



Defence Business Services

Armed Forces Pension & Compensation Schemes Supplementary Estimate 2025-26: 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 2025-26)		Compared to original budget this (Main Estimate 2025-26)		Compared to final outturn last year (Final Outturn 2024-25)	
		£ m	%	£m	%
Resource AME (£m)	5,201.0	+ 50.0	0.97%	+ 383.5	7.96%
Net Cash Requirement (£m)	1,759.6	0.0	0.00%	+ 462.4	35.65%

1.4 Key drivers of spending changes since last year

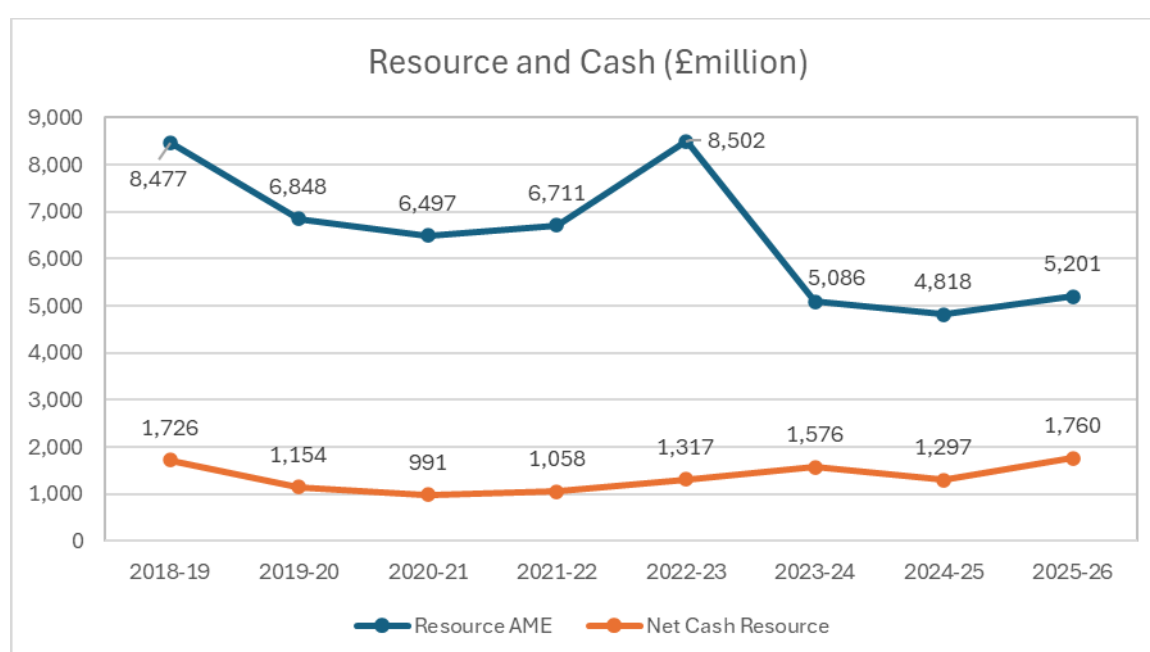
The provision sought under Resource AME is higher than the original budget for this year (Main Estimate 2025-26) due primarily to the inclusion of additional current service costs.

The provision sought under Resource AME is £383.5m (7.96%) higher than last year (Final Outturn 2024-25). This is predominantly driven by increased interest costs.

The increase against the Net Cash Requirement for 2024-25 of £462.4m (35.65%) is due to increased pension costs.

1.5 Spending trends

The charts below show overall spending trends for the last eight 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. An increase in the Current Service Cost percentage used within the cost calculation (from 116% to 128.1%) also acts as a key driver for the increase in 2022-23.

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				
			<i>Supp Est 25-26</i> <i>Main Est 25-26</i>		Change from Main Estimate		Over 10% / £10m - See explanation, note/para number
			£ million			%	
A	Expenditure	- Current service cost	2,520.98	2,251.14	269.84	12.0%	1a
		- Past Service cost	0.00	0.00	0.00	0.0%	
		- Interest on scheme liabilities	7,777.00	7,786.84	-9.84	-0.1%	
		- Enhancements and transfers in	2.00	2.00	0.00	0.0%	
	Sub Total		10,299.98	10,039.98	260.00	2.6%	
A	Income	- Employer contributions	-5,097.00	-4,887.00	-210.00	4.3%	1b
		- Enhancements and transfers in	-2.00	-2.00	0.00	0.0%	
		- Other Income	0.00	0.00	0.00	0.0%	
	Sub Total		-5,099.00	-4,889.00	-210.00	4.3%	
A	Net total		5,200.98	5,150.98	50.00	1.0%	

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

1a – The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period. Therefore, the increased pensionable military payroll referred to below creates additional current service costs within 2025-26.

1b – Increased employer pension contributions due to the pensionable military payroll for 2025-26 being higher than previously forecast. The key driver of this increase being the 2025-26 military pay award of 4.5%.

2.2 Estimated scheme liabilities

The latest valuation of the scheme liabilities was AFPS £150.4 billion and AFCS £2.5 billion, as at 31 March 2025. At the time there were 254,132 Active member benefits, 489,752 Deferred member benefits, and 470,769 Pensioner benefits.

Details of the latest valuation can be found within the 2024-25 AFPS accounts, Report of the Actuary page 19, at the following link: [Armed Forces Pension Scheme annual accounts 2024 to 2025 - GOV.UK](#)