



From the Minister of State  
for Work and Pensions

**DWP** Department for  
Work and Pensions

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Nigel Waterson MP  
House of Commons

Dear Nigel

At Commons Report stage of the Pensions Bill last week I offered to write to you with further details about the pensions available to the regular Armed Forces - in particular to provide information about contribution levels and confirmation that the existing system for members of the armed forces would deliver a pension at least as generous as that envisaged under the personal accounts system.

There are two schemes which are both unfunded non-contributory defined benefit pension schemes. As such, they are wholly funded by the tax payer, a fact which is taken into account by the Armed Forces Pay Review Body alongside a wide range of other factors relating to Service conditions of service as part of the annual pay reviews for the Armed Forces.

Currently both are called the Armed Forces Pension Scheme (AFPS).

Specifically these are:

The AFPS 75 – a final salary related scheme in which the benefits are based on a representative rate of pay for every rank. This means that people of the same rank with the same number of years of reckonable service will be awarded the same pension when they leave, regardless of their actual pay either at retirement or discharge, or at earlier points in their career.

The AFPS 05 - a true final salary scheme whereby benefits are based on the best 365 consecutive days of pay in the final 3 years of service.

Both schemes meet the Reference Scheme Test and hold contracting-out certificates. Accordingly, they would be qualifying schemes within the definition at clause 20 of the Bill. AFPS 75 offers accrual rates averaging 1/74ths (and 1/68ths for officers) and AFPS 05 offers 1/70ths for all.

We believe that the generosity of the promise in defined benefit pensions that pass the regulatory standard to contract out of State Second Pensions is in line with our objective for increasing private pension saving, and is broadly

equivalent to or better than the model established by the Pensions Commission - designed to put a median earner with solid state entitlement on course to achieve a retirement income at a replacement rate of around 45 per cent.

In addition, the regular armed forces are automatically enrolled into AFPS 05 from their first day of service whereas, under clause 4 of the Bill, we intend to enable other employers who offer a qualifying defined benefit scheme to use a three-month deferral period before they are required to automatically enrol their jobholders.

During a subsequent discussion on the start date and funding of personal accounts, I said that I would ask Tim Jones if he could set out where he has got to and how he plans to take the project forward, in a way that would not prejudice commercially sensitive negotiations. Tim has agreed to deliver this piece of work in May.

I will arrange for a copy of this letter to be placed in the House library.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike O'Brien', written in a cursive style.

**MIKE O'BRIEN QC MP**