

**MEMORANDUM ON ARMED FORCES PENSION**  
**AND COMPENSATION SCHEMES**  
**MAIN ESTIMATE 2018/19**

**1. Introduction:**

- 1.1. This Memorandum covers the Estimate for the Armed Forces Pension and Compensation Schemes (AFPCS) for 2018/19. The Schemes' spending plans for this financial year are based on the expected take up of pensions of retired Service personnel and the expected claims under the Compensation Scheme, less anticipated mortality within the existing pensioner population. The Estimate covers only the payment of pensions and compensation. The costs of administering the Schemes fall to the Ministry of Defence (MOD) Main Estimate (ME).
- 1.2. The employer's charge to the pension scheme is met by payment of a Superannuation Contribution Adjusted for Past Experience (SCAPE), calculated as a percentage of military pay based on rank. The SCAPE contribution made by the MOD partially funds the payments made by AFPCS in year. Funding from the Consolidated Fund is required to meet the difference between the payments to pensioners and the amounts receivable from MOD. In addition, funding is required to finance movements in working capital including increases or decreases in bank balances.
- 1.3. The AFPCS is a demand-led service and is therefore Annually Managed Expenditure (AME); as a result there is no Spending Review settlement to base the Estimate upon.
- 1.4. This Estimates Memorandum should be read in conjunction with the Main Estimates.

**2. Summary of Resources Sought in the Estimate:**

2.1. The AFPCS ME requests provision of:

a.	Net resources	£6,543m
b.	Net Cash Requirement	£1,848m

### 3. Detail of Changes to Previous Estimate for 2018/19:

Item	Total AME £m
Previous Forecast	7,001.5
Decrease in current service cost	(67.7)
Decrease in interest rate on scheme liability	(501.9)
Other changes	111.5
<b>Revised Estimate</b>	<b>6,543.4</b>

### 4. Detailed explanation of the changes:

- 4.1. The calculation of current service cost and interest on scheme liability is affected by the following:
- The discount rate – this has changed from 0.24% real to 0.10% real effective from 31 March 2018.
  - Interest rate of scheme liabilities has changed from 2.80% to 2.55%.
- 4.2. The overall effect of these adjustments results in a decrease in the pension scheme interest charge and a decrease in the current service cost.
- 4.3. A decrease of £67.7m in current service cost is due in the main to the change in discount rate from 0.24% down to 0.10%. As a result the Government Actuary's Department (GAD) have calculated the current service cost factors (calculated as a percentage of pensionable pay) as 76.0% for Officers and 76.8% for Other Ranks (previously 75.0% for Officers and 75.9% for Other Ranks).
- 4.4. A decrease of £501.9m in interest is due mainly to both a decrease in the 2017/18 year end scheme liability and a reduction in the interest rate. The 2017/18 year end scheme liability has been provisionally estimated by GAD to be £195.4Bn, compared to £196.2Bn at the previous forecast. The 2018/19 interest rate has reduced 2.8% down to 2.55%. This is a ring fenced charge.
- 4.5. Other changes have increased the resource requirement by a net of £111.5m. This is mainly due to a £109.6m reduction in SCAPE receipts forecast.

**5. Comparatives with previous years:**

	2017/18 £m	2016/17 £m	2015/16 £m	2014/15 £m
Main Estimate (including Supplementary Estimate)	7,010.1	5,363.5	5,965.7	6,749.2
Outturn	n/a	5,335.8	5,916.9	6,446.4
Difference		27.7	48.8	302.8

**6. Number of pensioners in scheme:**

Year	Number of benefits in payment as at 1 <sup>st</sup> April
2017	428,222
2016	425,540
2015	422,963
2014	418,112
2013	412,402
2012	406,264

**7. Permanent Secretary Sign off:**

7.1. The information in this memorandum has been approved by Charlie Pate, Director of Financial Planning and Scrutiny, on behalf of Stephen Lovegrove, the Permanent Secretary and Accounting Officer of the Ministry of Defence.