

Armed Forces Pension & Compensation Schemes

Supplementary Estimate 2021-22: Estimates Memorandum

1 Overview

1.1 Objectives

The Armed Forces Pension Scheme (AFPS), incorporating the Armed Forces Compensation Scheme (AFCS), is an unfunded defined benefit scheme, in which payments to pensioners are funded by employer contributions, with the shortfall being financed by the Exchequer. The AFPS is free to its members, and therefore, the scheme receives no employee contributions. The AFCS provides compensation for injury, illness and death that are caused by service on or after 6 April 2005.

1.2 Spending controls

The AFPS budgets are not subject to pre-set Departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the scheme administrators on a day to day basis, instead being affected by factors such as membership numbers; salary levels; mortality rates; the age profile of members, and annual pension increases.

The **Resource AME** sought under the AFPS Estimate is essentially the amount by which liabilities under the pension scheme are estimated to increase during the year, less the contributions paid by employer towards those liabilities.

In addition, the **net cash requirement** represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid in. Over time, these amounts are intended to balance, but in a particular year they will not. A negative value means that more is forecast to be received than paid in year.

1.3 Comparison of net spending totals sought

The table below show how the totals sought for the AFPS compares with last year:

Net Spending total Amounts sought this year (Supplementary Estimate 2021-22)		Compared to original budget this year (Main Estimate 2021-22)		Compared to final outturn last year (Final Outturn 2020-21)	
		£ m	%	£m	%
Resource AME	£7,890.8m	+£1,400.0m	+21.6%	+1,347.6m	+20.6%

Note, there is no change to the **net cash requirement**.

1.4 Key drivers of spending changes since last year

The provision sought under Resource AME is higher than the original budget for this year (Main Estimate 2021-22) due to increased Past Service Costs of £1,300m and Current Service Costs of £100m.

The increased Past Service Costs relate to an ongoing legal case and it is deemed prudent to provide for this legal challenge. Without prejudice to MOD position.

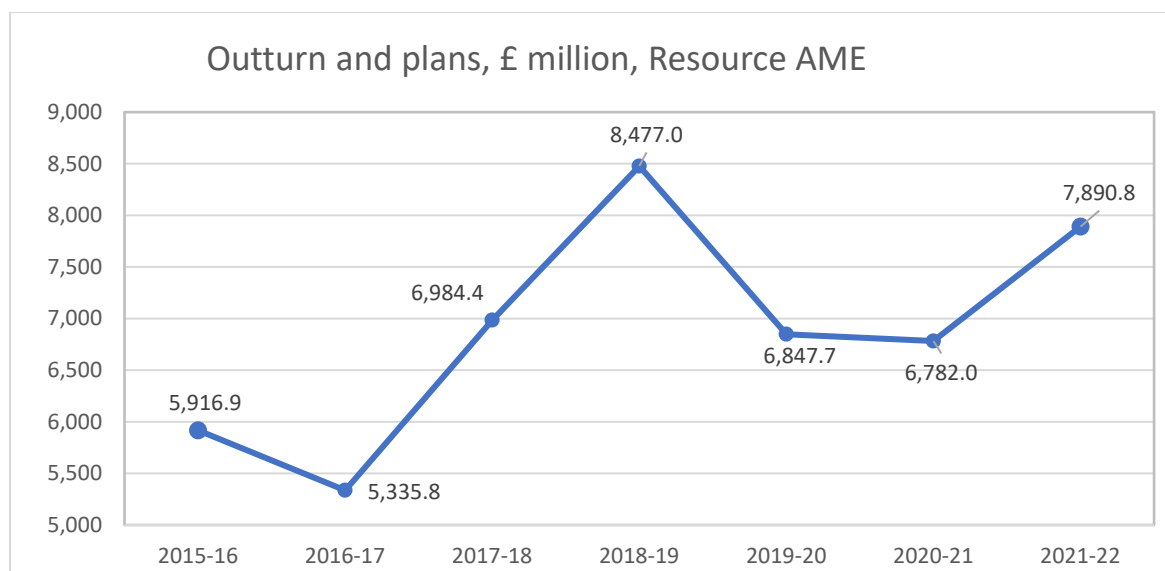
Outflow from the Armed Forces to immediate pension has been lower than anticipated in 2021-22 and relates to higher than anticipated numbers of service personnel remaining in the Armed Forces, which in turn has increased the in-year Current Service Cost charge.

The Current Service Cost represents the increase in the present value of the Scheme liabilities arising from current members' service in the current period.

The provision sought under Resource AME is £1,347.6 (20.6%) higher than last year (Final Outturn 2020-21), driven in the main by the Past Service Cost.

1.5 Spending trends

The charts below show overall spending trends for the last six years.



In general terms, the year on year changes to Resource AME, shown in the above chart, are largely as a result of annual changes to the Treasury set discount rate for long term liabilities, aside from 2018-19 whereby the total RAME is also heavily influenced by Past Service Costs associated with McCloud (£1.9bn recognised in 2018-19). Past Service Costs of £1.0bn were also recognised in 2019-20 in relation to GMP equalisation, however this was heavily offset by a negative Past Service Cost of £920m in relation to amendments to the cohort of scheme members impacted by the McCloud judgement. The Past Service Cost of £1.3bn for this year is the key driver for the increase in 2021-22.

1.6 Administration costs and efficiency plans

The costs of the administration of the AFPS are borne by the Ministry of Defence, the employer, and reflected in the Department's Estimates and Annual Report and Accounts.

2 Spending detail

2.1 Explanations of changes in spending

Subheads	Description	Detail	Resource AME				Over 10% / £10m - See explanation, note/para number
			Supp Est 21-22	Main Est 21-22	Change from Main Estimate		
			£ million		%		
A	Expenditure	- Current service cost	7,334.60	7,234.60	100.00	1.4%	1a
		- Past Service cost	1,300.00	0.00	1,300.00	-	1b
		- Interest on scheme liabilities	3,227.20	3,227.20	0.00	0.0%	
		- Enhancements and transfers in	2.00	2.00	0.00	0.0%	
	Sub Total		11,863.80	10,463.80	1,400.00	29.2%	
A	Income	- Employer contributions	-3,971.00	-3,971.00	0.00	0.0%	
		- Enhancements and transfers in	-2.00	-2.00	0.00	0.0%	
	Sub Total		-3,973.00	-3,973.00	0.00	0.0%	
A	Net total		7,890.80	6,490.80	1,400.00	21.6%	

Differences which are above 10% and/or £10 million are explained below:

1.a – The increase in the Current Service Cost is due to outflow from the Armed Forces being lower than anticipated in 2021-22. The Current Service Cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period. It is calculated as a factor of Employer Contributions (Superannuation Contributions Adjusted for Past Experience), with the factor being provided by the Government Actuary's Department.

1.b – The increased Past Service Costs relate to an on going legal case and it is deemed prudent to provide for this legal challenge. Increasing provision here is an accounting technicality and is without prejudice to the MOD's position or the case that we intend to defend

2.2 Estimated scheme liabilities

The latest valuation of the scheme liabilities was AFPS £254.0 billion and AFCS £3.3 billion, as at 31 March 2021. At the time there were 295,681 Active member benefits, 517,289 Deferred member benefits, and 447,853 Pensioner benefits.

Details of the latest valuation can be found within the 2020-21 AFPS accounts, Report of the Actuary page 18, at the following link: <https://www.gov.uk/government/publications/armed-forces-pension-scheme-annual-accounts-2020-to-2021>

The next scheme funding valuation of the scheme is currently in progress and will be based on detailed member data as at 31 March 2020. The results of this valuation will be reflected in future accounts.