



## **Is there a best time to leave?**

We are often asked if there is a 'best time' to leave the Armed Forces. The answer is 'yes' and in this article Mary Petley of the Forces Pension Society sets out the key pension-related factors to consider. However— they are not the only ones; there is no single right answer for everybody, you must also take into account your own personal circumstances.

The article is written against the backdrop of the recent Court of Appeal judgement following a successful challenge by the Judges and Firefighters to the transitional arrangements that accompanied their new 2015 pension schemes. The government has accepted that the judgement will read across to other public sector pension schemes, including AFPS15, but resolving this issue will take a long time. Many will benefit from the decision and none will see a reduction in the pension they have earned up to date, but any suggestion as to the solution would be guesswork. This article therefore describes the situation as is and our advice is to plan on your current position as you know it.

The first thing to understand is what may be payable when and this differs from scheme to scheme. An ill-timed decision about leaving the Armed Forces could result in valuable benefits being narrowly missed out on. The trigger points are:

### **AFPS 75**

Officers who give 16 years reckonable service (RS) from age 21 qualify for an Immediate Pension (IP). If they leave before IP but having given 9 or more years RS, they qualify for the tax-free Resettlement Grant (RG) worth over £15.5K.

For Other Ranks (ORs) RS counts from age 18 and, to qualify for IP they need 22 years RS. If they leave before IP but having given 12 or more years RS, they qualify for the tax-free RG worth over £10.5K.

### **AFPS 05**

Those who serve to age 55 receive a pension straightaway. Those who leave before age 55, and have given at least 18 years' service and are at least age 40 on discharge (the 18/40 Point) qualify for Early Departure Payment (EDP) Scheme benefits. These comprise a one-off tax-free lump sum worth three times the AFPS 05 pension and an annual income of at least 50% of the AFPS 05 pension, payable until age 65. Those leaving before the 18/40 Point with more than 12 years' service qualify for the tax-free AFPS 05 RG worth about £11K.

### **AFPS 15**

Those serving to age 60 leave with a pension in payment straight away. Those who leave Regular service before age 60 having given at least 20 years' service and are at least age 40 on discharge (the 20/40 Point) qualify for AFPS 15 EDP benefits. EDP benefits comprise a tax-free lump sum of 2.25 times the AFPS 15 pension and an annual income (payable until SPA) of at least 34% of the AFPS 15 pension.

AFPS 15 also features a RG for those who give at least 12 years service but this will only apply to those joined or re-joined the Regular Armed Forces on or after 1 April 2015. Those who were transferred to AFPS 15 have protected rights to the RG of their 'old' scheme and, when considering these important milestones, you will need to bear in mind that, if you were transferred to AFPS 15, you need to take into account benefits payable by both your 'old' scheme and AFPS 15. For example, an OR who was an AFPS 75 member who is considering leaving at the 20/40 Point, might need to ask him or herself about whether it is wise to miss out on the AFPS 75 IP which would be payable just two years later.

So, having explained the benefit triggers, what else is there?

AFPS 75 pensions are calculated on the basis of rank for pension, length of RS and the Pension Code in force at the time of discharge. The Pension Code is a table of pension rates which is revised each time there is a pay rise. Pay rises, even when announced late in the year, are normally back dated to 1 April. So, if you are considering leaving early in the year, unless you have, say, family or employment reasons to go on a certain date, why not leave after 1 April. Let's say the 2020 pay rise is 3%, someone leaving on 1 April 2020 would get a pension 3% higher than someone who left on 31 March 2020. What a difference a day can make!

For AFPS 05 members who are approaching age 55, there is the question of whether to leave with a pension straightaway or leaving a little earlier and receiving EDP benefits for 10 years, followed by the AFPS 05 preserved pension at age 65. Why might you want to consider this? Well, if you leave with an EDP you receive a lower taxable annual income for 10 years BUT two tax-free lump sums – one on discharge and the other when the preserved pension is drawn. So, let's see why this might work:

Mick was an AFPS 75 member who transferred to AFPS 05 as part of the Offer to Transfer in 2006. He joined the Armed Forces at age 17 years 11 months and is 55 on 1 September 2019. His Final Pensionable Pay (FPP) is £55K.

### **Scenario 1**

If he leaves at age 55, his pension is £29,138 and his tax-free pension lump sum is £87,414. Between age 55 and age 65 he would have received taxable income of £291,381.35. Using the current personal tax allowance of £12,500, taking off 20% for tax and ignoring inflation that would be £258,104.00 net over 10 years.

### **Scenario 2**

If he leaves at age 54 years 11 months his preserved pension is £29,071.43 and his preserved tax-free pension lump sum is £87,214.28. His tax-free EDP lump sum would be £87,214.28 and his taxable income between discharge and age 65 would total £219,812.23 (1 month @ 73.33% of pension + 10 years @ 75% of annual pension). Using the current personal tax allowance, taking off 20% for tax and ignoring inflation, he would receive a total net EDP income of £201,048.60. Then, at age 65 he would claim his preserved pension and his tax-free pension lump sum (£87,214.28) - but, remember, both would have increased by all the Consumer Price Index (CPI) adjustments that had occurred since he retired.

Although the total net pension income in Scenario 1 is £57,055.40 greater than the total net EDP income in Scenario 2, the shortfall is more than made up for by the payment of the tax-free pension lump sum of £87,214.28 (plus CPI adjustments) at age 65.

Scenario 2 is particularly advantageous to members with Pension Sharing Orders (PSOs) as, whilst the pension itself is calculated taking the PSO into account, the EDP (which is separate from the pension scheme) is calculated as if no PSO existed .... and, no, it does not affect the "ex's" entitlement!

Finally, you need to think about Pension Increases (PIs), which were covered fully in June's Pathfinder. Armed Forces pensions, once awarded, are adjusted in April each year by CPI. It is this CPI adjustment which constitutes the PI.

The important thing here is that first PI is paid on a sliding scale depending upon when in the year (which runs from 1 April – 31 March each year). The earlier you leave in the period 1 April – 31 March the more of the increase you will receive in the following April. Put very simply, those leaving in the first few weeks of April will get the full PI the following April, those leaving in October will receive about half of the PI the following April and those who leave in the last couple of weeks of March will get no increase in the following April. The full increase is paid in subsequent years. This applies whether the pension is to be paid immediately or not. The proportion of the first increase you receive can make a big difference to your cumulative pension income if CPI is high in the year you retire and, whilst most of you cannot do anything about your discharge date, for those of you who can, it is worth remembering that the date you leave matters.

This is quite a lot to juggle with and, if you are a member of the Forces Pension Society, the Pensions Team are there to help. You should contact them at [pensionenquiries@forpen.co.uk](mailto:pensionenquiries@forpen.co.uk). If you are not a member but would like to know more about us, visit [forcespensionsociety.org](http://forcespensionsociety.org)

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