



It is not too late to improve your AFPS 15 pension!

Armed Forces Pension Scheme 2015 (AFPS 15) was introduced on 1 April 2015 and the majority of you were transferred to it on that date. As a transferee, you can't do anything to improve your benefits in your 'old' scheme (AFPS 75 or AFPS 05) but, even with only a short period left to serve, you **can** improve your AFPS 15 pension should you so wish. These pension improvement arrangements we are about to explain are a change for the better for the majority as very few people serve for a full career, and as both of the 'old' schemes had service-related criteria which would prevent personnel approaching discharge from entering into most pension-improving contracts.

AFPS 15 offers members the opportunity to improve their pension benefits by purchasing Added Pension. The purchase of Added Pension, rather than Added Years, is attractive to the MOD as it allows the scheme to keep a firm control on scheme costs. The beauty of the scheme for the member is that the contracts are for one year only which means that members can buy Added Pension in years when they feel they can afford it and even someone approaching retirement can participate. The scheme year runs from 1 April to 31 March and only one Added Pension contract may be entered into in any scheme year.

There are two types of contract which may be entered into. The first type boosts just the member's pension and the second boosts both the member's pension and his or her dependants' benefits. Members can take out a new contract every year should they so wish and much depends upon how much they choose to contribute and whether the Added Pension is just for the member or is to include dependants. The rules do not include a 'dependants only' option.

Currently, the maximum amount of extra annual pension that someone can benefit from is £6,500 per year but this would cost up to £200,000 depending upon the member's circumstances. We have seen from posts on social media that this £6,500 figure has been misunderstood by a significant number of people – £6,500 is the overall maximum you can improve your pension by NOT the maximum you can pay in to an Added Pension contract in any one year. This maximum level of pension improvement is set by Her Majesty's Treasury and may alter.

The minimum amount you can pay towards Added Pension is £300 per year as a lump sum or £25 per month. This makes the arrangement flexible for all and affordable for even the most junior serviceman or woman.

As a rule of thumb, about £1,000 paid at the age of 30 buys an extra £100 of annual pension for the member.

Exactly what any given sum will buy is arrived at by employing factors which are produced by the scheme actuary. The factors (which stretch to 17 worksheets!) will cater for many variable. These variables include:

- your age when you start to pay for Added Pension,
- whether you pay monthly or by lump sum,
- whether you take out the contract at the beginning of the contractual year or part way through, and
- whether you buy Added Pension just for yourself or yourself and your dependants.

Your gender makes no difference in terms of the factors and the amount you pay.

To obtain a quote, simply submit an AFPS Form 6 to Defence Business Services (Glasgow) – this does not commit you to anything. It is not until you accept the quote in writing on an AFPS Form 6A that the contract begins. Once you have entered into the contract, if you need for some reason to stop paying the installments, you do so by submitting a further AFPS Form 6A which cancels all previous instructions. If you do stop paying, the improvement to your pension will reflect only what you have actually paid for, rather than the amount specified in the original Added Years contract. Further, you will not be able to enter into a new contract until on or after 1 April of the next scheme year.

Having mentioned very junior personnel earlier, we would acknowledge that there may be readers who have purchased Added Years but for some reason are to be discharged with less than 2 years' reckonable service. In this event, the scheme refunds the sums the member has paid for Added Years, but net of tax.

Once Added Pension has been purchased, it increases each year by Consumer Prices Index until it is paid out. It is paid out at the same time as the pension becomes payable.

Obviously, with every financial arrangement you enter into, there are pros and cons. The pros are:

- Purchasing Added Pension is cost effective. You get value for money; and
- Purchasing Added Years is tax efficient as the money you pay into the scheme to improve your pension comes from you pay before tax. For many of you, it will reduce your 40% tax liability.
- The increase in pension will feed through to Early Departure Payment (EDP) lump sum and income stream. This is because EDP benefits are based on the value of the AFPS 15 deferred pension. As you know, the EDP lump sum is 2.25 times the AFPS 15 pension and the EDP income stream is at least 34% of the pension. So, if you buy £100 Added Pension your EDP lump sum is £225 more than it would otherwise have been!

The cons are:

- AFPS 15 is less flexible than many civilian pension schemes in respect of how you take your pension. For example, you cannot take your pension pot in cash.
- You need to be careful not to breach the Annual Allowance (AA). The AA, which is set by HMRC, is currently £40,000 which means that, if you pension increases by more than about £2,250 per year, you could be liable for a tax charge. However, with pay rises running at a very low level, it is unlikely that a breach of the AA will occur unless you get a substantial rise on promotion.

Many Pathfinder readers will be within two years of retirement at about age 40 (the AFPS 75 immediate pension point or the AFPS 05/15 EDP point) the following will give you some realistic figures to consider. Assuming you joined the Armed Forces at age 20 and were 38 when you elected to buy £100 Added pension you would pay:

Member only: £1,389 as a lump sum or £117 per month for 12 months
 Member and dependants: £1,481 as a lump sum or £126 per month for 12 months.

This may appear a lot but, remember it is reducing your income tax liability and improving your income when you need it most!

If you are a member of the Forces Pension Society and have questions about the purchase of Added Pension – or, indeed, any other pension-related issue – email us at pensionenquiries@forpen.co.uk. If you are not yet a member but would like to know more about us, visit go to www.ForcesPensionSociety.org.

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