

MEMORANDUM ON ARMED FORCES PENSION
AND COMPENSATION SCHEMES
MAIN ESTIMATE 2017/18

1. Introduction:

- 1.1. This Memorandum covers the Estimate for the Armed Forces Pension and Compensation Schemes (AFPCS) for 2017/18. 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	£6,800m
b.	Net Cash Requirement	£1,524m

3. Detail of Changes to Previous Estimate:

Item	Total AME £m
Previous Forecast	5,490.9
Increase in current service cost	1,334.5
Increase in interest rate on scheme liability	15.2
Other changes	(40.5)
Revised Estimate	6,800.1

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 1.37% real to 0.24% real effective from 31 March 2017.
 - Interest rate of scheme liabilities has changed from 3.60% to 2.80%.
- 4.2. The overall effect of these adjustments results in an increase in the pension scheme interest charge and a decrease in the current service cost.
- 4.3. An increase of £1,334.5m in current service cost is due in the main to the change in discount rate from 1.37% down to 0.24%. As a result the Government Actuary's Department (GAD) have calculated the current service cost factors (calculated as a percentage of pensionable pay) as 75.0% for Officers and 75.9% for Other Ranks (previously 53.2% for Officers and 51.8% for Other Ranks).
- 4.4. An increase of £15.2m in interest is due mainly to an increase in the 2016-17 year end scheme liability, provisionally estimated by GAD to be £190.9Bn, compared to £148.4Bn at the previous forecast. This increase however is offset by a reduction in the interest rate from 3.60% down to 2.80%. This is a ring fenced charge.
- 4.5. Other changes have reduced the resource requirement by a net of £40.5m. This is mainly due to a £21m increase in SCAPE receipts forecast and movement on the Armed Forces Compensation Scheme provision of £20m.

5. Comparatives with previous years:

	2016/17 £m	2015/16 £m	2014/15 £m	2013/14 £m
Main Estimate (including Supplementary Estimate)	5363.5	5565.7	5,553.0	5,679.3
Outturn	n/a	5,915.9	6,446.4	5,454.6
Difference		350.2	893.4	-224.7

6. Number of pensioners in scheme:

Year	Number of benefits in payment as at 1 st April
2016	425,540
2015	422,963
2014	418,112
2013	412,402
2012	406,264
2011	400,742

7. Permanent Secretary Sign off:

7.1. The information in this memorandum has been approved by Louise Tulett, Director General Finance, on behalf of Stephen Lovegrove, the Permanent Secretary and Accounting Officer of the Ministry of Defence.