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Dear Colette

Actuarial factors for the Armed Forces pension arrangements Allocation

1. Further to my letter of 21 May and Alan's letter of 7 April setting out our proposed general approach to factor reviews, this letter sets out our advice on allocation factors for eligible members of AFPS05, RFPS05 and AFPS15.
2. We recommend that allocation cases are referred to GAD in future due to:
 - (i) the significant percentage change to the factors expected as part of the factor review.
 - (ii) the low volume of cases, and
 - (iii) the requirement to check whether the resulting dependant's pension is likely to breach the limit in section 167 of the Finance Act.
3. Allocation factors are "MoD-controlled" factors, so it is MoD's decision whether to update these factors after considering GAD's recommendation (please see the "Armed Forces pensions regulations" section of this letter). It is up to MoD to determine when any recommendation should be implemented.
4. This letter is not appropriate for any other purpose. No third party (eg scheme members) is entitled to rely on it and GAD has no liability to any third party for any act or omission taken on the basis of this letter.
5. GAD seeks to achieve a high standard in all our work. Please go to our website for details of the standards we apply.

Background

6. Allocation refers to a member's option to allocate part of their pension to a dependant. In return for an immediate reduction in the member's pension, a nominated dependant can receive an additional pension on the member's death. Actuarial factors are required to determine the amount of additional dependant's pension awarded for each £1 of member's pension given up.
7. It is our understanding that once a member has exercised the option to allocate their pension it is not possible to revoke this election. For the avoidance of doubt, we understand that where a member's nominated dependant pre-deceases them, the

pension continues to be paid at its reduced level (ie the pension is not reinstated to its original level).

8. Allocation is allowed in AFPS05, RFPS and AFPS15. It is our understanding that a similar option does not exist in AFPS 75 and FTRS and therefore no allocation factors are in place for these schemes.
9. The existing allocation factors were issued in August 2011 following the introduction of the new SCAPE discount rate in the March 2011 Budget.
10. This factor review is being conducted in light of the actuarial valuation of the Armed Forces pension arrangements carried out as at 31 March 2012 which was completed on 24 February 2015.

Armed Forces pensions regulations

11. Rules D.14 to D.16 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 AFPS05 eligibility criteria, procedure and effect of allocation.
12. Rule D.14(4) of the regulations states that: *"The member may not elect to allocate more than the permitted percentage of the member's annual pension".* 'Permitted percentage' is defined in D.14(4A) as *"37.5% or such lower percentage as appears to the Scheme administrator to be capable of being allocated under this rule without risking that a part of the pension to which any person becomes entitled on the death of the member after 75 does not qualify as a dependants' scheme pension for the purposes of section 167 of the Finance Act 2004 (the pension death benefit rules) (see paragraphs 16 to 16B of Schedule 28 to that Act)."*
13. Rule D.16(1)(b) states that: *"if the beneficiary survives the member, on the member's death the beneficiary becomes entitled to the payment of a pension for life of such amount as the Secretary of State may determine, after consultation with the Scheme actuary, having regard:*
 - (i) To the amount of the allocation to the beneficiary, and*
 - (ii) To the beneficiary's age and sex."*
14. Rules 61 to 64 of the Armed Forces Pension Regulations 2014 (SI 2014 No.2336) set out the AFPS15 eligibility criteria, procedure and effect of allocation.
15. Rule 61(3) states that *"The member may not elect to allocate more than the permitted percentage of the member's annual pension under this scheme."* 'Permitted percentage' is defined in 61(4) as *"37.5% or such lower percentage as appears to the scheme manager, after consultation with the scheme actuary, to be capable of being allocated under this rule without risking that a part of the pension to which any person becomes entitled on the death of the member after 75 does not qualify as a dependants' scheme pension for the purposes of section 167 of the FA 2004 (the pension death benefit rules) (see paragraphs 16 to 16B of Schedule 28 to that Act)."*
16. Rule 63(b) states that: *"if the beneficiary survives the member, on the member's death the beneficiary becomes entitled to the payment of a pension for life of such amount as the scheme manager may determine, after consultation with the scheme actuary, having regard to*
 - (i) The amount of the allocation to the beneficiary; and*
 - (ii) The beneficiary's and member's age and gender."*

17. There are no references in the regulations as to how these factors should be derived or how regularly they should be reviewed.

Factor review

18. As part of the factor review, we have carried out approximate calculations of updated factors for the Armed Forces pension arrangements. We have compared those to the existing factors in order to assess whether an update of each type of factors might be appropriate.
19. In my letter of 21 May I advised that we expected to review and recommend an update to the allocation factors, as some of the updated factors were significantly different to the existing factors. Given that allocation factors are “MoD-controlled” it is for MoD to determine the approach to these factors after considering GAD’s recommendation.
20. We were subsequently made aware of the low volume of allocation cases. We also discussed with you the requirement to check whether the allocated pension would breach the limit in Section 167 of the Finance Act 2004.
21. In light of this we recommend that future allocation cases are referred to GAD.

Future reviews

22. If you are content with our recommendation then you will need to decide the effective date for implementing this change (you may wish to consult DBS and/or AFPS’s legal advisers first). Alternatively if you have any comments please let us know.
23. The next version of our factors spreadsheet will state that allocation cases should be referred to GAD.

Yours sincerely



Joanne Rigby
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