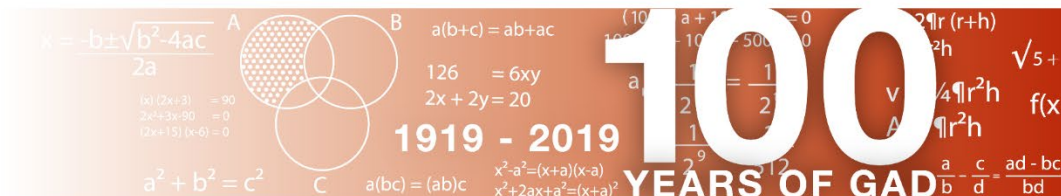




Government  
Actuary's  
Department



## Armed Forces Pension Arrangements

Added Years Additional Voluntary Contributions for  
AFPS 75 and AFPS 05 members

Factor guidance

Version 1.0

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## 1 Introduction

- 1.1 This note is provided for the Ministry of Defence (MoD) as scheme manager of the Armed Forces pension arrangements and sets out our guidance on the calculation of Added Years Additional Voluntary Contributions (AVCs).
- 1.2 The Added Years AVC factors are used for eligible members of AFPS 05 and AFPS 75.
- 1.3 This guidance supersedes any factors or advice previously issued for the purposes of Added Years AVC calculations.
- 1.4 The factors provided in this note have been prepared in light of our advice to MoD dated 28 February 2018 and 30 October 2018 and its instructions following that advice.
- 1.5 The spreadsheet sent to MoD on 31 January 2019 contains the relevant factors for use in Added Years calculations for members of AFPS 05 and AFPS 75. The tables for use in these cases are tables 1101 and 1102.
- 1.6 These factors are “MoD-Controlled” factors and so it is MoD’s decision whether to update these factors after considering GAD’s recommendation. MoD has informed GAD that these factors came into force with effect from 1 April 2019.
- 1.7 Appendix A in this guidance sets out the assumptions used in the determination of factors.

### Implementation and Review

- 1.8 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Armed Forces Pension Schemes. Any questions concerning the application of the guidance should, in the first instance, be referred to MoD.
- 1.9 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 1.10 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.



## 2 Added Years in AFPS75 and AFPS05

### Background

- 2.1 Added Years refers to the option for AFPS 75 or AFPS 05 members to purchase added years of pensionable service by paying contributions set as a regular percentage of contributory pay over the period to age 55. There is a limit on contributions of 15% of contributory pay (but where the contribution rate in the factor tables is higher than 15% of contributory pay members can opt to purchase a part year).
- 2.2 The contribution rate is set when a member elects for the added years option and does not vary thereafter. The factors provided on 31 January 2019 are for **new added years contracts**.
- 2.3 Where a member leaves before age 55 with an entitlement to a deferred benefit (without AFPS05 EDP benefits), the added years are first proportionately reduced to allow for the fact that the member did not contribute towards added years for the whole of the period to age 55. Then, to reflect the fact that the benefits will be payable later (age 65 rather than age 55), the added years are increased by a factor of 25% for AFPS75 members and by 50% for AFPS05 members.
- 2.4 Where a member leaves before age 55 with an entitlement to immediate benefits, the added years are first proportionately reduced to allow for the fact that the member did not contribute towards added years for the whole of the period to age 55. Adjustment factors are also needed for AFPS 75 where members retire before age 55 with an Immediate Pension to reflect the earlier payment of the added years. There are no adjustment factors for AFPS05.

### AFPS75 Regulations

- 2.5 Rules C.1 and C.2 of the Armed Forces Pension Scheme 1975 and Attributable Benefits Scheme (Amendment) Order 2010 (which came into force on 3 January 2011) sets out the eligibility criteria and operation of added years AVCs.
- 2.6 In particular C.1 (4), (4A) and (5) state the following:
- (4) *'If a member exercises the option, contributions are payable by deduction of the appropriate percentage from the member's pensionable earnings in respect of the option period.*
- (4A) *Where a member who has exercised the option under paragraph (1) is serving on flexible terms, the member may, for the period of that flexible service—*
- (a) *pay the same amount of contributions as would be payable if the member was not serving on flexible terms; or*
- (b) *pay contributions based on the member's actual pensionable earnings during the period of flexible service.*



(5) *In paragraph (4)—*

*“the appropriate percentage” means the percentage shown, in a table issued by the Defence Council for the purpose of that paragraph, for a person of the member’s age and rank and the additional period that the member opts to purchase;*

*“the option period” means the period beginning with the member’s next birthday after the exercise of the option and ending with the day before the member’s 55th birthday.’*

- 2.7 Rule C.2 specifies that the added years should be reduced proportionately to reflect the actual payment of contributions where contributions are not paid for the full option period. It also specifies in the case of the member taking flexible service and deciding to pay added years contributions based on their actual earnings in the flexible service period, the added years should be adjusted *“as the Defence Council may determine in consultation with the Scheme actuary”*.
- 2.8 In addition, reduction factors are required where members retire with an Immediate Pension before age 55. The reduction factors are again *“issued by the Defence Council”*.

### **AFPS05 Regulations**

- 2.9 Rules C.1 to C.4 of SI 2005 No.438 the Armed Forces Pension Scheme Order 2005 (as amended), which came into force on 6 April 2005, set out the eligibility criteria and operation of added years AVCs.
- 2.10 In particular Rule C.1(5) states the following:
- (5) *“Subject to paragraphs (5A) and (6), if a member exercises the option under paragraph (1)—*
- the contributions payable are expressed as a percentage of his pensionable earnings for the time being, and*
- the additional period of reckonable service that may be counted as a result of opting to pay contributions at that rate is such period as is indicated in tables issued by the Secretary of State, after consultation with the Scheme actuary, for a person of the member’s age at the date on which he makes his first payment.”*
- 2.11 Paragraphs (5A) and (6) set out the approach to be adopted for members who take flexible service during their added years contract.



### 3 Using the factors

- 3.1 The age definition for tables 3-1101 and 1-1101 is “age at birthday following exercise of option”. This is the age at which the option period commences and hence the age at which contributions start to be paid. For example, if the member opts for added years at age 32, the option period will start on the member's next birthday, age 33, and hence the percentage applicable for age 33 should be used.

#### **AFPS 75 members – Table 3-1101**

- 3.2 The percentages in the factors table 3-1101 (AFPS 75) are to be deducted from military pay (including any length of service pay).
- 3.3 Some rates are above the 15% contribution limit. These rates are included so that the price of a part year purchase of added years AVCs can be calculated.
- 3.4 The rates in the AFPS 75 table can be used for both DPA 60 and DPA 65 contracts. For DPA 65 contracts, a factor of 1.25 (an increase of 25%) should be applied to the number of added years if a member leaves with deferred benefits. This increase would be applied after the added years have been scaled down to reflect that contributions have not been paid for the full period. No increase is applied for DPA 60 contracts and for any contracts where a member receives IP benefits.

#### **AFPS05 members – Table 1-1101**

- 3.5 The percentages in the factors table 1-1101 (AFPS 05) are to be deducted from pensionable pay.
- 3.6 Some rates are above the 15% contribution limit. These rates are included so that the price of a part year purchase of added years AVCs can be calculated.
- 3.7 A factor of 1.5 (an increase of 50%) should be applied to the number of added years if a member leaves with deferred benefits. This increase would be applied after the added years have been scaled down to reflect that contributions have not been paid for the full period. No increase is applied for any contracts where a member receives EDP benefits

#### **AFPS75 members - Table 1102**

- 3.8 The factors in table 1102 only apply to AFPS 75 members.
- 3.9 The tables do not apply to death in service and invalidating.
- 3.10 “Officers” includes medical and dental officers.



### 3.11 Example 1 – AFPS 75 member

#### Member details

Date of birth:	15 May 1970
Rank (MODO/OF/OR):	OF
Scheme:	AFPS75
Date of added years election:	31 March 2020
Age at added years election:	49
Age at birthday following exercise of option:	50
Retirement:	Immediate pension
DPA:	65
Added years purchased:	1 year

#### Factor

Factor table: 3-1101

Factor at age following exercise of option: 8.47% (age 50)

Member elects to purchase 1 added year and has 8.47% deducted from their military pay from their 50<sup>th</sup> birthday (15 May 2020). The added years contract continues until the member reaches age 55.

*Member retires at age 55*

Added years applied = 1 year

*Member leaves with entitlement to immediate pension*

If the same member leaves military service on 15 May 2022 (age 52 years), the added years will be subject to a reduction to reflect that the member has not paid added years contributions over the entire period from election to age 55 as follows:

Factor table: 1102

Reduction factor (age 52): 0.97

Added years purchased: 1 year

Period contributions paid: (15 May 2020 to 14 May 2022) = 2 years

Contract period: 5 years

Added years purchased as at 15 May 2022 =  $\frac{2 \text{ years}}{5 \text{ years}} \times 1 \text{ year} = 0.4 \text{ years}$

If the member is taking an immediate pension in the scheme, the added years are



then reduced to reflect that the added years pension is coming into payment immediately before age 55:

Added years applied =  $0.4 \text{ years} \times 0.97 = 0.388 \text{ years} = 142 \text{ days}$

As the pension is paid immediately, no increase of 25% is applied to account for the added years pension coming into payment at the member's DPA.

*Member leaves with entitlement to deferred pension*

However, if the same member was not eligible to take an immediate pension and instead was entitled to a deferred pension at DPA, the reduced added years will then be increased by a factor of 1.25 to account for the pension coming into payment from DPA 65.

Added years applied =  $0.4 \text{ years} \times 1.25 = 0.5 \text{ years} = 183 \text{ days}$

### 3.12 Example 2 – AFPS 05 member

#### Member details

Date of birth:	15 May 1975
Rank (OF/OR):	OF
Scheme:	AFPS05
Date of added years election:	31 March 2020
Age at added years election:	44
Age at birthday following exercise of option:	45
DPA:	65
Added years purchased:	1 year

#### Factor

Factor table: 1-1101

Factor at age following exercise of option: 5.04% (age 45)

Member elects to purchase 1 added year and has 5.04% deducted from their military pay from their 45<sup>th</sup> birthday (15 May 2020). The added years contract continues until the member reaches age 55.

*Member retires at age 55*

Added years applied = 1 year





*Member leaves with entitlement to EDP and deferred pension*

If the same member leaves military service on 15 May 2022 (age 52 years), and is entitled to EDP benefits, the added years are reduced to reflect that the member has not paid added years contributions over the entire period from election to age 55 as follows:

Added years purchased: 1 year

Period contributions paid: (15 May 2020 to 15 May 2022) = 2 years

Contract period: 10 years

Added years purchased as at 15 May 2022 =  $\frac{2 \text{ years}}{10 \text{ years}} \times 1 \text{ year} = 0.2 \text{ years}$

The added years purchased do not affect whether a member is entitled to EDP. However, if a member is entitled to EDP then the added years are included in the calculation of the amount of EDP in accordance with regulation 10(5) of the Armed Forces Early Departure Payments Scheme Order 2005 (as amended).

Added years applied = 0.2 years = 73 days

*Member leaves with entitlement to deferred pension only*

If the same member was not eligible for EDP benefits then the reduced added years will then be increased by a factor of 1.50 to account for the pension coming into payment from DPA 65 rather than age 55.

Added years applied = 0.2 years x 1.5 = 0.3 years = 110 days



## 4 Exclusions and limitations

- 4.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 4.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 4.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- 4.4 This guidance only covers the actuarial principles around the calculation and application of Added Years factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 4.5 Scheme managers and administrators should satisfy themselves that Added Years calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 4.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of MoD and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.

### Third party reliance

- 4.7 This guidance has been prepared for the use of MoD and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MoD and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 4.8 Other than MoD and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.



## Appendix A: Assumptions underlying actuarial factors

### Financial assumptions

Nominal discount rate	4.448% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of salary increases)	0.24% pa
Selection allowance reduction to discount rate	1% pa

### Mortality assumptions

Base mortality tables: normal health	S2PMA and S2PFA
Base mortality tables: ill health	S2PMA and S2PFA
Base table adjustment	110% of Standard Tables
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of use	2020

### Other assumptions

Promotional salary scale	As per 2016 valuation
In-service decrements	No withdrawal allowance Normal retirement at age 55 Death and ill-health retirement decrements as per 2016 valuation
Proportion of male members for the purpose of unisexing factors	100%
Age difference between member and partner	Male members assumed to be 3 years older than partner.
Proportions married/partnered at retirement	OF 95%, OR 85% (AFPS05) OF 90%, OR 80% (AFPS75)
Officer / Other rank proportion (relevant for AFPS 05 only)	50% OF / 50% OR
Adjustment for MODO pay	10% higher than OF pay on average



## Appendix B: Factor tables

**Table 1-1101 – Regular annual contribution for one added year as a percentage of salary, paid until age 55**

### AFPS 05 members

Age at birthday following exercise of option	All Officers & Other Ranks
19	1.96%
20	1.99%
21	2.02%
22	2.05%
23	2.08%
24	2.11%
25	2.14%
26	2.18%
27	2.23%
28	2.28%
29	2.34%
30	2.40%
31	2.46%
32	2.54%
33	2.62%
34	2.71%
35	2.81%
36	2.93%
37	3.05%
38	3.20%
39	3.36%
40	3.55%
41	3.76%
42	4.01%
43	4.30%
44	4.64%
45	5.04%
46	5.53%
47	6.15%
48	6.95%
49	8.01%
50	9.49%
51	11.72%
52	15.43%
53	22.87%



**Table 3-1101 – Regular annual contribution for one added year as a percentage of salary, paid until age 55**

**AFPS 75 members**

Age at birthday following exercise of option	Medical and Dental Officers	Other Officers	Other Ranks
19	-	-	1.41%
20	-	-	1.43%
21	-	-	1.45%
22	1.74%	1.92%	1.47%
23	1.77%	1.94%	1.49%
24	1.79%	1.97%	1.51%
25	1.82%	2.00%	1.54%
26	1.85%	2.03%	1.57%
27	1.88%	2.07%	1.61%
28	1.92%	2.11%	1.64%
29	1.96%	2.16%	1.68%
30	2.01%	2.21%	1.73%
31	2.07%	2.27%	1.78%
32	2.13%	2.34%	1.83%
33	2.19%	2.41%	1.89%
34	2.27%	2.49%	1.96%
35	2.35%	2.58%	2.03%
36	2.44%	2.69%	2.12%
37	2.54%	2.80%	2.21%
38	2.65%	2.92%	2.32%
39	2.79%	3.06%	2.44%
40	2.93%	3.23%	2.58%
41	3.11%	3.42%	2.74%
42	3.30%	3.63%	2.92%
43	3.53%	3.88%	3.14%
44	3.80%	4.18%	3.39%
45	4.12%	4.53%	3.68%
46	4.52%	4.97%	4.05%
47	5.01%	5.51%	4.50%
48	5.65%	6.22%	5.08%
49	6.50%	7.15%	5.85%
50	7.70%	8.47%	6.92%
51	9.50%	10.45%	8.54%
52	12.50%	13.75%	11.21%
53	18.53%	20.39%	16.55%



**Table 1102: Reduction factors for added years**

**AFPS 75 members**

Age last birthday before retirement	All Officers	Other Ranks
37	0.93	-
38	0.93	-
39	0.93	-
40	0.93	0.93
41	0.93	0.93
42	0.93	0.93
43	0.93	0.93
44	0.94	0.93
45	0.94	0.94
46	0.94	0.94
47	0.94	0.94
48	0.95	0.95
49	0.95	0.95
50	0.96	0.96
51	0.96	0.96
52	0.97	0.97
53	0.98	0.98
54	0.99	0.99