ARMED FORCES PENSION AND COMPENSATION SCHEMES
2017/2018 SUPPLEMENTARY ESTIMATES MEMORANDUM

Request for Resources - Armed Forces Pension and Compensation Schemes

1. Summary of Changes sought in the Supplementary Estimate:

1.1 The Armed Forces Pension and Compensations Schemes Supplementary Estimate increases Resource Annually Managed Expenditure (AME) by £210M and increases the net Cash requirement by £120M.

2. Detailed Explanation of the Change and Allocation:

2.1 The increase of £210M Resource AME is as a result of a past service cost charge (£130M), higher interest on scheme liability than estimated (£50M), lower Superannuation Contribution Adjusted for Past Experience (SCAPE) income than estimated (£40M), offset by a lower than estimated current service cost (£10M).

2.3 The past service cost charge is in respect of Guaranteed Minimum Pensions (GMP). Following the government consultation on GMP equalisation and indexation in public service pension schemes, the government is extending the “interim solution” of continuing to price protect the GMP of public servants who reach State Pension age between 5 April 2016 and 5 December 2018 (when State Pension ages are equalised) for a further two years and four months. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”. The past service cost is to recognise the increase in the present value of the scheme liability as a result of this extension.

2.4 The interest budget was set using a provisional year end scheme liability, provided by the Government Actuary’s Department, which was lower than the actual year end scheme liability, resulting in additional interest being due.

2.5 The latest SCAPE income forecast is lower than budgeted at 2017/18 Main Estimates. The SCAPE budget was set using forecast / planned Armed
Forces manning strength. This has fallen below target in-year, resulting in less SCAPE receipts.

2.6 The underspend in current service cost arises due to less SCAPE receipts received in-year. The current service cost charge is calculated as a factor of SCAPE receipts.

2.7 The increase in the net Cash requirement of £120M arises from lower SCAPE income (£40M) than estimated, higher than estimated pension and lump sum expenditure (£155M), offset by lower movement in payables (£75M).

2.8 The latest SCAPE income forecast is lower than budgeted, again due to forecast / planned Armed Forces manning strength falling below target in-year.

2.9 The Main Estimate for 2017/18 used assumptions for pension take up based Scheme data as at 31 Mar 2016, including historical trend data and predicted future leaving dates from the Armed Forces. These assumptions have subsequently been revised due to the higher pension take up and overspend experienced in 2017-18.

2.10 An exercise to contact scheme members with unclaimed preserved pension entitlements was expected to increase the 2017/18 cash requirement due to the release of the associated accrual. The results of the exercise to date are lower than originally anticipated meaning the in-year payable movement and cash requirement for the exercise has also been lower than forecast.

3. Changes to Net Cash Requirement Allocation:

3.3 There is an increase in the net cash requirement of £120M as a result of these changes. An advance from the contingencies fund of £120M has been requested and will be paid over to AFPS in advance of when the Supplementary Estimate will be voted on.