefits from the day of joining the new scheme – see Section 2.

#### Accrued Rights

The Initial Consultation Document ([Link 1 of Section 5](#)) explained that pension benefits already earned in current schemes up to the implementation date of the new scheme would be guaranteed. Service personnel will be able to draw these benefits at the same age as now (in accordance with current schemes' rules) and they will be linked to the final rank and final pensionable pay at the date of leaving the Services – not the rank/pensionable pay at the point of transfer to the new scheme.

Full details of AFPS 75 and AFPS 05 accrued rights were published in DIN 01-063 of 2012 ([Link 6 of Section 5](#)).

Examples of accrued rights for other schemes, specialist groups and commutation will be published shortly.

Examples of accrued rights to ill-health pensions, dependants' pensions and pension sharing on divorce are currently being calculated. Details will be promulgated in due course.

#### Transitional Protection

The Government has offered transitional protection for all members of public service pension schemes who were within ten years of their respective scheme's Normal Pension Age (NPA) on 1 April 2012.

The Armed Forces Pension Schemes 1975 and 2005 (AFPS 75 and AFPS 05) and the Full Time Reserve Service Pension Scheme 1997 (FTRS 97) (Full Commitment) have a NPA of 55. The Reserve Forces Pension Scheme (RFPS), FTRS 97 (Limited or Home Commitment) and the Non-Regular Permanent Staff (NRPS) Pension Scheme have a NPA of 60.

This means that:

- If an individual is a member of AFPS 75, AFPS 05 or FTRS 97 (FC) and was aged 45 or over on 1 April 2012 (i.e. born on or before 1 April 1967), they will remain in their current pension scheme and their benefits will be unaffected.
- If an individual is a member of the RFPS (including those on Additional Duties Commitment) or FTRS 97 (LC or HC) or NRPS and was aged 50 or over on 1 April 2012 (i.e. born on or before 1 April 1962), they will remain in their current pension scheme and their benefits will be unaffected.

If an individual, covered by the protection outlined above, leaves the Armed Forces and subsequently re-joins, they will be automatically enrolled in the new scheme on re-joining.

The costs of the Government's commitment on transitional arrangements will be borne centrally by the Treasury. MOD has decided not to offer further protection as the costs of providing this would have had to be met by reducing benefits in the new scheme for all Service personnel without transitional protection.

Some Service personnel have an earlier, or later, Normal **Retirement** Age (NRA) than their Normal **Pension** Age (NPA). The setting of the NRA is based on operational requirements for each Service or specialism and forms part of Terms and Conditions of Service (TACOS). It is important to note that transitional protection relates to the relevant pension scheme's NPA as opposed to the individual's Normal Retirement Age. Future TACOS are being considered as part of the New Employment Model, but until any changes are made, Service personnel will still have to leave their Service at their current NRA.

## Section 4

### What Happens Next?

#### Key Points

- The final design will be agreed and published in September.
- An Equality Analysis will be conducted.
- Service personnel can submit their comments.
- A Public Service Pensions Bill, allowing for the introduction of the new Armed Forces pension scheme, will be laid before Parliament in the Autumn.
- Further key steps include the technical design (including a revised pensions calculator) and producing policy documents/scheme booklets.
- Serving personnel will be automatically enrolled in the new scheme (from Apr 15).

Service personnel can submit comments by clicking on [Link 4 of Section 5](#) until 7 September 2012. The final agreed design for the new Armed Forces scheme will be announced in September, together with the results of the work investigating the potential for giving Service personnel greater flexibility in how they receive their Early Departure Payment.

MOD is legally required to comply with the Equality Duty and is, therefore, undertaking an Equality Analysis (EA) of the new scheme to demonstrate due regard to the Equality Act 2010. This process involves full engagement with stakeholders. Given the need to ensure these assessments are robust, the assessment process will continue beyond the final completion of the scheme's design. The Government will also conduct a central analysis to compare and assess the impact across all public service schemes. Following the completion of the central analysis, the Government will consider mitigating actions which might be necessary to fulfil its equality duty. If you have any concerns about the Outline Scheme Design in this regard, you can make comments by clicking on [Link 4 of Section 5](#) until 7 September 2012.

A Public Service Pensions Bill, which will allow for the introduction of the new Armed Forces pension scheme, will be laid before Parliament in the Autumn. This will provide the overarching legal framework for the introduction of all new public service schemes. It will be followed by legislation specifically covering the new Armed Forces Pension Scheme.

The Service Personnel and Veterans Agency will develop the technical design to administer the new scheme. This will include a revised pension calculator which will be on line in 2013. Policy documents and scheme booklets for the new scheme will be produced in 2014.

Unless Service personnel are covered by the transitional protection outlined in Section 3, all Service personnel will be enrolled automatically in the new Armed Forces Pension Scheme when it is introduced. Service personnel will retain their accrued rights to their existing schemes as outlined in the previous section.

Service personnel will be kept informed through announcements, DIBs, DINs and news articles in relevant publications.



## Section 5

### Where Can I Get Further Information?

**Link 1 – Initial Consultation Document** (Defence Intranet and internet):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Library/CivilianAndJointService/BrowseDocumentCategories/Personnel/PensionsAndCompensationSchemes/FutureArmedForcesPensionSchemeInitialConsultationDocument.htm>

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/ConsultationsandCommunications/PublicConsultations/TheNewArmedForcesPensionSchemeInitialConsultation.htm>

**Link 2 - The Independent Public Service Pensions Commission Final Report**

(Defence Intranet and internet):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/News/BriefingNotes/MOD/1811IndependentPublicServicePensionsCommissionPublishesFinalReport.htm>

[http://cdn.hm-treasury.gov.uk/hutton\\_final\\_100311.pdf](http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf)

**Link 3 – Survey Results** (Defence Intranet and internet):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/FindOutAboutTheReviewOfPublicServicePensionSchemes/InitialConsultationResults.htm>

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PersonnelPublications/Pensions/FutureAFPS/InitialConsultationResults.htm>

**Link 4 – comments site** (internet only):

<http://surveys.defenceconsultations.org.uk/limesurvey/index.php?sid=88725&lang=en>

**Link 5 - Current Pension Schemes** (Defence Intranet and internet):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/>

<http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/armedforcespensionsandredundancy.htm>

**Link 6 – Accrued Rights for AFPS 75 and AFPS 05 – 2012DIN01-63** (Defence Intranet only):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Library/CivilianAndJointService/BrowseDocumentCategories/Personnel/PensionsAndCompensationSchemes/ArmedForcesCompensationScheme/Din2012din01063.htm>

**Link 7 – Frequently Asked Questions** (Defence Intranet and internet):

<http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/FindOutAboutTheReviewOfPublicServicePensionSchemes/FutureArmedForcesPensionSchemeQuestionsAndAnswers.htm>

<http://www.mod.uk/DefenceInternet/AboutDefence/CorporatePublications/PersonnelPublications/Pensions/FutureAFPS/FrequentlyAskedQuestionsAboutTheChangesToTheArmedForcesPensionSchemes.htm>

**Link 8 – The new Armed Forces Pension Scheme (homepage)** (Defence Intranet and internet):

[http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/  
Admin/FindOutAboutArmedForcesPensions/  
FindOutAboutTheReviewOfPublicServicePensionSchemes/](http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Admin/FindOutAboutArmedForcesPensions/FindOutAboutTheReviewOfPublicServicePensionSchemes/)

[http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/  
FindOutAboutTheFutureArmedForcesPensionScheme.htm](http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/Pensions/FindOutAboutTheFutureArmedForcesPensionScheme.htm)

**Link 9 – New Employment Model:** (Defence Intranet and internet):

[http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Teams/  
BrowseTeamCategories/ProgrammesProjectsAndWorkingGroups/  
NewEmploymentModelProgrammeForServicePersonnel.htm](http://defenceintranet.diiweb.r.mil.uk/DefenceIntranet/Teams/BrowseTeamCategories/ProgrammesProjectsAndWorkingGroups/NewEmploymentModelProgrammeForServicePersonnel.htm)

<http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/Personnel/NEM/>

**Link 10 – the Future Armed Forces Pension Scheme (FAFPS) Team Group Mailbox:**

[dcdspers-pcv-fafpsmailbox@mod.uk](mailto:dcdspers-pcv-fafpsmailbox@mod.uk)

Note: the FAFPS team is not qualified to give financial advice to individuals; should an individual feel this is necessary, they should contact an independent financial adviser.

**Link 11 - Video**

**A short explanatory video outlining the design of the new scheme is available through the:**

**Defence Intranet**

[http://mfd.landforces.r.mil.uk/New Armed Forces Pension Brief Final Consultation.wmv](http://mfd.landforces.r.mil.uk/New%20Armed%20Forces%20Pension%20Brief%20Final%20Consultation.wmv)

**internet at:**

<http://youtu.be/ZYnErQN46h8>

## Section 6

### Glossary of Terms

**Abatement**

Where payments (e.g. of pension) are reduced in certain circumstances.

**Accrual Rate**

The rate at which pension benefits build up each year.

**Accrued Benefits / Pension Rights**

The pension benefits or rights built up as a result of membership of a pension scheme. Accrued benefits depend on specific circumstances, including the terms of each pension scheme.

**Additional Voluntary Contributions (AVCs)**

Payments made by a scheme member to enhance pension or death benefits.

**Armed Forces Pension Scheme 2005 (AFPS 05)**

The pension scheme for Regular Service personnel for new entrants from 6 April 2005 and from 6 April 2006 for Service personnel who were in service on that date and elected to transfer from AFPS 75.

**Armed Forces Pension Scheme 1975 (AFPS 75)**

The pension scheme for Service personnel introduced in 1975 but closed to new entrants from 6 April 2005.

**Attributable**

The term used to describe an injury, illness or death that was mainly caused or made worse by service in the Armed Forces.

**Attributable Benefits**

Benefits that are paid when a Service person is injured, becomes ill or dies, where this is attributable to service in the Armed Forces.

**Automatic Enrolment**

A pension scheme where an individual is made a member by default and actively has to decide to leave the scheme.

**Career Average Revalued Earnings (CARE) or 'career average' scheme**

A defined benefit scheme that gives individuals a pension based on a percentage of the salary earned in each year of their working life.

**Commutation**

When a member gives up part of their pension in return for a lump sum of money.

**Consumer Prices Index (CPI)**

The Government endorsed and internationally comparable measure of inflation based on structures in international legislation and guidelines, and launched in 1996. Like the Retail Prices Index (RPI), it tracks the changing cost of a fixed basket of goods and services over time. However unlike the RPI, it disregards some items, such as housing costs. It also has a different population base for the indices from the RPI and is calculated in a different way.

**Deferred Pension** – see ‘Preserved Pension’ below.

**Defined Benefit (DB) Scheme**

A pension scheme where the pension is related to the member’s pensionable earnings and/or length of service.

**Early Departure Payments (EDP)**

Payments to those who reach a qualifying point, in either AFPS 05 or in the new scheme until the Deferred Pension (known as the Preserved Pension in the current schemes) begins.

**Final Salary Scheme**

A defined benefit scheme which gives individuals a pension based on the number of years of pensionable service, the accrual rate and final earnings (the latter as defined by each scheme).

**Immediate Pension (IP)**

For AFPS 75 members – a pension paid immediately on leaving the Armed Forces after 16 years’ reckonable service from age 21 as an Officer or 22 years’ reckonable service from age 18 as an Other Rank.

**Index-Linking**

Annual increases in pension value in line with movements in the Consumer Prices Index (CPI). Changes are made in April, using the previous September’s annual headline rate of inflation. Ill-health pensions, pensions and dependants’ pensions are index-linked from the date of payment. Deferred Pensions are index-linked using prices from the date of leaving service. IPs and EDPs are index-linked from age 55.

**NEW EMPLOYMENT MODEL**

In 2010, the New Employment Model (NEM) programme was established to redesign existing employment arrangements for Service personnel. The NEM programme will recommend a range of alternative policies covering new engagements, pay reform, allowances, training and education, and housing models in summer 2012 which will be considered by the Defence Board in autumn 2012. The detailed design of the NEM will take place between September 2012 and Autumn 2014. Wider consultation with Service personnel will take place during the design phase with implementation expected to take place from 2015. The Future Armed Forces Pension Scheme team is working closely with the NEM project team to ensure pension reform is coherent with other employment policies and that the new pension scheme continues to support the requirements of the Services ([see Link 9 of Section 5](#)).

**Normal Pension Age**

The earliest age at which, in the normal course of events, an individual can choose to receive immediate payment of their pension without reduction.

**Pensionable Pay**

Basic pay including the X factor applicable, but excluding allowances, bonuses, Financial Retention Incentives, Loan Service Pay and any form of Specialist Pay.

**Preserved Pension**

A pension which is currently ‘Preserved’ for a member who leaves the Armed Forces after a minimum of two years’ service and before becoming eligible to receive either an Early Departure Payment or a full career pension. This will be known as a ‘Deferred Pension’ in the new scheme.

**Representational Rate of pay for each rank**

For AFPS 75 members - for each rank below 1 star, pensions 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 retiring in the same year receive the same rate of pension, regardless of their actual earnings.

**Reserve Forces Pension Scheme (RFPS)**

Those who start or restart on Full Time Reserve Service (FTRS), including Additional Duties Commitment terms on or after 6 April 2005, are automatically members of the RFPS until the introduction of the new scheme. Personnel called out for service under section 32, 43, 52, 54 or 56 of the Reserve Forces Act 1996, (or corresponding section of the Reserve Forces Act 1980) from that date may choose to become members of RFPS. Those in service before 6 April 2005 and still in service on 6 April 2006 were given the opportunity to transfer to this scheme.

**Service Personnel and Veterans Agency (SPVA)**

MOD agency which administers the Armed Forces Pension Schemes and authorises appropriate payments.

**State Pension Age (SPA)**

The age at which an individual can receive their State pension. It is currently 65 for men and 60 for women, but will gradually increase depending on an individual's date of birth.

