

House of Commons

Defence Committee

**THE MINISTRY OF DEFENCE
REVIEWS OF ARMED
FORCES' PENSION AND
COMPENSATION ARRANGEMENTS:
GOVERNMENT RESPONSE**

Fifth Special Report of Session 2001–2002

Report and Appendix

Ordered by The House of Commons to be printed 17th July 2002

HC 1115, Session 2001–02
Published on 25 July 2002 by authority of the House of Commons
London : The Stationery Office Limited
£7.00

DEFENCE COMMITTEE

The Defence Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Ministry of Defence and its associated public bodies.

Current Membership

Mr Bruce George MP (*Labour, Walsall South*) (Chairman)
Mr James Cran, MP (*Conservative, Beverley and Holderness*)
Mr David Crausby MP (*Labour, Bolton North East*)
Mr Mike Hancock CBE MP (*Liberal Democrat, Portsmouth South*)
Mr Gerald Howarth MP (*Conservative, Aldershot*)
Mr Kevan Jones MP (*Labour, North Durham*)
Jim Knight MP (*Labour, South Dorset*)
Patrick Mercer OBE MP (*Conservative, Newark*)
Syd Rapson BEM MP (*Labour, Portsmouth North*)
Mr Frank Roy MP (*Labour, Motherwell and Wishaw*)
Rachel Squire MP (*Labour, Dunfermline West*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No.152. These are available on the Internet via www.parliament.uk .

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Contacts

All correspondence should be addressed to The Clerk of the Defence Committee, Committee Office, House of Commons, London SW1A 0AA. The telephone numbers for general inquiries are: 020 7219 5745/6872; the Committee's e-mail address is: defcom@parliament.uk .

FIFTH SPECIAL REPORT

The Defence Committee has agreed to the following Special Report:

THE MINISTRY OF DEFENCE REVIEWS OF ARMED FORCES' PENSION AND COMPENSATION ARRANGEMENTS

The Committee published its Third Report of this Session, on The Ministry of Defence Reviews of Armed Forces' Pension and Compensation Arrangements (HC 666) on 9 May 2002. The Government's response to this report was received on 3 July 2002 and is published as an Appendix to this Special Report.

APPENDIX

MINISTRY OF DEFENCE MEMORANDUM IN RESPONSE TO THE HOUSE OF COMMONS DEFENCE COMMITTEE'S REPORT ON THE INQUIRY INTO ARMED FORCES' PENSION AND COMPENSATION ARRANGEMENTS

1. The Department undertook reviews of the Armed Forces pension and compensation arrangements with a view to delivering modern schemes that would reflect developments elsewhere and take due account of the particular needs of the Armed Forces. The Department believes that, as part of this process, it was important to seek views from both our Service personnel at all levels and from external bodies. It therefore issued consultative documents last year. The Department has been considering the responses to the consultative document, as well as taking the opportunity to discuss further the issues with some ex-Service organisations. It will give careful consideration to the views of the Committee. However, the Department considers that its proposals are well thought through and, in broad terms, offer a fair and appropriate range of benefits to its Service personnel, recognising the valuable contribution they make to our security and society. The Department intends to maintain the broad principles behind its reviews and to work on refining and implementing its proposals for new pension and compensation arrangements for the Armed Forces.

We welcome the MoD's decision to examine pension and compensation arrangements and regard both reviews as timely and appropriate. However, we found both consultation documents to be woefully lacking in detail; the compensation is particularly weak. It is only in response to our own long list of questions that the detailed information needed to assess the new proposals has emerged from the MoD, and been put in public domain. Those who wished to respond to the consultation exercises were disadvantaged by the lack of detailed information, which should have been provided at an earlier stage. (paragraph 14).

2. The Department welcomes the Committee's recognition that the Armed Forces Pension Scheme (AFPS) and the current compensation arrangements for Service personnel are in need of review. The current pension scheme was developed some decades ago and now needs to be reviewed to ensure that the Department has a package of benefits that is fairer and more in line with modern practice, and that will also meet the needs of our personnel and enable us to continue to recruit and retain Service personnel of the quality needed to meet our requirements. The current compensation arrangements include the War Pension Scheme (WPS), attributable benefits under the AFPS, the Criminal Injuries Compensation (Overseas) (CICO) scheme and entitlement to sue under civil law for negligence (under the Crown Proceeding Act 1987). The Department considers that there is merit in simplifying these arrangements and providing a focus that is better related to severity of impairment. The Department remains of the view that its proposals (which primarily replace the WPS

and AFPS attributable benefits) offer a fair and simple approach that sits more appropriately with the present day social security structure not available in the early part of the last century when the WPS was devised.

3. The Department recognises that the consultation documents issued in March 2001 did not offer a detailed explanation of all aspects of the new pension and compensation arrangements. The aim of the documents was to give the key features of the proposals and invite debate. Technical detail was deliberately kept to a minimum. With respect to the Joint Compensation Review consultative document, consideration was given to including the formula for calculating the Guaranteed Income Stream for loss of earnings but it was felt its inclusion along with a number of examples would have made the document too long and complex. It is acknowledged that this material might have been included in an annex. The Department has maintained a dialogue with some of the ex-Service organisations to explore their areas of concern. It should be noted that considerable work had been undertaken to underpin the consultative documents as evidenced in the supplementary detail provided in the Department's responses to the questions tabled by the Committee.

The MoD has performed poorly in both the time it has taken to produce its proposals and the rigour with which the evaluation has been conducted. We are concerned that this sends a negative message to current and former Service personnel about the value, which is placed on them by the Government. (paragraph 17).

4. People are at the heart of the Department's planning and through the Armed Forces Overarching Personnel Strategy (AFOPS) the Department is driving forward a major personnel agenda to support Service personnel and their families. Focusing purely on the remuneration (including pensions) in recent research, the Armed Forces Pay Review Body (AFPRB) found that the UK Armed Forces' package was, overall, amongst the best offered in the countries surveyed. None of the ten countries surveyed offered a more generous package across the board.¹

5. The Department acknowledges that less progress has been made in finalising its proposals than forecast following the review of Armed Forces pension and compensation arrangements. It is recognised that the small review team was set a major challenge to conduct both reviews in parallel, but this is considered justified given the linkage between the two areas. It should be recognised, however, that the work on pensions and compensation is part of a wide and challenging programme across the personnel area and the Department must also resource work on Service pay, allowances, housing, welfare, training and education.

6. As was explained in the Department's memorandum to the Committee, following the consultation period and analysis of the responses there are a number of issues now being given careful consideration, including unmarried partner benefits and the early Immediate Pension. This reflects a response to a genuine seeking of views. The Department sees the consultative process as a vital facet of its development of a way forward and will continue to consult ex-Service organisations such as the Forces Pension Society (FPS) and Royal British Legion (RBL).

7. As set out in our memorandum to the Committee, the Department does not consider that the recent delay will affect the timetable for introduction as this will be determined by the timescales for the introduction of the new Joint Personnel Administration System which will provide the IT framework for the pension scheme and for the closely associated systems for personnel data.

¹ Armed Forces' Pay Review Body, Thirty First Report 2002 Cmd 5361 (International Comparisons—paras 1.8 to 1.11)

ARMED FORCES PENSION SCHEME REVIEW

We believe that the MoD has a responsibility to Service personnel, which goes beyond that of a normal employer. (paragraph 22).

8. The Department recognises its particular responsibility as employer of those serving in the UK Armed Forces given the open-ended nature of their commitment and the particular demands associated with a career in the Armed Forces. The AFOPS sets out clearly the Department's commitment.

9. The Department's commitment to fair treatment of its personnel is demonstrated through the involvement of the Independent Review Body in pay determination. In addition to basic pay (which is based on broad comparability with pay levels in civilian life for jobs of equivalent weight), Service personnel are paid the x-factor which is currently set at 13% of basic pay. This is paid in recognition of the differences between conditions of service for the Armed Forces and civilian life. It forms part of pensionable pay even though the factors for which it is awarded in most cases cease on leaving the Armed Forces.

10. The required mobility of Service life is also recognised through the payment of a range of allowances including Boarding School Allowance (to support continuity of education), assistance with relocation, family travel concessions to promote family unity and the Get You Home (Early Years) travel arrangements for young Service personnel to keep in touch with their families.

11. The Department understands the pressures created when serving away from home and the new operational welfare package is designed to ameliorate these. Support to Service families is also an important aspect of Departmental policy and the provision of accommodation and the introduction of the Service Families Task Force (to tackle cross-Government issues affecting them) demonstrate this. In addition, Resettlement Training provides support and new skills to help Service personnel with their transition back to civilian society.

12. Pension and compensation provisions are similarly designed to provide benefits tailored to the specific issues faced by Service personnel. The Committee has recognised the value of the payment of an early Immediate Pension to those Service personnel who do not serve a full career. It ensures security of income when they return to civilian life, and, as such, is unique to Service personnel. The AFPS also allows for a full pension at a relatively early age of 55 reflecting the age at which fitness requirements can no longer be met. The AFPS is a defined benefit scheme which offers certainty for Service personnel and their dependants. The new proposals have improved death-in-service benefits and widows/widowers benefits and improved ill-health benefits for those severely incapacitated. These provisions, coupled with the improved attributable benefits for the most severely disabled under the new compensation scheme demonstrate the Department's clear understanding of the unique commitment made by Service personnel and the Department's special responsibility as their employer.

We believe that, in conducting the pension review, the MoD has placed too much emphasis on how the pensions system can be used to benefit the Armed Forces as employers, rather than on ensuring there is proper provision in place for Service personnel as employees, and that this had a negative influence on the proposals it has brought forward. (paragraph 23).

13. In conducting its review of the AFPS, the Department has given due consideration to ensuring that the benefits proposed provide appropriate and proper provision for all members of the Armed Forces. However, it would be neither affordable nor justifiable to provide, as advocated by some veterans groups, a package containing the most generous

from a range of other pension schemes. The Department's proposals, however, sought to focus on those areas where Service life generates particular needs for our personnel.

14. The Department looked carefully at developments in other pension schemes when drawing up its proposals for a new AFPS, to compare provisions and the career patterns that drive them. As a result, improvements to death-in-service and ill-health benefits have been proposed. But it is also apparent that the kind of defined benefit scheme which the Department proposes to retain is becoming less common and that many employers are now moving away from such arrangements towards defined contribution schemes (where the risk is placed on the individual scheme member rather than the employer in terms of final benefits). The Department considers that Service personnel deserve a scheme that offers a clear, guaranteed range of benefits for themselves and their dependants, and that the uncertainty of the defined contribution scheme is not appropriate.

15. The current AFPS offers attractive benefits, including the payment of an early Immediate Pension and full career pensions paid at age 55 (subject to reckonable service). The new proposals preserve these benefits and in addition the following have been proposed:

- For fairness—Equal treatment for Officers and Other Ranks—who now have a common Immediate Pension point and have to serve the same number of years to receive a full career pension. Reckonable service is now taken from the day of joining, rather than from age 21 for Officers (and age 18 for Other Ranks).
- Modern practice—a move away from representative pay for rank and years of service to a pension based on final salary.
- Dependants—Improved death in service benefits, to take account of improvements elsewhere in the public sector, and widows pensions for life.

We believe the MoD has dismissed the possibility of contributions without properly considering it. There would inevitably be obstacles to overcome in introducing such a system, but there is no reason to assume, without properly examining them, that these would be insuperable. We recommend that the MoD look again at the issue of making the Armed Forces Pension Scheme an overtly contributory scheme. (paragraph 37).

16. The Department notes the Committee's recommendation and will give the issue further consideration. The Department considered a range of approaches in developing proposals for the new AFPS. This included a funded or unfunded scheme, a defined benefit or defined contribution scheme and a contributory or non-contributory scheme. The Committee is correct that there would be significant difficulties in introducing a contributory scheme alongside a non-contributory scheme. For example, in the Department's view, this might require different pay scales for the two pension schemes depending on the balance of cost to the individual and the benefits provided. This would add significantly to the administrative complexity and the cost of paying Service personnel and could be expected to last for 40 years. Different pay rates for the same job, albeit linked to different pension arrangements, would not be easily explained to personnel who focus on headline pay rates. This could affect morale, recruitment and retention.

17. The Department recognises that some veterans organisations consider that such a change would lead to pension improvement. However, pensions form only one part of the overall remuneration package and any improvements in one area would be considered in the broader process of setting the total comparable remuneration package.

We are not convinced that the Armed Forces Pension Scheme, even under the proposed new arrangements, could be regarded as generous either by comparison with other public sector schemes, or with what is appropriate to the special status of the Armed Forces. (paragraph 46).

18. The Department has compared the AFPS with a number of public sector schemes and a table at Annex A, produced by the Government Actuary's Department, demonstrates that, in a significant number of areas, the benefits offered by the AFPS are better than the average on offer and in a number of cases the most generous; for some of the key comparators the member also has to make a significant contribution. The Department, therefore considers that the AFPS compares favourably with other public sector schemes and that the structure of the benefits offered are appropriately targeted to meet the particular needs of our Armed Forces. Nonetheless, in the light of views expressed in the consultation phase, the Department is looking at ways in which the current proposals might be amended to address some of the concerns raised.

The net effect of the new pension arrangements is that those who are not killed or injured during their military service are penalised so that the benefits for those who are can be increased to acceptable levels. We welcome the proposed improvements to dependants' and ill health benefits but regard it as unacceptable that these are achieved by reductions in benefits elsewhere in the pension scheme. (paragraph 55).

19. The Department is pleased to note the Committee's recognition of the improved ill-health benefits offered by the new AFPS. The Department does not accept the assertion that all those Service personnel not medically retired will be worse off.

20. The improvement to dependant's benefits will benefit all Serving personnel, not just those who die or are injured in service. Widows will keep their pensions for life and children of post retirement marriages will be entitled to benefits. The decision to introduce greater fairness by having common benefits for Officers and Other Ranks disadvantages some but brings advantage to others—notably Other Ranks serving to the Immediate Pension Point (IPP) or on a full career engagement. Both Officers and Other Ranks benefit from the change to make service reckonable from the date of entry rather than from age 18 (Other Ranks) and 21 (Officers). The introduction of a final salary scheme to replace the current system of representative pay (where years of service and rank determine the value of a pension rather than pensionable pay of the individual) will benefit those who have served longer in rank or whose jobs have a higher weighting, although not those on below average salaries.

We recommend that the MoD follow good practice found elsewhere in pension schemes by offering the option of commutation on retirement, rather than the potentially disadvantageous automatic lump sum. (paragraph 57).

21. The Department notes the Committee's recommendation and will give it consideration. The issue of commutation was given considerable thought and a range of options was considered, including voluntary commutation, compulsory commutation and inverse commutation. An examination of arrangements in other public service schemes revealed that most had a pension and lump sum which accrued separately. A notable exception was the current Police and Fire pension schemes which allow for voluntary commutation. Experience shows that most Police, Fire and Service personnel opt to commute the maximum amount tax-free sum permissible under their scheme rules.

22. The Department recognised that voluntary commutation would offer flexibility for scheme members to determine their own benefit package to meet specific circumstances. This would offer a higher headline accrual rate and would mirror private sector practice. The disadvantages would be that the rate of commutation could be a source of complaint

and there could be increased costs in an area which was not seen to be a priority for scheme members. It was concluded that compulsory commutation offered a more transparent benefit structure (as the scheme member could calculate the level of benefits at leaving), was the baseline option most members would be expected to take—tax-free and not contingent on longevity—and was more simple. Maximising the lump sum on discharge is known to be favoured by most Service personnel, and few are therefore likely to choose to retain a pension in preference to an immediate tax-free lump sum. However, the Department's proposals offer the flexibility of inverse commutation which allows a Service person to convert the tax-free lump sum into a taxable pension. This provision is offered by the current Principal Civil Service Pension Scheme, but it is not often taken up, confirming the view that the maximum lump sum tends to be the preferred option.

We believe the MoD needs to look at Immediate Pensions in the broad context of a strategic and flexible approach to financial retention incentives. The MoD needs to justify the cost of the Immediate Pension and demonstrate that it is an appropriate component of a modern pension scheme. (paragraph 63).

Our view is that the Immediate Pension remains an important means of recognising the different status of employment in the Armed Forces. (paragraph 66).

We recommend that the MoD continue to examine options for removing Immediate Pensions from the Armed Forces Pension Scheme and operating them as a separate component of Service pay. The more extensive use of targeted bonuses to improve retention in shortage areas throughout the three Services should be pursued with more imagination and urgency. The net effect of these measures would be that, without the distorting effect of Immediate Pensions, greater resources would be available within the Armed Forces Pension Scheme for full career and other benefits. (paragraph 70).

23. The Department notes that the Committee's views the Immediate Pension (IP) is an important means of recognising the different status of employment in the Armed Forces. The IP offers security to Service personnel leaving mid-career, with not only a lump sum but also a regular income paid as a pension. It has long been recognised that some Service personnel who leave then with few transferable skills find it difficult to establish a suitable second career which has comparable remuneration to the Services. The IP provides a cushion for some individuals. This will apply for some personnel, notwithstanding current efforts to assist personnel to invest in their lifelong learning.

24. The Department undertook considerable work on the IP during the review and considered a range of options, including moving the IP to 45 or to 50, linking it to rank, removing it, and the selected proposal of moving it to 40. In order to deliver maximum operational effectiveness, the Services need sustainable manpower structures that provide the right mix of age, rank, skills and experience. In this context, the Services as an employer see the IP as an important means of pulling personnel in their early thirties through to around age 40 (when they might otherwise have left for a more settled career to meet family needs); it is also valued as a mechanism to provide a reasonable level of security through the pension benefits provided to those to whom the Department does not offer extended careers due to fitness and other requirements. The Department recognises that the IP is not a perfect solution for all of its retention issues, and the availability of an IP at around 40 means that some of those skilled or experienced personnel who could have a longer career may leave. In addition, it is well understood that because of their different manning structure the IP is of greater value to the Army, and to a lesser extent the Royal Navy, and is of lesser significance to the RAF. There is considerable concern that the removal of the IP would have a damaging effect on retention which would then require large sums of money to be targeted on taxable pay-type incentives. The cost would certainly be no less than those of the IP and there could be no reasonable expectation of a saving to fund

pension improvements. The Department also sought the views of individual Service personnel as part of the review process. This, together with evidence from exit patterns, Continuous Attitude Surveys and focus groups, supported the important “pull through” value of the IP for the individual. The focus groups in particular highlighted the importance of the IP as a benefit for the individual Service person. The Department has, therefore, concluded that both for employer and for the employee the IP is a valuable retention tool that could not be easily replaced.

25. The Department uses a range of financial retention incentives (FRIs) designed to target particular shortage areas. However, the IP broadly reflects the general employment pattern which the Department would like to encourage, namely retaining people through their thirties and encouraging significant numbers to leave around 40 to maintain a young fighting force. The Department does, however, recognise that the IP does not fit all circumstances and can occasionally encourage those with skills to leave earlier than hoped. The development of a Bonus Option would allow the Department to test the value of alternative approaches without the high risk associated with abandoning the well-tried IP for an untested alternative. In the meantime, the Department tackles particular retention issues for specialist and shortage skills using targeted FRIs. Recent FRIs include Aircrew Retention, Royal Signals and the Royal Navy Warfare Branch. The packages offered contain both remuneration and non-remuneration measures designed to achieve a return of service. More generally, some other allowances are also recognised as providing retention incentives across the board; these include educational allowances (primarily Boarding School Allowance), Long Service Advance of Pay for house purchase and separation allowance. The Department believes that the best approach is the combination of these retention measures together with the parallel testing of the merits of alternative approaches.

26. The Department continues to consider that the payment of a regular income for ex-Service personnel is more appropriately dealt with through pension than redundancy compensation. The Department further considers that all aspects of the remuneration package offered to Service personnel should be regarded as a manning tool and that it is reasonable for retention needs to be tackled through a range of measures including pension provision.

We do not believe the MoD’s review of the Armed Forces Pension Scheme has been sufficiently thorough. We welcome the improvements proposed in some areas, particularly dependants’ and ill health benefits. However, we reject the MoD’s view that these should be funded by reductions elsewhere in the Scheme. We challenge the assumption that the Armed Forces have a generous pension scheme. This has led the MoD to limit its options at an early stage by imposing the constraint of cost neutrality on the review process and we fundamentally disagree with this starting point. It has had the effect of stifling innovation in the whole approach to the pensions review, and what has resulted is therefore what the Minister himself described as ‘a reshuffling of the pack’. We believe the Armed Forces deserve better than that. (paragraph 71).

27. The Department has conducted a detailed examination of the AFPS and considers that the proposals represent a well-balanced and generous package, designed to meet the needs of Service personnel in the 21st century. The Department has looked at modern trends, including the movement towards defined contribution schemes and towards more menu driven benefits packages. However, these were not considered appropriate given the particular demands involved in Service life and the correspondingly high level of assurance of benefits sought by the Department for those serving in the Armed Forces, for their spouses and for their dependants. The alternative view of modern practice, comprising the most generous from a selective range of comparator schemes, would neither be tailored to the particular needs of Service personnel, nor would it constitute an economically sensible way of meeting our recruitment and retention needs. Nevertheless, the proposals are considered to compare very favourably with comparator schemes when considered as a total

package rather than in terms of narrow comparisons of specific benefits. The proposals for a new scheme are founded on the principle of fairness through equalisation of benefit structures for Officers and Other Ranks and through the introduction of a true final salary scheme with reckonable service starting from the date of joining the Armed Forces. They also introduce real and substantial improvements for the most vulnerable—those affected by death in service, widows/widowers, non-attributable ill-health retirees and those suffering from substantial attributable disability. The Department considers these changes to be absolutely in line with modern good practice.

JOINT COMPENSATION REVIEW

28. The compensation proposals sought to maintain the longstanding policy of successive Governments that those injured during their service in the Armed Forces should receive appropriate compensation. The new compensation proposals do not seek to deviate in any way from that position. When it was introduced, the War Pension Scheme (WPS) was innovative and far ahead of then thinking in the provisions it made in this respect. But there have been major changes since in the understanding of disablement, in medical and wider social provision. The Department believes that for the 21st century the Armed Forces deserve a scheme more reflective of present circumstances and better focused on those most severely disabled.

29. The new proposals are introduced in the context of a highly trained professional volunteer work-force. The Armed Forces today have high standards of leadership and people management. There is better recognition of Health and Safety obligations and occupational health. There is better provision for personal and professional development. And there is better emphasis on injury and illness prevention. In the wider UK community there is universal social welfare, in medicine therapeutic possibilities have been transformed, the approach to people with disabilities, now enshrined in law, is one of empowerment and capability enhancement. Any modern compensation scheme must be designed taking account all of these factors and this was the Department's objective.

30. Crucially, the new proposals will maintain access to compensation for anyone whose disablement can reasonably be shown to be causally linked to service.

We welcome these developments. (paragraph 84).

31. The Department is pleased to note the Committee's supportive comment on our plans to include injuries attributable to service arising out of terrorism and warlike activities in the proposed compensation scheme.

We welcome the assurance that the MoD is willing to look again at restrictive time limits for compensation claims. It is, however, regrettable that the issue of time limits, like many other aspects of the compensation proposals, were not sufficiently developed before the consultation document was published. While we would regard three years as an acceptable period in which to claim for a straightforward injury, it is too short a period for more complicated conditions or those, which develop slowly, particularly given that 70 per cent of claims currently fall outside a three-year timescale. We recommend that any time limit, which the MoD imposes, should relate to the date of the injury or the date of diagnosis of the condition. This practice would reflect limitation rules in civil cases. (paragraph 92).

32. The Department will further consider time limits for claims, but believes that insufficient account may have been taken of the proposed exceptions list. This is an intrinsic part of the proposals and will allow consideration of disablements which may be causally linked to service but with longer time intervals between service exposure and clinical onset. While the change to time limits represents a narrower gateway to claim than that currently

applying under the WPS, it is less restrictive than that applying under the AFPS where attributable benefits are only paid for conditions giving rise to medical discharge. The new approach was considered to be a reasonable balance between the two. Until the oral evidence session it was not apparent that the Royal British Legion (RBL) had concerns about the proposed time limits. The Department has already had a meeting with the RBL to discuss their concerns and further discussions will take place in the course of our consideration of this issue.

33. The limitation rules for civil personal injury claims have not been adopted outright as the new compensation scheme is a no fault, not proven negligence, scheme. It was always recognised that while a three-year normal time limit was reasonable for physical injuries, which research confirms are likely to form the bulk of claims, some disorders potentially attributable to service would take longer to manifest. These would be the subject of an exceptions list, which would be regularly reviewed in light of developments in medical understanding.

34. The Scheme will be able to waive time limits where a person is unable to claim appropriately owing to continuous physical or mental ill-health. This need not be due to service-related disorders. The scheme administrators would also have discretion to make exceptions where otherwise there would be a breach of natural justice.

35. The Department has noted Table 3, but does not accept that a high number of first claims for a War Pension made at or beyond 27 years from service release makes the case for an open-ended scheme with respect to all conditions. Investigation of the type of disablement claimed indicates that these are not generally late onset disorders which could reasonably be regarded as attributable to service. There is also a behavioural effect reflecting a scheme which permits claims at any time after service termination. The need for effective communications to promote awareness of the new scheme is acknowledged.

We find it impossible to accept that the MoD has carried out a proper review of the current compensation arrangements when they have no reliable data to show the scale of problems, which they have identified as reasons for change. (paragraph 94).

36. The Department rejects the assertion that a proper review of the current compensation arrangements was not undertaken. Proposals on new arrangements were developed jointly by the Department and the then DSS and included careful analysis of War Pensions invaliding awards and in-service episodes of illness and injury for the period 1995–1999. This study showed that, under present War Pensions legislation, lawful awards can be made with onset in or around Service release for disorders which lack clear, medically recognised causal links to service. This is because an award is appropriate unless there is evidence beyond reasonable doubt denying Service cause.

We would regard any reduction in the number of successful claims for injuries and illness, which was caused by additional administrative obstacles, as undesirable. There are criteria in place at present, which ensure that war pensions are not given away lightly. To impose increased restrictions on claims, in the form of time limits and additional requirements for evidence, without any evidence of current abuse, would be a disservice to the Armed Forces and a very poor reflection of the value which the country places on them. (paragraph 97).

37. Awards for disablement where there is a true causal link to service will not be compromised by the proposed adjudication changes. The Department as an employer understands the importance of providing compensation for Service related injury and ill-health in recognition of the demands which are placed upon Service personnel. It considers the new proposals take full account of these responsibilities. The adoption of balance of probabilities standard of proof and a time limit (with built in flexibilities) will not be

obstacles to those entitled to compensation. The majority of conditions leading to medical discharge are physical injuries or disorders. Since the new scheme is for injuries/illnesses whose cause dates from the introduction of the new scheme, when new routine systems of medical record documentation will be in place, this type of claim, if service-related, will succeed regardless of burden and standard of proof. The proposals aim to meet the majority of disablements through a simplified administrative process, but will also cope with more complex disablement and late onset disorders. There will be discretion to permit late admission of claims where not to do so would breach natural justice. The proposed time limits and limited provision for review represent significantly more generous eligibility criteria than currently applied under the AFPS.

38. The Department has not suggested any lack of integrity or abuse in the present WPS. The underlying principle of the WPS is that accepted disablement should be causally linked to service, but does not reflect contemporary medical understanding of the causes of disorders or legal understanding of attributability. The Department considers that the WPS eligibility criteria can no longer be justified either in relation to wider best practice or in relation to the particular demands placed upon Service personnel and how these would be dealt with elsewhere in society.

39. The report (paragraph 95) notes the RBL observation that War Pensions are not given away lightly, and that this is borne out by statistics. The Department does not consider that this is borne out by wider comparisons. Against a success rate for first claims of 87% under the WPS, the success for the Industrial Injuries Disablement is 30% and those for incapacity benefit and Criminal Injuries Compensation are both around 50%. However, the specific statistical comparisons are less significant than the issue of ensuring a standard of proof that is consistent with modern best practice elsewhere in society.

It is unacceptable that the MoD did not think through the full implications of the tariff proposals at an earlier stage. It is worse that, even at this stage, it cannot decide whether its proposals will include a review mechanism for subsequent deterioration or not. We recommend that the way in which deterioration will be treated under the new proposals should be properly examined and a fully worked-through scheme formulated, before the review decisions are published. (paragraph 102).

40. The Department is clear about the purpose of adopting a tariff-based compensation scheme. It is designed to:

- ensure that individuals with the same disablement will receive the same level of compensation for pain and suffering;
- be simple and transparent;
- and allow for quick decision-making for straightforward claims at a reasonable administrative cost.

War Pension assessment is not an exact science. Assessments are expressed in percentages rounded to the nearest centile and so share some features with the proposed tariff bands. The tariff scheme produced for the consultative document was clearly thought through but the specific levels were exemplary and, prior to introduction, further work would be undertaken on the disorders included and their descriptors, relative positions and tariff values. This work will be informed by further discussions with medical experts and the revised Judicial Studies Board Guidelines.

41. The Department has given careful consideration to deterioration for the new scheme. This has included an examination of the civil approach and of War Pensions deterioration claims. It was concluded that, for most cases, no such routine provision is now appropriate. A number of factors were taken into account when taking this decision. An assessment of where the majority of awards would fall under the proposed tariff was provided as Ev 137,

and this showed the majority would lie at the lower end of the tariff involving conditions where deterioration is unlikely to be an issue, rather there will be rapid improvement to cure. The technical advances in medicine since the introduction of the WPS in 1917 are also important in considering deterioration provision and, whereas in 1917 an illness or disability might be expected to result in inevitable and inexorable decline, this is not the case today where there is a clear prospect of at least improvement to a steady state (if not cure) in a fairly short timescale. Awards in civil cases are almost always full and final. It is recognised that the Supreme Court Act 1981 allows for review of awards. In practice this provision is not much used and it does not apply to gradual deterioration. While the new scheme will not permit routine review on the grounds of deterioration it will allow for review where there has been such a material change in an individual's medical condition that injustice would occur if the original assessment were allowed to stand. It will also include review provision where, from the outset, there is a clear cut risk of development of a consequential disorder. These review proposals will be developed further in consultation with RBL.

We expect to see the details of mechanisms to prevent abuse of minor injury claims set out in the MoD's final proposals. Until then we remain to be convinced that this proposals should be part of the new arrangements. (paragraph 104).

42. The Department considers that it is appropriate to compensate individuals for injuries in-service. In-service claimants may have suffered only minor injury and have fully recovered, but there would in many cases have been a significant element of pain, suffering and loss of amenity for which compensation is appropriate. An in-service claim will require clear medical evidence, will be judged on a balance of probabilities burden of proof and will require confirmation from the individual's commanding officer in the same way as is currently required for the Criminal Injuries Overseas Scheme which is run by the Department. Furthermore, while individuals remain in service, they will be under Service scrutiny and rules, and thus subject to Service discipline. The Department notes the Committee's concern about abuse, but believes the mechanisms already in place adequately meet this concern. Nonetheless, once the scheme has been approved, detailed scheme rules will be put in place to ensure in-service claims are handled in such a way as to minimise the risk of abuse.

The MoD accepts that there are problems for claimants in managing large lump sums. We are pleased that this has been recognised in the proposals for dealing with loss of earnings through a guaranteed income stream rather than a one-off payment. (paragraph 105).

We are not convinced that the proposed new arrangements for paying compensation for loss of earnings through a guaranteed income stream offer any advantage to injured or sick Service personnel, compared to the present War Pensions Scheme. (paragraph 109).

43. The Department notes the Committee's acceptance that loss of earning should be compensated through an income stream. The fundamental difference between War Pension's approach to loss of earnings and the Guaranteed Income Stream (GIS) is that the former is paid at a standard rate while the latter directly relates to the individual's circumstances and takes account of their lost earnings in calculating the income.

We agree that streamlining should not be at the expense of fairness and justness. There are bound to be a great many variables, even in cases which superficially appear to be similar and individuals should not be penalised by a system which is not sufficiently sophisticated to address the specific circumstances of their claim. (paragraph 114).

44. An intrinsic feature of a tariff scheme is speedy delivery of consistent reasonable awards. As compensation for pain, suffering and loss of amenity tariff awards properly focus on the injury or impairment itself and not the particular effects on the individual. The tariff award, by definition therefore, is not individually tailored. However, where relevant, the GIS of the new proposals allows personalisation by reflecting the loss of the individual's earning capacity.

45. As well as differences, there are also important similarities between the proposed Tariff and present War Pensions arrangements where legislation provides that assessment must not take account of individual circumstances.² Both the WPS and the new tariff proposals aim to provide consistent equitable awards. To support this, War Pensions awards for disablement are based on statutory scheduled assessments. This is a list or tariff of defined disablements and the mandatory assessments which act as signposts for all other assessment in the scheme. The Department considers that its proposals overall provide sufficient flexibility for awards to address the different circumstances of the cases that can be expected to arise under the scheme.

We do not believe a new system will function properly unless proper medical advice is available as an integral part of the claims process rather than as an add-on used at the discretion of medically unqualified officials. We recommend that the MoD make full use of the extensive expertise, which the War Pensions (now Veterans') Agency has, to administer any new compensation arrangements which it introduces. It should also look at the way the private sector deals with industrial injuries compensation, to assess whether there are lessons to be drawn from best practice there. (paragraph 115).

46. Medical advice is an integral part of the proposed new scheme, without which no sound decisions can be taken. The role of doctors in the new scheme is not to take decisions, but to provide advice, as required, to lay decision-makers. This approach closely reflects the present situation in social security disability benefits, personal injury schemes, the insurance industry and the Courts.

47. The Department notes the Committee's comments on the Veterans Agency's expertise and it will in due course consider which organisation should administer the scheme. However, the Department will be taking full advantage of the Agency's experience when considering the type of medical advice and the mode of its delivery for the new scheme. The Department will also take due account of the Woolf reforms on expert evidence and relevant conclusions on appropriate medical input to ill-health retirement and attributable injury determinations, arising from the HM Treasury chaired, interdepartmental reviews of public sector ill-health and injury retirement.

We believe it is irresponsible of the MoD to propose a change of this scale (that ex-Service personnel should in future claim supplements and allowances from the Department of Work and Pensions), without itself knowing the full implications. We would be against any attempt by MoD to distance itself from responsibility for the health and welfare of former Service personnel who have been injured or made ill as a result of their service or to shift that responsibility on to other government departments as soon as personnel leave the forces. (paragraph 118).

48. The Department takes seriously its responsibility to its Service personnel, as set out in its Armed Forces Overarching Personnel Strategy. The introduction of the Veterans

² The WPS approach to assessment was examined in 1965 by the McCorquodale Committee when the introduction of subjective factors was rejected on the basis that "Apart from being impossible, (it) would clearly have no place in the determination of equitable and consistent assessments".

Initiative and the appointment of the Veterans Minister shows our clear commitment to provide a coherent response to their needs across Government.

49. The Department considers it important to offer proper compensation for injury and ill-health due to service. The new scheme is designed to ensure appropriate compensation is available to all those entitled in the future. However, where there is already provision made by the State, the Department considers it should not seek to duplicate these arrangements. The health of former Service personnel rightly rests with the National Health Service. The Priority Treatment preference for disablements accepted as attributable to service is available currently and the Department plans that this should be continued under the new scheme. The same argument applies in respect to the provision of supplementary allowances. War Pensions specific supplementary allowances exist only because the scheme was established before the welfare state. The allowances for mobility, care and employment difficulties now have equivalents for the general UK population and in recent years and these are largely in line with those currently enjoyed by War Pensioners (and recipients of industrial benefits).

50. The criteria for the WPS supplementary allowances and the civilian equivalent are rather different. In the WPS there is a threshold level of disablement which must be met before entitlement to the allowances can be considered and the difficulty must arise from accepted disablement. These constraints do not apply to civilian allowances and the Department considers that disabled Service personnel should not be disadvantaged in this way. Furthermore, WPS supplementary allowances can only be considered once the disablement award has been determined and so may be slower for the ex-Service claimant than for the civilian equivalent, particularly given the legislative requirement for social security claims to be disposed within 14 days as far as practicable.

51. The Department will be giving consideration to how the Welfare Support service for the new scheme might provide appropriate advice on such questions as State benefits, and tax credits.

Those covered by any new compensation arrangements will require the same welfare support as current War Pensioners. It would be a waste of a valuable resource not to make the services of the War Pensioners' Welfare Service available to claimants under the new scheme and we recommend that the MoD ensure that access to the WPWS is provided as part of any new arrangements. (paragraph 119).

52. The Department is well aware of the ex-Service communities high regard for the War Pensioners' Welfare Service (WPWS). This service will continue for current War Pensioners and Widows. The Department notes the Committee's recommendation that the WPWS should also support the new compensation scheme and this will be considered. As work progresses, the Department will also consult ex-Service organisations.

We agree that it is reasonable to compensate individuals for injuries sustained as part of required fitness or sporting activities, including representative sport. (paragraph 120).

53. The Department notes the Committee's acceptance that sporting injuries arising out of the fitness requirement of the Armed Forces and representative sport should be covered by our compensation arrangements. It is recognised that it will be important to develop clear, unambiguous scheme rules for such injuries so that it is clearly understood which sporting activities are included and which are not (and may, therefore, require personal injury insurance).

We recommend that Service personnel should continue to receive compensation for injuries sustained during home to duty travel, following the current practice of evaluating each case on its merits. (paragraph 121).

54. The Department recognises that there may be circumstances where home to duty travel should be covered in compensation arrangements and it will be developing clear, unambiguous scheme rules to assist in assessing eligibility.

We welcome the MoD's full compliance with the new arrangements for handling civil negligence cases and the improvements this has brought to the process, for both claimant and defendant. (paragraph 126).

55. The Department notes the Committee's supportive comment on the handling of civil negligence cases. The Department considers settlement by means of Alternative Dispute Resolution in all appropriate cases, in addition to settling cases through Counsel-to-Counsel discussion. This might involve mediation, a route strongly favoured by the Lord Chancellor for civil cases in the UK, where there is evidence to support a claim. However, in cases where there is currently no evidence to support a claim, mediation would not be appropriate.

We would be concerned by any potential for vexatious civil negligence claims against the MoD, but we believe that there can be positive aspects of civil negligence cases for both parties. Every effort should be made to make the process as stress-free and swift as possible, including providing full access to medical records. Comprehensive and accurate information should be provided about all the options available to Service personnel in seeking compensation, including their recourse to the civil courts. (paragraph 128).

56. As the Department set out in its original memorandum, it takes due account of the Woolf Reforms and fully complies with the civil procedures rules. Less than 3% of the Department's cases now go to Court. Wherever liability is not an issue, the Department tries to settle claims in Counsel-to-Counsel discussions to avoid the cost and personal stress of extended court cases. Since the introduction of the Civil Procedure Rules, litigation has been less adversarial and a more co-operative process.

57. The Department has issued guidance in a Defence Council Instruction setting out in broad terms the procedure to be followed when submitting a claim for compensation. In addition, several firms of specialist solicitors regularly advertise in the Forces magazines and journals offering a "no win, no fee service". Ex-service organisations, notably the Royal British Legion, are also able to assist a potential claimant.

The net result of the proposed new compensation arrangements would appear to be a significant overall reduction in the MoD's liabilities for ex-Service personnel. This may have been inadvertent, but we do not regard it as desirable. The MoD should be seeking to provide levels of compensation which are appropriate to the commitment which Service personnel make and which reflect the MoD's duty to be a responsible employer. A reduction in expenditure on compensation fulfils neither of these criteria. (paragraph 131).

58. The Department's proposals make clear that compensation will be provided where, by generally accepted standards of proof, it can be shown that a condition was caused by service. Where the state of medical knowledge does not allow confidence in the early emergence of a condition or its subsequent prognosis, exceptional arrangements will be allowed for later initial consideration and review. This approach is considered to be a reasonable reflection of the MOD's proper responsibilities given the current state of medical science and of wider thinking on compensation issues. Where a condition is accepted as

attributable to service, the proposals have sought to provide proper compensation for pain and suffering (reflecting wider legal standards) and, where appropriate, for the loss of earnings capacity. This will provide improved support to those most seriously disabled. The approach has been to model the new scheme from first principles on modern best practice, taking account of wider Government social provision and the special commitments made by Service personnel. Overall, no reduction in expenditure on compensation is expected. Indeed, additional costs are expected in the early years.

59. Nor can the cost of the new compensation proposals be considered in isolation. They are part of a wider strategy. In line with the Armed Forces Overarching Personnel Strategy and the Veterans Initiative, the Department has effectively recognised a greater responsibility for ex-service personnel that includes but goes beyond payment of compensation. The Department recognises that there also needs to be emphasis on injury prevention, through training, through high standards of leadership and management, through commitment to Health and Safety, through occupational health, and through health education. Where injury/illness does occur there must be appropriate and timely treatment with rehabilitation and support designed to return the person to his family, work and community. In addition, fair and appropriate compensation must be available to a reasonable timescale, delivered through a system which is transparent and simple to understand.

60. Achieving this package will require substantial financial investment and the Department considers that the overall provision is fully appropriate to the commitment made by its personnel and better focused on the most severely disabled where existing shortcomings will be remedied.

We agree that members of the Reserve Forces should continue to benefit from compensation arrangements, which mirror those available to the Regular Forces. (paragraph 132).

61. The Department is pleased to note the Committee accepts the proposal to include provision for Reserve Forces in our compensation arrangements.

We welcome the improvements which the new compensation proposals undoubtedly offer in some areas, and the fact that, from the examples provided, it appears that a number of claimants will receive increased levels of compensation compared with the present system, particularly severely disabled claimants. However, we have to assess the new system in the context of how it will affect the Armed Forces generally, as well as in terms of improvements for individual Service personnel. The Minister told us that, as a result of the changes in time limits and burden of proof, there would be fewer successful claims for compensation in the future. The MoD has provided no evidence that the current provision is over-generous. Unless it can do so, the new proposals can only be regarded as an unacceptable diminution in the provision the Armed Forces makes for its employees. (paragraph 133).

62. As indicated in its response to the report, the Department supports the need for improvement to the present compensation provisions to meet the needs of the Armed Forces into the 21st century.

63. At its introduction, the WPS was far ahead of its time. Since then, much has changed, both in society at large and in the Armed Forces. The Armed Forces compensation scheme should not seek to replicate or substitute for the system of health care or social welfare that is available to all citizens. Rather it should ensure that the Department meets its special obligations to its personnel and makes proper provision for need arising from disablement due to service. It is also vital that the new provisions encourage rehabilitation and return,

so far as possible, to a full role in society without the unintended effect of enhancing disablement. The Department considers that its proposals achieve this balance.

UNMARRIED PARTNERS

The issue of unmarried partners is one, which the Armed Forces can no longer ignore and which should have been dealt with as part of the original reviews of pension and compensation arrangements. We expect to see appropriate provision included in the final pension and compensation proposals, which the MoD brings forward in the autumn. (paragraph 140).

64. The Department recognises that the issue of unmarried partners will need to be addressed in its final proposals for the new AFPS. Work on the wider issue of unmarried partners entitlements has been underway for some time, and a fact finding survey among 5,000 unmarried and separated personnel within the three Services looking at domestic trends is currently being conducted. In addition, specific focus groups have been conducted to explore the views of a representative cross-section of some 200 Service personnel on the provision of pension benefits for unmarried partners. It is too early to predict whether unmarried partner benefits will be part of the final package but it should be recognised that the consideration of the broader issue of unmarried partner entitlements will need to be part of that decision making process. Were pension benefits to be extended to unmarried partners, the Department understands the importance of defining clear, unambiguous entitlement criteria.

COMMUNICATIONS

We recommend that the MoD take the opportunity provided by introducing new computer systems to adopt best practice and set up user-friendly, interactive websites to help Service personnel understand what benefits they may be entitled to, and to assist them through the process of claiming. This should supplement the more traditional methods of providing information, in the form of accessible and readable leaflets, made available at an appropriate time, and which indicate where further, more detailed information can be obtained. (paragraph 147).

65. The Department recognises the importance of clear and effective communication on Armed Forces pension and compensation arrangements. The Department is already in the process of updating our literature on the current AFPS in consultation with the Services and ex-Service representatives; these will be published by September this year and the same material will be placed on the MOD internal website. These booklets have been trialled with Service personnel from a range of trades/expertise and ranks to ensure that they can be easily understood.

66. The issuing of these user-friendly booklets marks the start of the education process for currently serving members of the Armed Forces, prior to the introduction of a new pension scheme to which they would have the opportunity to transfer. The Department will be producing a multi-media package to support the new AFPS and it is anticipated that this will comprise letters, magazine articles, posters, factsheets, booklets, personal forecasts, workbooks, Forces television and radio publicity, intranet websites, presentations, roadshows and a members' helpline. The Department will also be developing along similar lines a communications package to explain the new compensation arrangements to serving personnel. Consideration will also be given to targeting effectively those who are leaving or have left the Services through the resettlement process and the work of the Veterans Agency.

67. The Department has taken a close interest in the work by the Cabinet Office on the new Principal Civil Service Pension Scheme (PCSPS) and expects to benefit from their

experience in developing its communications packages. In addition, the Department has already started to consult the ex-Service community about the communication package and both the Forces Pension Society and the Royal British Legion will be invited to become part of the communications process.

Annex A

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

Table prepared by GAD for the AFPS Review Team. This document provides a comparative qualitative assessment of the main features of the proposed Armed Forces pension scheme and to a number of the main Public Sector pension schemes. Only benefits that are to be offered to future new entrants of the corresponding Public Sector employers have been considered in our comparison.

The table below shows the relative position of the proposed Armed Forces Pension Scheme compared to the other Public Sector schemes. The relative values of these benefits have not been assessed at this stage as their values depend on the likelihood of the benefits coming into payment.

Benefit / Feature	Relative Position of AFPS Proposed scheme	Indicator
Normal Retirement Age (NRA)	Lowest NRA	Upper
Immediate Pension Point (IPP)	Earliest IPP requiring only 18 years service at age 40	Best
Member's contributions	No direct member contributions. Note that scheme is not entirely without cost to members since consideration of the value of pension benefits is made when the AFPRB set pay levels	Upper
Member's Pension and Lump Sum Accrual Rate	Combination of 1/70 accrual rate and 3/70 lump sum provides favourable retirement benefits compared to many of the other Public Sector schemes under consideration	Upper
Withdrawal Benefits	Benefits are similar to other Public Sector schemes, but with above average pension accrual	Upper
Ill-health Retirement (non-attributable)	Provides targeted enhancements which provide above average benefits for those in greatest need	Above Average
Death in Service	3 x Pensionable earnings and strong enhancement to service.	Above Average
Death After Retirement	Spouse's benefits based on accrual rate of 1/140 which is only surpassed by the Police or Fire schemes	Upper
Pension Increases	Full RPI indexation, in common with most Public Sector schemes	Same Across all Schemes

The tables on the following pages provide a more detailed analysis of the comparator Public Sector schemes under consideration.

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

	Normal Retirement				Withdrawal Benefits
	Normal Retirement Age (NRA)	Member's contributions	Member's Pension	Lump Sum at Retirement	
AFPS Proposed	55 Immediate pension from age 40 having completed 18 years service.	Non-contributory (but comparator pay abated by AFPRB due to pension value)	Assuming reckonable service of N years. Uniform accrual of benefits over a 35 year period. Pension calculated as: $N/70 \times FPE$ (a)	$3 \times N/70 \times FPE$	If 2 or more Years' Service: Benefits increased in deferment, payable from age 60
PCSPS (Principal Civil Service Pension Scheme) Premium (from Oct '02)	60	3.5% (e)	Assuming reckonable service of N years. Pension calculated as: $N/60 \times FPE$	By commutation at the rate of 12:1 (see note d)	If less than 2 Years' Service: Refund of member's contributions less employee's CEP If 2 or more Years' Service: Benefits increased in deferment, payable from NRA
PCSPS Partnership (from Oct '02) (see note b)	Variable-dependent on age at which annuity purchased	Non-contributory (see note e). Member may participate in a matching scheme whereby the employer will match member's contributions up to a maximum of 3%	Pension dependent on the level of contributions to Stakeholder fund, investment return earned on fund to retirement and annuity rates available at retirement. Employer's contributions are based on an age related sliding scale ranging from 3% for those under age 21 to 12.5% for those age 46 and over.	Maximum lump sum of 25% of the fund	Fund remains invested but no further employer contributions are payable.
TPS (Teachers Pension Scheme)	60	6%	Assuming reckonable service of N years. Pension calculated as: $N/80 \times FPE$	$3 \times N/80 \times FPE$	If less than 2 Years' Service: Refund of member's contributions less employee's CEP If 2 or more Years' Service: Benefits increased in deferment, payable from NRA

(a) Final Pensionable Earnings (FPE)

(b) There are a number of technical restrictions that require separate annuity contracts to be purchased for 'protected rights'. The comparison has been made looking at just the 'unprotected' element of the pension.

(c) The PCSPS Partnership scheme is a 'contracted in' scheme. This results in NI contributions for the member being higher by 1.6% than a 'contracted out' final salary type scheme. All the other schemes considered in the comparison are 'contracted out'. PCSPS Partnership scheme members are given the option of contracting out, but the rules governing money purchase schemes mean that NI contributions will not be reduced but instead NI rebates will be paid into their Stakeholder fund.

(d) In order to compare the overall pension package provided in the PCSPS Premium scheme it is useful to compare the residual pension after commutation that would be produced in the PCSPS

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

		Normal Retirement				Withdrawal Benefits
	Normal Retirement Age (NRA)	Member's contributions	Member's Pension	Lump Sum (Payable at retirement)		
AFPS Proposed	55 Immediate pension from age 40 having completed 18 years service.	Non-contributory (but comparator pay abated by AFPRB due to pension value)	Assuming reckonable service of N years. Uniform accrual of benefits over a 35 year period. Pension calculated as: $N/70 \times FPE$	$3 \times N/70 \times FPE$	Benefits increased in deferment, payable from age 60	
NHSPS (National Health Service)	60	5% for manual staff 6% for non-manual staff	Assuming reckonable service of N years. Pension calculated as: $N/80 \times FPE$	$3 \times N/80 \times FPE$	If less than 2 Years' Service: Refund of member's contributions less employee's CEP If 2 or more Years' Service: Benefits increased in deferment, payable from NRA	
Police / Firefighters' existing pension scheme	55. However, members with more than 25 years service may retire with unreduced benefits from age 50 and police members with more than 30 years service may retire with unreduced benefits at age 48 1/2	11%	Pension entitlement accrues at 1/60 of FPE for the first 20 years' service and at 2/60 for the next 10 years	By commutation on age related rates. At age 55 rates are 14.5:1 for males and 16:25:1 for females (see note a)	If less than 2 Years' Service: Refund of member's contributions less employee's CEP If 2 or more Years' Service: Benefits increased in deferment, payable from 60. Police members with 25 or more years service can take a deferred pension at age 50	
LGPS (Local Government Pension Scheme)	65. However, members age 60 and over can retire on an unreduced pension if the sum of their service and age is at least 85. Members under age 60 who satisfy the rule of 85 may retire with unreduced benefits with their employer's consent	6%	Assuming reckonable service of N years. Pension calculated as: $N/80 \times FPE$	$3 \times N/80 \times FPE$	If less than 2 Years' Service: Refund of member's contributions less employee's CEP If 2 or more Years' Service: Benefits increased in deferment, payable from NRA	

(a) In order to compare the overall pension package provided in the Police / Firefighters' scheme it is useful to compare the residual pension after commuting the same lump sum of $3N/70 \times FPE$ that is provided under the proposed Armed Forces scheme. For instance, a Police pension scheme member retiring at age 55 with 25 years service, who commutes pension to receive a lump sum of $3 \times 25/70 \times FPE$ would receive a residual pension based on a higher accrual rate of $25/59 \times FPE$ as compared to a lump sum of $3 \times 25/70 \times FPE$ and a pension of $25/70 \times FPE$ in the proposed Armed Forces scheme. The actual level of residual pension in other cases will depend of the length of service and retirement age of the member.

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

	Ill-health Retirement (non-attributable)	Death in Service Benefits (non-attributable)	Death After Retirement	Pension Increases
AFPS Proposed	<p>Benefits on three tiers:</p> <ol style="list-style-type: none"> unable to do own job, earnings capacity not significantly impaired Gratuity only. unable to do own job, earnings capacity reduced Benefits as normal retirement but based on accrued service plus 1/3 of future service to age 55. unable to do own job, permanently incapable of further employment Benefits as normal retirement but based on accrued service plus 1/2 of future service to age 55 and a minimum guarantee of £27,750 pensionable pay. <p>If less than 2 years' service: Refund of members' contributions less employee's CEP If 2 or more years' service then benefits on two tiers:</p> <ol style="list-style-type: none"> unlikely to work in any capacity in future Benefits as normal retirement but based on full potential service to age 60 likely to be able to work in some employment Benefits as normal retirement. If N is less than 10 service enhanced to the lesser of 10 years & 2xN. Enhancement cannot exceed half potential service to 60. 	<p>Lump Sum: 3 X Pensionable Earnings</p> <p>Spouse's Pension: 50% of the pension the member would have received had he retired in ill-health (tier 3) at the date of death</p>	<p>Lump Sum: Balance of 5 years' pension payments abated by terminal grant</p> <p>Spouse's Pension: 50% of the pension member was receiving at time of death</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation) Normal retirement pensions drawn before age 55 will not qualify for increases until age 55, at which stage a backdating uplift should apply</p> <p>In Deferment: Total pension increased in line with RPI</p>
PCSPS Premium (from Oct '02)	<p>If less than 2 years' service: Refund of members' contributions less employee's CEP If 2 or more years' service then benefits on two tiers:</p> <ol style="list-style-type: none"> unlikely to work in any capacity in future Benefits as normal retirement but based on full potential service to age 60 likely to be able to work in some employment Benefits as normal retirement. If N is less than 10 service enhanced to the lesser of 10 years & 2xN. Enhancement cannot exceed half potential service to 60. 	<p>Lump Sum: 3 X Pensionable Earnings</p> <p>Partners' Pension: (a) 37½% of members' accrued pension with service enhanced to the lesser of double its length, an extra 10 years, and potential service to 60.</p>	<p>Lump Sum: Balance of 5 years' pension payments reduced by pension received to death</p> <p>Partner's Pension: (a) 37½% of member's pension except after upper tier ill-health retirement enhancement will be calculated as though member died in service on date of retirement.</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>In Deferment: Total pension increased in line with RPI</p>
PCSPS Partnerships (from Oct '02)	<p>Lump sum compensation (tax-free up to £30,000) of 20% of pay for each year of service, to a maximum of 3 years pay (benefits are tapered for those approaching pension age to ensure that someone could not get more in ill-health compensation than they would have done in net salary). Fund remains invested to provide benefits in retirement.</p>	<p>3 X Pensionable Earnings plus accumulated value of Stakeholder fund, generally paid as a lump sum</p>	<p>Determined by type of annuity contract purchased at retirement</p>	<p>Determined by type of annuity contract purchased at retirement (there is no requirement for the annuity purchased to be index-linked)</p>

Notes :

(a) Partners' benefits are paid to spouses and to those (of either sex) in a permanent relationship with the member. These benefits are payable for life.

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

	Ill-health Retirement (non-attributable)	Death in Service Benefits (non-attributable)	Death After Retirement	Pension Increases
AFFS Proposed	<p>Benefits on three tiers:</p> <ol style="list-style-type: none"> 1. unable to do own job, earnings capacity not significantly impaired Gratuity only. 2. unable to do own job, earnings capacity reduced Benefits as normal retirement but based on accrued service plus 1/3 of future service to age 55. 3. unable to do own job, permanently incapable of further employment Benefits as normal retirement but based on accrued service plus 1/2 of future service to age 55 and a minimum guarantee of 2/7th pensionable pay. 	<p>Death in Service Benefits (non-attributable)</p> <p>Lump Sum: 3 X Pensionable Earnings</p> <p>Spouse's Pension: 50% of the pension the member would have received had he retired in ill-health (tier 3) at the date of death.</p>	<p>Death After Retirement</p> <p>Lump Sum: Balance of 5 years' pension payments abated by terminal grant</p> <p>Spouse's Pension: 50% of the pension member was receiving at time of death</p>	<p>Pension Increases</p> <p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>Normal retirement pensions drawn before age 55 should not qualify for increases until age 55 (e), at which stage a backdating uplift should apply</p> <p>In Deferment: Total pension increased in line with RPI</p>
TPS	<p>Members must have two years' qualifying service in order to be granted an enhancement to service. The enhancements are based on reckonable service as follows:-</p> <p>2 to 10 years 10 to 13 1/3 years More than 13 1/3 years</p> <p>Service Doubled (see note b) Service Enhanced to 20 years (see note b) Whichever is greater of -Service enhanced to 20 years (see note b), and -Extra 6 2/3 years service (see note c)</p>	<p>Lump Sum: The greater of 2 times FPE and the lump sum that would have been paid upon ill-health early retirement</p> <p>Spouse's Pension: 50% of members' pension payable on ill-health</p>	<p>Lump Sum: Balance of 5 years' pension payments less pension already received</p> <p>Spouse's Pension: 50% of the pension member was receiving at the time of death</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>In Deferment: Total pension increased in line with RPI</p>
NHSPS	<p>Members must have two years' qualifying service in order to be granted an enhancement to service. The enhancements are based on reckonable service as follows:-</p> <p>2 to 5 years 5 to 10 years 10 to 13 1/3 years More than 13 1/3 years</p> <p>No enhancement Service doubled (see note b) Service Enhanced to 20 years (see note b) Extra 6 2/3 years service (see note c)</p>	<p>Lump Sum: 2 X Pensionable Earnings</p> <p>Spouse's Pension: 50% of members' pension payable on ill-health</p>	<p>Lump Sum: The lower of: a) 5 times the pension less pension received b) 2 times pensionable pay at retirement, less the retirement lump sum</p> <p>Spouse's Pension: 50% of the pension member was receiving at the time</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>In Deferment: Total pension increased in line with RPI</p>

(a) Subject to a maximum enhancement of the pensionable service to age 65. This is also subject to the further restriction that total service (actual plus enhancement) should not exceed 40 years

(b) Subject to a maximum enhancement of the potential service to age 65.

(c) Subject to a maximum enhancement of the pensionable service to age 60.

(d) Subject to a maximum enhancement of 40 years and the potential service at the age of compulsory retirement (between 55 and 65 dependent on rank).

(e) In the case of other public sector schemes, such as PCS/PS, any pensions paid before age 55 other than ill-health or dependant's pensions will not be increased until age 55, when a backdated uplift will apply.

Comparison of the Proposed Armed Forces Pension Scheme to other Public Sector Pension Schemes

	Ill-health Retirement (non-attributable)	Death in Service Benefits (non-attributable)	Death After Retirement	Pension Increases
AFPS Proposed	<p>Ill-health Retirement (non-attributable)</p> <p>Benefits on three tiers:</p> <ol style="list-style-type: none"> unable to do own job, earnings capacity not significantly impaired Gratuity only. unable to do own job, earnings capacity reduced Benefits as normal retirement but based on accrued service plus 1/3 of future service to age 55. unable to do own job, permanently incapable of further employment Benefits as normal retirement but based on accrued service plus 1/2 of future service to age 55 and a minimum guarantee of 2/7 this pensionable pay. 	<p>Death in Service Benefits (non-attributable)</p> <p>Lump Sum: 3 X Pensionable Earnings</p> <p>Spouse's Pension: 50% of the pension the member would have received had he retired in ill-health (tier 3) at the date of death</p>	<p>Death After Retirement</p> <p>Lump Sum: Balance of 5 years' pension payments abated by terminal grant</p> <p>Spouse's Pension: 50% of the pension member was receiving at time of death</p>	<p>Pension Increases</p> <p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>Normal retirement pensions drawn before age 55 should not qualify for increases until age 55, at which stage a backdating uplift should apply</p> <p>In Deferment: Total pension increased in line with RPI</p>
Police / Firefighters' existing pension scheme	<p>Members with less than 2 years will receive a gratuity only.</p> <p>The enhancements are based on reckonable service as follows (see note d):-</p> <p>2 to 5 years No enhancement 5 to 10 years Service doubled 10 to 13 years Service Enhanced to 20 years More than 13 years 7 years plus 1 year for each year up to 20 and 2 years for each year over 20.</p>	<p>Lump Sum: 2 X Pensionable Earnings (e)</p> <p>Spouse's Pension: 50% of members' pension payable as on ill-health, payable for life</p>	<p>Lump Sum: Contributions minus benefit payments and capital value of spouse's and children's pension.</p> <p>Spouse's Pension: 50% of the member's pension before commutation.</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>In Deferment: Total pension increased in line with RPI</p>
LGPS	<p>Members must have two years' qualifying service in order to be granted an enhancement to service. The enhancements are based on reckonable service as follows:-</p> <p>2 to 5 years No enhancement 5 to 10 years Service doubled (see note a) More than 10 years Extra 6 2/3 years service (see note a)</p>	<p>Lump Sum: 2 X Pensionable Earnings</p> <p>Spouse's Pension: 50% of members' pension payable on ill-health, payable for life</p>	<p>Lump Sum: Balance of 5 years' pension payments less pension already received</p> <p>Spouse's Pension: 50% of the pension member was receiving, payable for life</p>	<p>In Payment: In line with increases in RPI (DWP pay some of the GMP indexation)</p> <p>In Deferment: Total pension increased in line with RPI</p>

- Notes :
- Subject to a maximum enhancement of the pensionable service to age 65. This is also subject to the further restriction that total service (actual plus enhancement) should not exceed 40 years
 - Subject to a maximum enhancement of the potential service to age 65.
 - Subject to a maximum enhancement of the pensionable service to age 60.
 - Subject to a maximum enhancement of 40 years and the potential service at the age of compulsory retirement (between 55 and 65 dependent on rank).
 - Although this comparison does not generally deal with compensation arrangements (which are covered separately under our proposals in the Joint Compensation Review) it should be noted that as compensation for police members, if the death is attributable to service then this will be increased to the lesser of 5 times pensionable pay on the last day of service or 4 times the total remuneration during the 12 months ending with the last day of service together with their total pension contributions.

DEFENCE COMMITTEE REPORTS IN THE CURRENT PARLIAMENT

FIRST REPORT: *Ministry of Defence Police: Changes in jurisdiction proposed under the Anti-terrorism, Crime and Security Bill 2001*, HC 382, published on 6 December 2001

SECOND REPORT: *The Threat from Terrorism*, HC 348-I, published on 18 December 2001.

THIRD REPORT: *The Ministry of Defence Reviews of Armed Forces' Pension and Compensation Arrangements*, HC 666, published on 9 May 2002.

FOURTH REPORT: *Major Procurement Projects*, HC 779, published on 10 July 2002

FIFTH REPORT: *The Government's Annual Report on Strategic Export Controls for 2000, Licensing Policy and Prior Parliamentary Scrutiny*, HC 718, published on 19 July 2002

SIXTH REPORT: *Defence and Security in the UK*, HC 518, published on 24 July 2002

FIRST SPECIAL REPORT: *Government Observations on the Sixth Report, 2000-01: The Strategic Defence Review: The Reserve Forces*, HC 213, published on 24 July 2001

SECOND SPECIAL REPORT: *Government Observations on the Eighth Report, 2000-01, The MoD's Annual Reporting Cycle 2000-01*, HC 214, published on 24 July 2001

THIRD SPECIAL REPORT: *Government Observations on the First Report, 2001-02, Ministry of Defence Police: Changes in Jurisdiction Proposed under the Anti-Terrorism, Crime and Security Bill 2001*, HC 621, published on 14 February 2002

FOURTH SPECIAL REPORT: *Government Observations on the Second Report, 2001-02, The Threat from Terrorism*, HC 667, published on 7 March 2002

Distributed by The Stationery Office Limited and available from:

The Stationery Office

(mail, telephone and fax orders only)

PO Box 29, Norwich NR3 1GN

General enquiries 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders 0870 600 5533

You can now order books online at www.tso.co.uk

The Stationery Office Bookshops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68–69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9–21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

The Stationery Office Oriel Bookshop

18–19 High Street, Cardiff CF1 2BZ

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders 020 7219 3890

General enquiries 020 7219 3890

Fax orders 020 7219 3866

The Stationery Office's Accredited Agents

(see Yellow Pages)

and through good booksellers

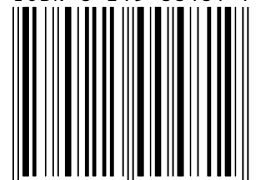
© Parliamentary Copyright House of Commons 2002

Applications for reproduction should be made in writing to the Copyright Unit,

Her Majesty's Stationery Office, St Clements House, 2–16 Colegate, Norwich NR3 1BQ

– Fax 01603 723000

ISBN 0-215-00481-7



9 780215 004819