

# *Office of Manpower Economics*

## *Comparison of Pay in the Armed Forces and the Civilian Sector*

### *Updated pay comparability information*

Strictly confidential

January 2015



Office of Manpower  
Economics

## Comparison of Pay in the Armed Forces and the Civilian Sector Updated pay comparability information

*Commissioned by:*  
**Office of Manpower Economics**

*Undertaken by:*  
**PricewaterhouseCoopers LLP**

**January 2015**

*The work described in this report was carried out under contract as part of OME's research programme. The views and judgements expressed in this report are therefore those of the contractor and do not necessarily reflect those of OME.*



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# **1. Introduction**

## ***Background and purpose***

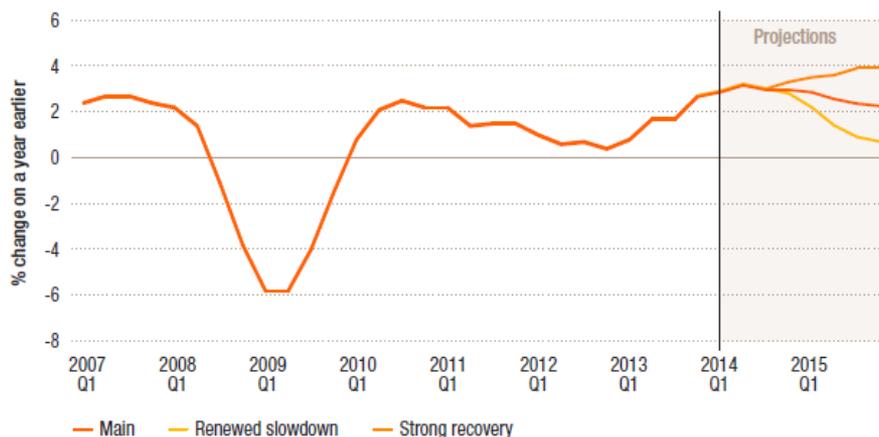
- This paper provides an update on a comparison of pay between members of the Armed Forces and that of civilian sector (public and private sector) roles for the Armed Forces Pay Review Body (“AFPRB”).
- This report is an update to the review conducted by PwC for the AFPRB in 2013 which compared levels of pay in the different armed forces ranks with levels of pay of roles of similar job size in the civilian sector which are of comparable job size.
- Using our job evaluation system, we compared 286 Armed Forces jobs with 35,385 civilian jobs in both the public and the private sectors and benchmarked pay levels in 2013.
- Our work conducted at the end of 2014/early 2015 updates this data to check the extent to which this data has moved and whether the position of Armed Forces pay has changed.

# Update on economic environment

## Considerations in the current economic climate

- Pay in the public sector remains under significant pressure and for most of this sector, pay increases are capped at 1% until 2016.
- During 2014, the UK saw evidence of recovery although this has remained bumpy, subject to global economic factors and in spite of any upturn, there has been continued restraint around pay.
- In 2014, pay increases in the private sector have remained under 3% with only a small increase on the prior year. Pay budgets have averaged between 2-3%. This trend looks to continue in 2015 although there is greater focus on differentiation and linking pay increase to performance and market position – as opposed to blanket increases for all.
- The pay gap between the public and private sectors looks likely to continue as private sector earnings is expected to rise faster than public sector wages over the next few years.
- In addition to these pay movements, the Review Body should consider a number of other macro-economic factors impacting pay levels. As shown in the graph on the right, the projected trend for 2014/15 UK GDP growth is slightly more optimistic than OBR forecasts in March. However, projections remain low in comparison to the pre-2008 period.
- Drawing from the results of PwC's 2014 reward survey, we observe the following:
  1. The UK is emerging from the downturn and there is increased labour mobility compared to 2013.
  2. However, organisations are still exercising restraint in pay budgets. Median pay movements in 2014 were generally just below 3% in the private sector and organisations are predicting similar pay budgets of 2% to 3% in 2015.
  3. Organisations have been controlling costs in other areas too. Benefits and incentives levels are unchanged when compared to 2013 – although we are seeing the continuing demise of final salary pension arrangements.

Actual/projected GDP change year on year



### Summary of UK economic prospects

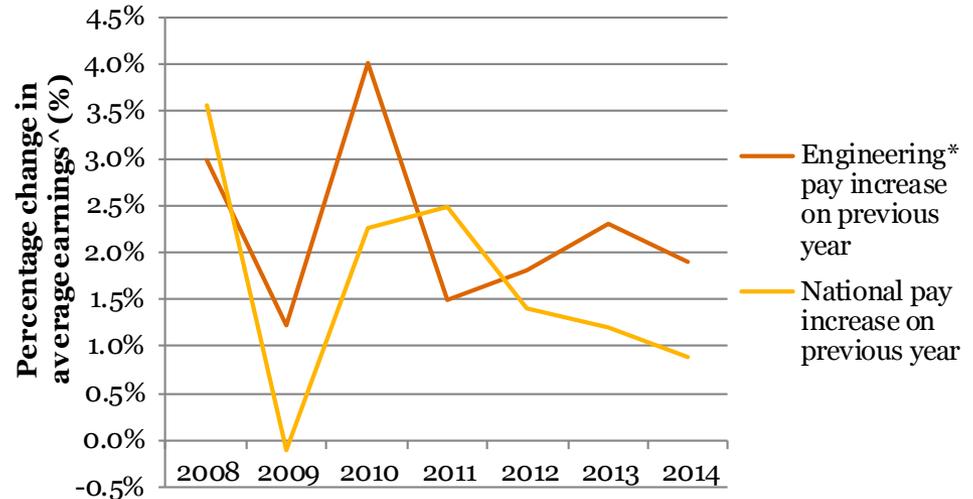
% per annum	2014	2015	2016-20
Real household disposable income	1.4%	1.5%	1.4%
Adjusted savings ratio level	0.5%	-0.3%	-1.0%
Real household expenditure	2.2%	2.3%	1.7%

Source: PwC Economic Outlook November 2014

# Update on economic environment

## Overview of engineering industry

- We note that individuals in the Armed Forces leave to a number of different sectors but we understand that some, with the relevant skills and experience, go to engineering organisations.
- Traditionally, engineering is a relatively highly paid sector, with roles usually commanding pay above the national average.
- However, as shown by the graph on the right, pay increases in the Engineering\* industry has fallen from its peak in the past few years, with this trend continuing into 2014.
- This is particularly the case because of a skills shortage in the UK as experienced during the commodities boom in 2011 and 2012 when there was great pressure on engineering roles in the oil and gas sector.
- PwC's reward survey (which covers managerial roles as well as senior levels) indicates that the overall budget for 2015 is 3%.
- The surveys also showed the functions under the most pressure in 2014 was Telecommunications, Technology and Healthcare. Base salary increases in the Industrials and Technology sectors have been sluggish.



Source: ONS Average Weekly Earnings, December 2014

^Average earnings include regular pay and bonuses but exclude arrears of pay.

\*The data above also includes pay across the wider manufacturing industry.

Actual base salary increases by sector*	2012	2013	2014	2015 (projected)
<b>Basic Materials</b>	3.35%	3.05%	2.90%	3.00%
<b>Consumer Goods</b>	3.40%	3.00%	3.05%	3.00%
<b>Consumer Services</b>	2.65%	3.00%	2.65%	3.00%
<b>Financials</b>	3.30%	3.10%	3.00%	3.00%
<b>Healthcare</b>	4.50%	4.65%	3.90%	3.00%
<b>Industrials</b>	3.60%	2.90%	3.00%	3.00%
<b>Oil &amp; Gas</b>	4.70%	3.75%	3.55%	3.00%
<b>Technology</b>	4.25%	3.95%	4.00%	3.00%
<b>Telecommunications</b>	3.45%	1.55%	4.50%	3.00%
<b>Utilities</b>	3.75%	2.70%	2.85%	3.00%

Source: PwC Executive Reward Surveys 2013 and 2014

\*Calculated as an average of FTSE 100 and FTSE 250 data.

# Pay comparison results

## Approach to pay comparison – Elements of pay

We typically approach the comparison of market pay in the following categories:

- **Annual Base Salary:** The annual contracted level of pay, adjusted on an annual basis in line with market comparison, internal equity and incumbent development. This will typically form the basis of calculations for incentive targets (e.g. target expressed as a % of salary) and pension calculations. Base salary does not include variable cash payments such as performance related pay and profit sharing bonus;
- **Annual Total Cash:** The total direct amount received by the incumbent in a given year and will include annual base salary, contractual allowances (related to status of the job) and any incentive award (e.g. bonus, profit share, sales incentive) that may be made in the given year; and
- **Annual Total Reward:** The total amount received by the incumbent in a given year and will include the annual total cash plus a cash valuations of benefits including the value of employer contribution into a defined contribution pension scheme.

For the purposes of this review, we have used the following comparisons:

Category	Armed Forces	External Market
Annual Base Salary	2013 Military Pay Ranges or Bespoke Pay Spine ranges (e.g. Nurses, Chaplain, etc.)	Annual Base Salary
Annual Total Cash	Annual Base Salary plus allowances (e.g. LSA)	Annual Base Salary plus allowances plus incentives
Annual Total Reward	Annual Total Cash plus pensions benefits	Annual Total Cash plus pension benefits

We note the following:

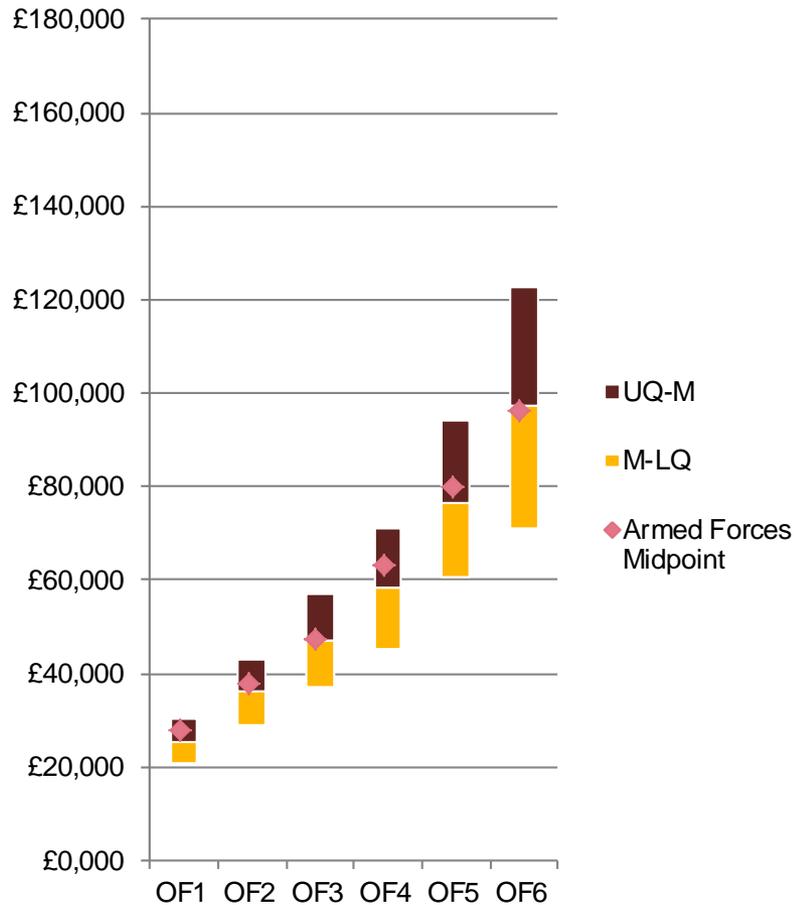
1. X-Factor for the composition of Armed Forces base salary is excluded.
2. We have also excluded any additional Armed Force allowances for RRP, accommodation (SFA, SLA) and food as these represent elements that are not typically indicative of a specific rank or role and as such, should be viewed as “job need” rather than “job status” allowances.
3. We have not taken overtime into account when looking at market pay comparisons.

# Pay comparison results

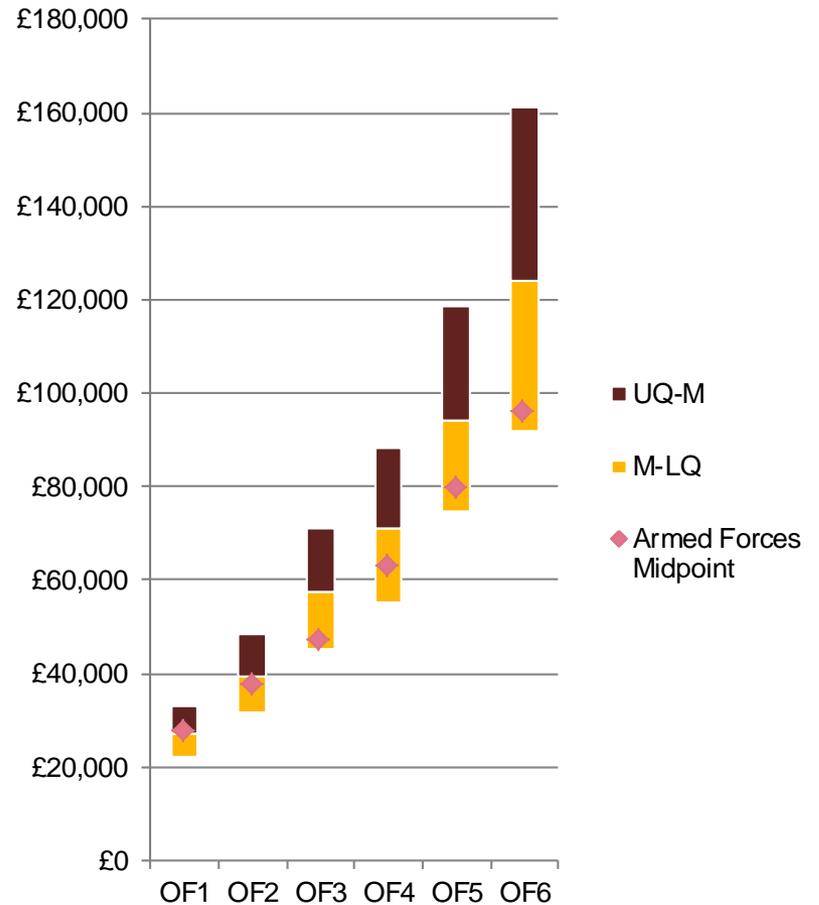
## OF population compared to Civilian employees

The following graphs show a comparison of the Armed Forces by each OF rank against a combined sample of private and public sector peers:

**Civilian sector annual base salary**



**Civilian sector annual total cash**

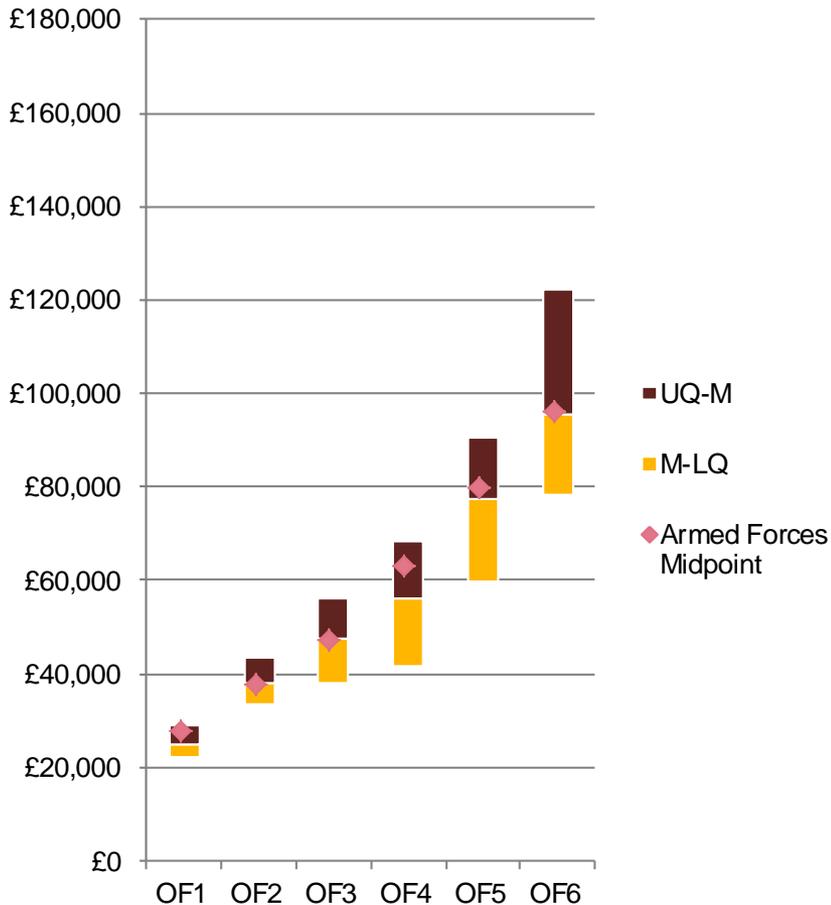


# Pay comparison results

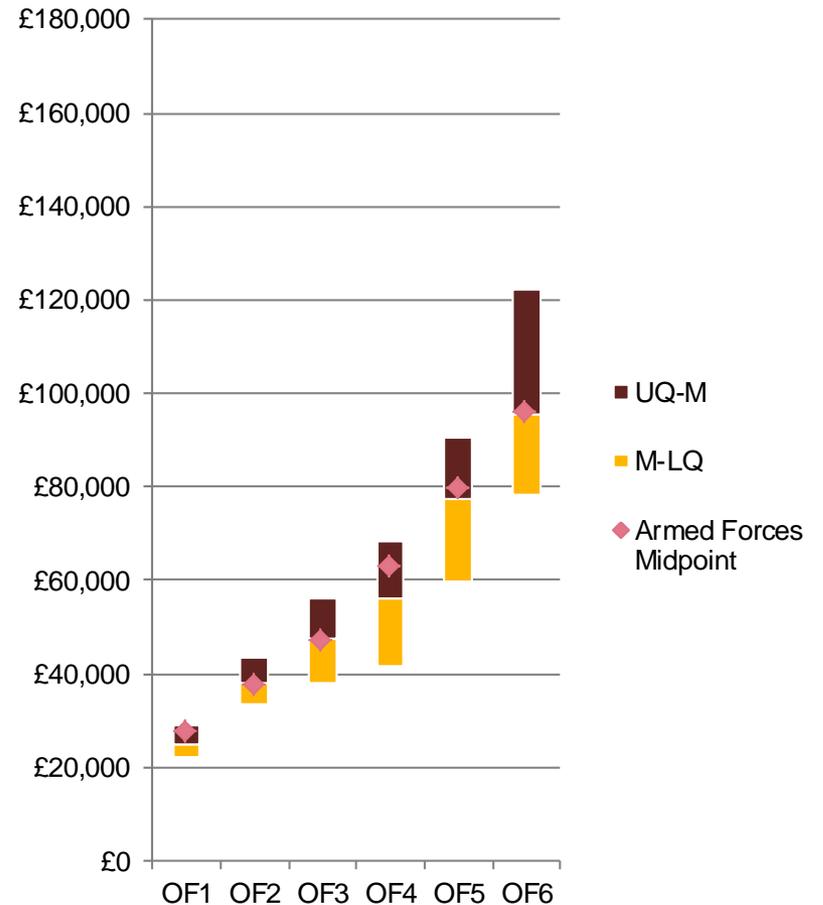
## OF population compared to the Public sector

The following graphs show a comparison of the Armed Forces by each OF rank across public sector job matches:

**Public sector annual base salary**



**Public sector annual total cash**



# Pay comparison results

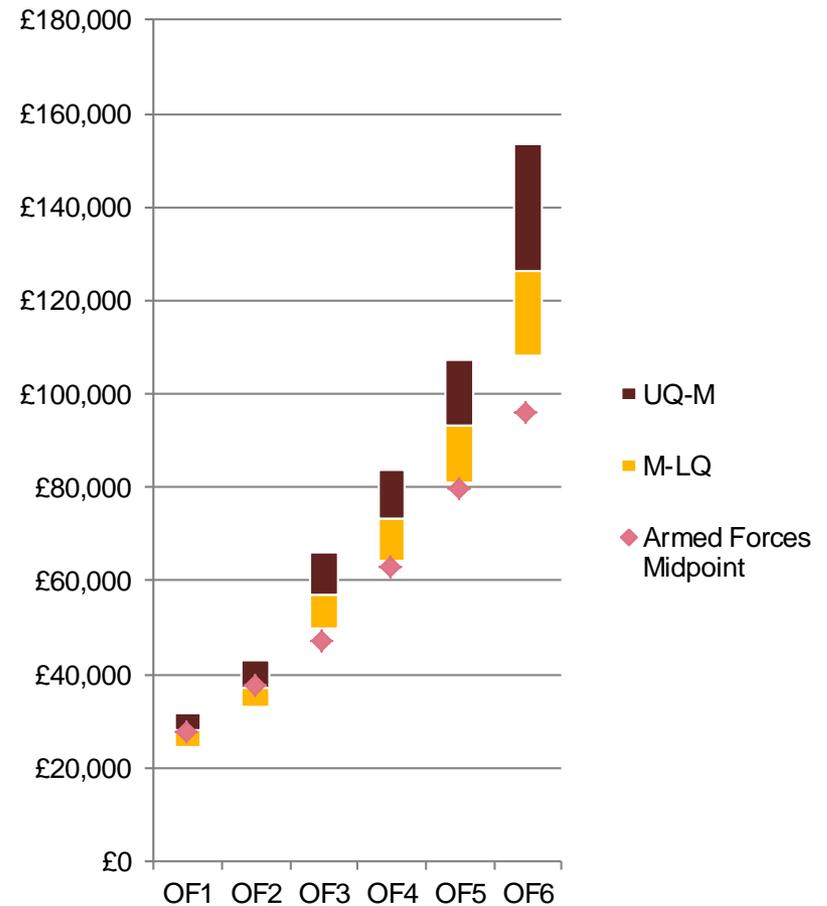
## OF population compared to the Private sector

The following graphs show a comparison of the Armed Forces by each OF rank across private sector comparators based on job evaluation:

**Private sector annual base salary**



**Private sector annual total cash**

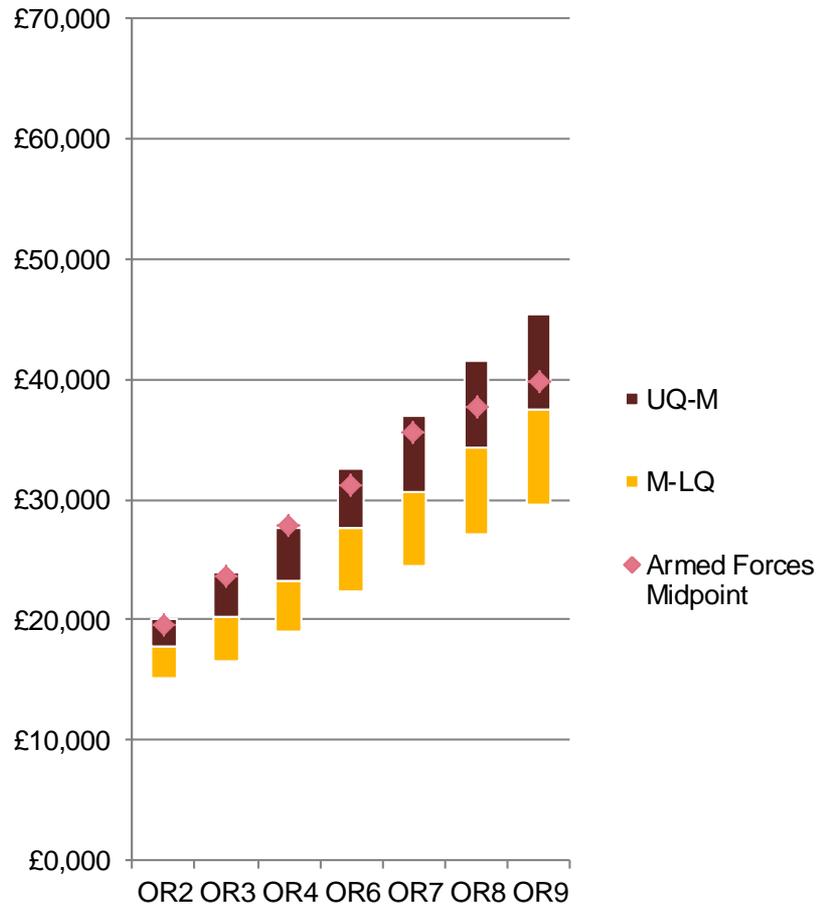


# Pay comparison results

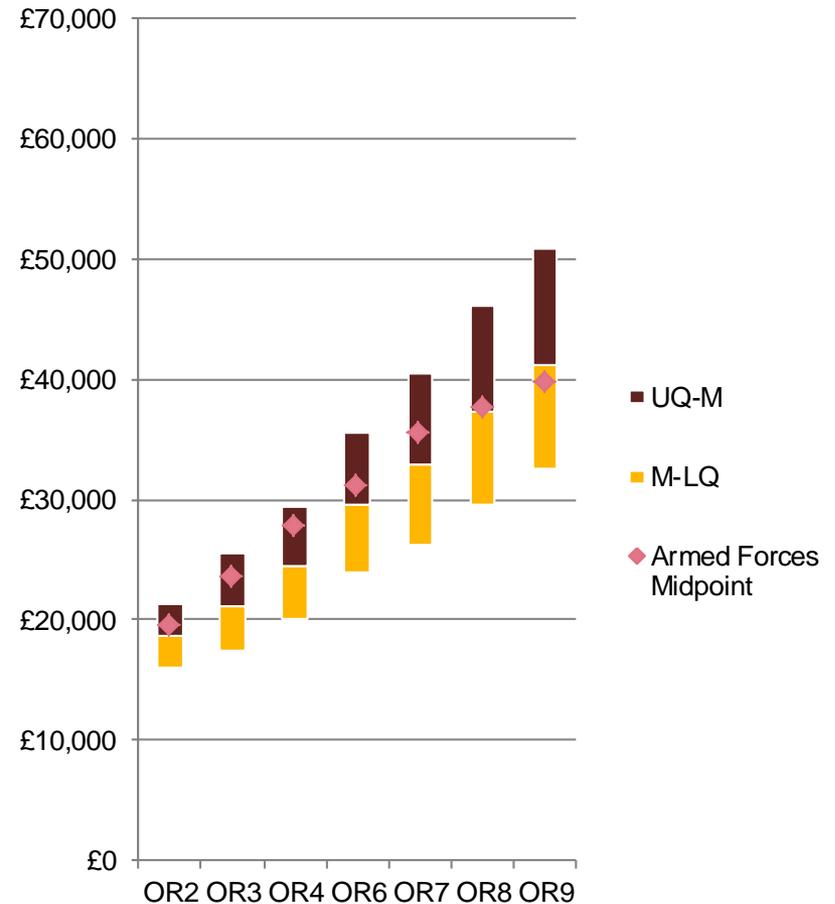
## OR population compared to Civilian employees

The following graphs show a comparison of the Armed Forces by OR rank against a combined sample of private and public sector peers:

### Civilian sector annual base salary



### Civilian sector annual total cash



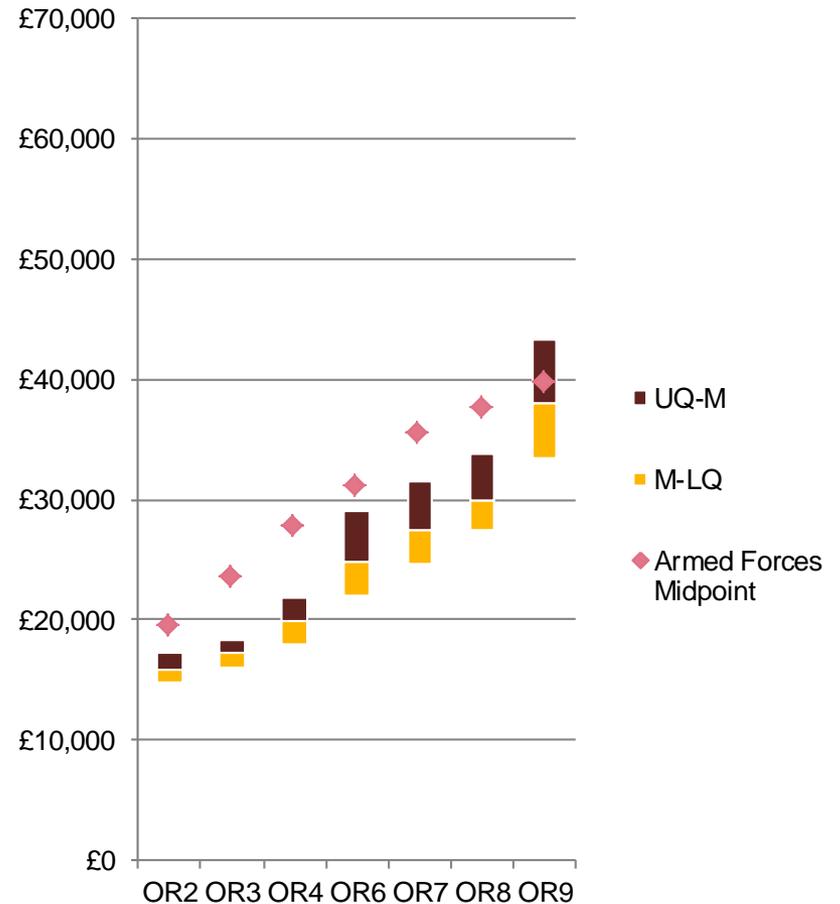
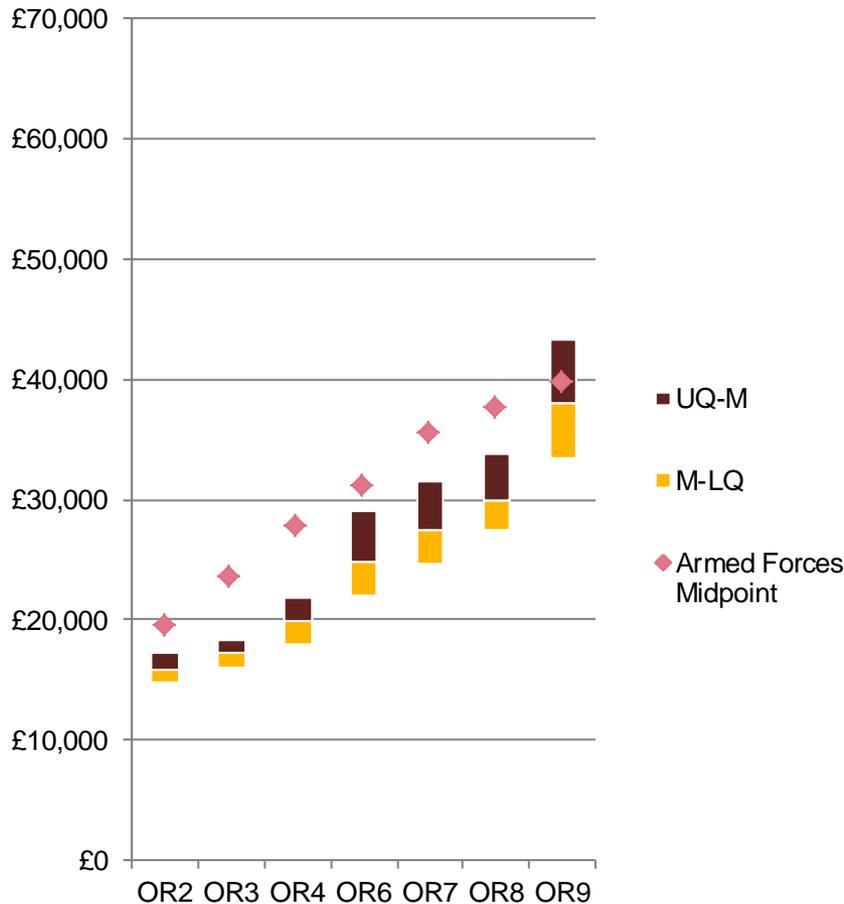
# Pay comparison results

## OR population compared to the Public sector

The following graphs show a comparison of the Armed Forces by each OR rank across public sector job matches:

**Public sector annual base salary**

**Public sector annual total cash**

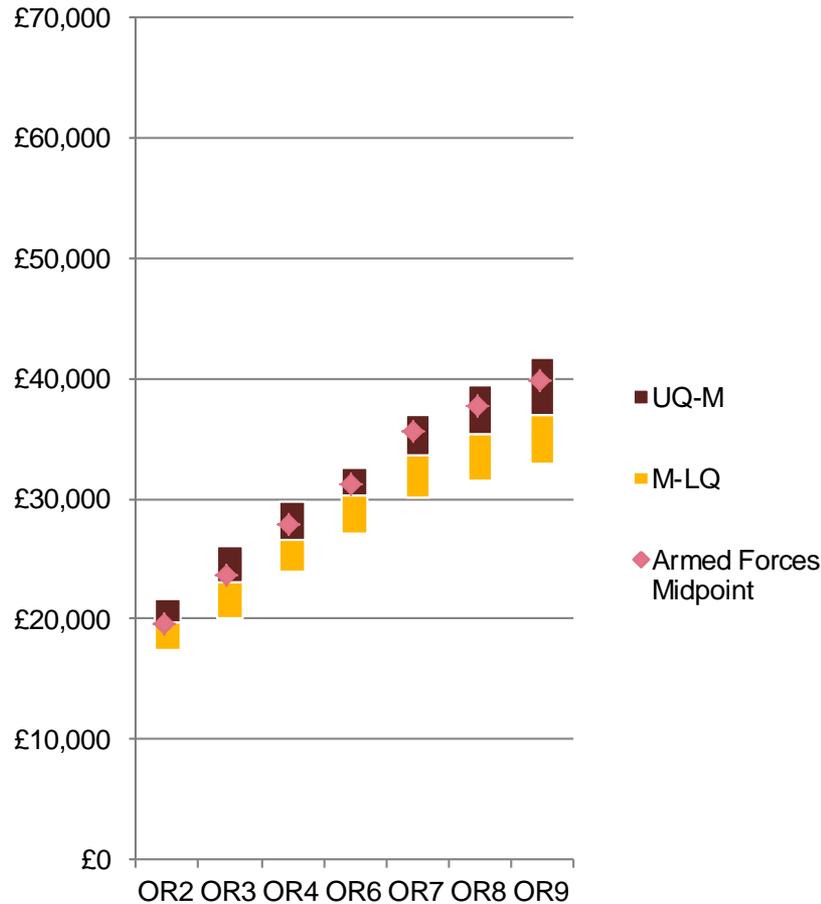


# Pay comparison results

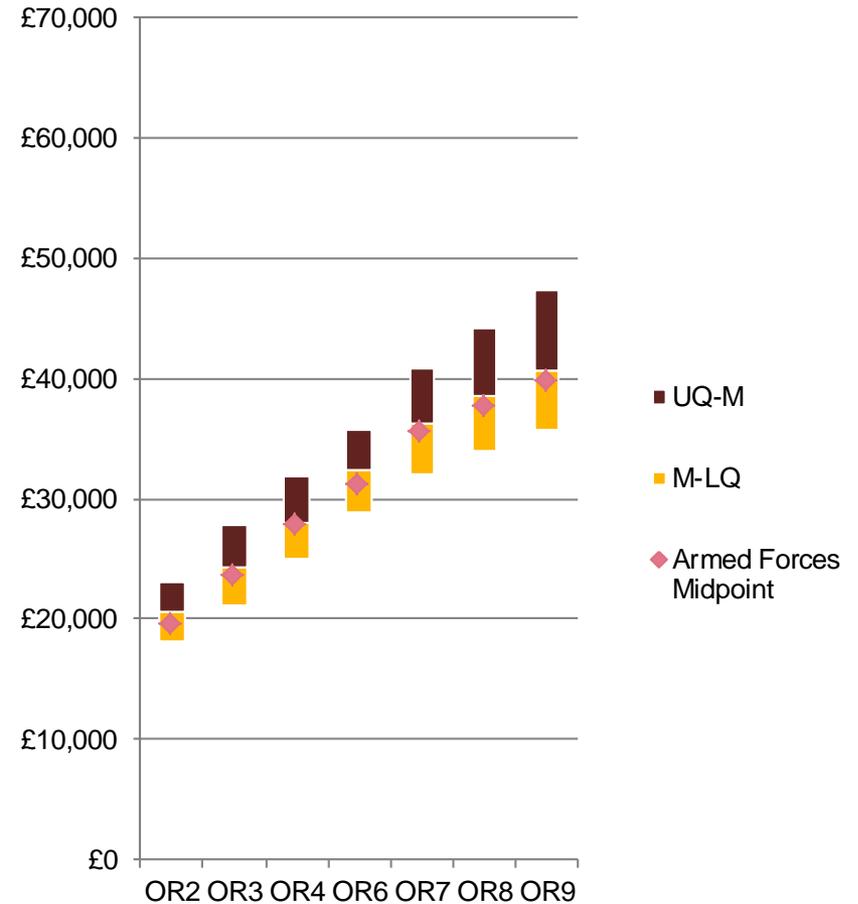
## OR population compared to the Private sector

The following graphs show a comparison of the Armed Forces by each OR rank across private sector comparators based on job evaluation:

**Private sector annual base salary**



**Private sector annual total cash**



# Detailed pay comparison findings

## Annual base salary

Rank	Min	Midpoint	Max	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	Armed Forces*			Civilian Sector				Public Sector				Private Sector			
<b>OF6</b>	£94,119	£96,123	£98,132	£71,066	£97,351	£122,663	99%	£78,245	£95,457	£122,400	101%	£86,877	£99,246	£114,377	97%
<b>OF5</b>	£75,652	£79,781	£83,913	£60,443	£76,510	£94,108	104%	£59,617	£77,320	£90,464	103%	£67,254	£75,701	£83,097	105%
<b>OF4</b>	£59,982	£63,140	£69,454	£45,413	£58,221	£71,030	108%	£41,798	£56,116	£68,461	113%	£54,505	£60,327	£66,449	105%
<b>OF3</b>	£42,737	£46,955	£51,184	£37,305	£47,221	£57,137	99%	£38,159	£47,698	£56,284	98%	£41,664	£46,744	£52,374	100%
<b>OF2</b>	£33,928	£37,592	£40,348	£28,810	£36,012	£43,215	104%	£33,371	£37,946	£43,258	99%	£30,397	£34,079	£38,209	110%
<b>OF1</b>	£22,026	£27,523	£29,264	£20,930	£25,524	£30,373	108%	£21,949	£24,892	£29,123	111%	£23,202	£26,156	£28,974	105%
<b>OR9</b>	£37,655	£39,773	£41,836	£29,603	£37,472	£45,341	106%	£33,371	£37,946	£43,258	105%	£32,855	£36,998	£41,735	107%
<b>OR8</b>	£36,284	£37,621	£38,703	£27,078	£34,276	£41,475	110%	£27,540	£29,937	£33,829	126%	£31,453	£35,351	£39,394	106%
<b>OR7</b>	£33,067	£35,478	£37,621	£24,448	£30,560	£36,977	116%	£24,673	£27,414	£31,527	129%	£30,050	£33,705	£37,052	105%
<b>OR6</b>	£29,311	£31,220	£33,045	£22,363	£27,609	£32,579	113%	£21,949	£24,892	£29,123	125%	£27,160	£30,326	£32,541	103%
<b>OR4</b>	£24,690	£27,797	£29,692	£19,086	£23,275	£27,697	119%	£17,952	£19,913	£21,858	140%	£23,915	£26,637	£29,778	104%
<b>OR3</b>	£21,542	£23,628	£25,895	£16,554	£20,187	£24,023	117%	£15,963	£17,301	£18,360	137%	£20,148	£23,074	£26,026	102%
<b>OR2</b>	£15,673	£19,483	£23,628	£15,222	£17,699	£20,000	110%	£14,806	£15,762	£17,183	124%	£17,336	£19,637	£21,641	99%

\*Pay data is based on figures used in PwC's 2013 report on *Comparison of Pay in the Armed Forces and the Civilian Sector* plus 1% flat rate 2014 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# Detailed pay comparison findings

## Annual total cash

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	Armed Forces	Civilian Sector				Public Sector				Private Sector			
OF6	£97,309	£91,895	£123,891	£161,160	79%	£78,245	£95,457	£122,400	102%	£108,008	£126,165	£153,443	77%
OF5	£80,967	£74,473	£94,047	£118,696	86%	£59,617	£77,320	£90,464	105%	£81,186	£93,116	£107,503	87%
OF4	£64,327	£55,073	£71,155	£88,108	90%	£41,798	£56,116	£68,461	115%	£64,376	£73,524	£83,922	87%
OF3	£48,141	£45,298	£57,465	£71,090	84%	£38,159	£47,698	£56,284	101%	£49,615	£56,935	£66,248	85%
OF2	£38,779	£31,547	£39,433	£48,346	98%	£33,371	£37,946	£43,258	102%	£32,987	£37,316	£43,065	104%
OF1	£28,709	£22,257	£27,183	£32,862	106%	£21,949	£24,892	£29,123	115%	£24,563	£27,856	£31,524	103%
OR9	£40,959	£32,600	£41,219	£50,962	99%	£33,371	£37,946	£43,258	108%	£35,815	£40,698	£47,285	101%
OR8	£38,808	£29,546	£37,361	£46,102	104%	£27,540	£29,937	£33,829	130%	£33,998	£38,533	£44,166	101%
OR7	£36,665	£26,281	£32,852	£40,415	112%	£24,673	£27,414	£31,527	134%	£32,073	£36,233	£40,844	101%
OR6	£32,407	£23,909	£29,542	£35,478	110%	£21,949	£24,892	£29,123	130%	£28,858	£32,449	£35,725	100%
OR4	£28,984	£20,017	£24,439	£29,443	119%	£17,952	£19,913	£21,858	146%	£24,981	£27,969	£31,776	104%
OR3	£24,814	£17,361	£21,197	£25,537	117%	£15,963	£17,301	£18,360	143%	£21,071	£24,227	£27,757	102%
OR2	£20,669	£15,930	£18,584	£21,328	111%	£14,806	£15,762	£17,183	131%	£18,121	£20,619	£23,113	100%

\*Pay data is based on figures used in PwC's 2013 report on *Comparison of Pay in the Armed Forces and the Civilian Sector* plus 1% flat rate 2014 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# Detailed pay comparison findings

## Annual total cash – Summary of findings

### Results

The results on the following pages outline the comparative position of the Armed Forces for annual total cash as compared to the Civilian sector and also against the sub-sets of the Public and Private sectors. We have included the Longer Separation Allowance (“LSA”) in the makeup of the Armed Forces total cash figures but this is relatively small in comparison to market trends on incentive/bonus awards. We have for reference included a table below to outline the typical target levels of variable incentive (i.e. bonus) awards among Private sector organisations which are unchanged on 2013.

### Typical target incentive as percentage of annual base salary (Private sector only)

Employee Group	LQ	Median	UQ
Senior Management	15%	20%	30%
Management	10%	15%	20%
Professionals	8%	10%	12%
Supervisory / Junior Professionals	5%	8%	10%
Administrative/Technician	3%	5%	8%
Manual	1%	3%	5%

The results for the OR population are competitive at all levels when compared to the market median of the Civilian sector. There is however typically a decrease of 2% to 5% in the competitive position at the higher end of the OR population and this points to the appearance and impact of bonus awards at these levels. The impact is more pronounced in the Private sector with very little evidence in the Public sector, where bonus awards are still relatively uncommon and small in actual value in comparison to the Private sector.

The impact of overtime, shift allowances or similar payments may be a possible counter-balance to the small bonus awards in the OR-equivalent population as this will often be the alternative for jobs that are measured more specifically on the basis of output rather than performance. In this light, and because such payments were excluded from our analysis as per the comments on page 6, the pay position for the OR population may look more competitive than it is actually is. This is important given the longer than average hours worked by the Armed Forces in comparison to most civilian counterparts and hence the starting pay position for the OR population may be designed to offset these assumed working hours.

The competitive situation for the OF population is far less positive in terms of annual total cash, particularly when the Civilian market shows bonus payments in excess of 10% to 30% of base salary for equivalent jobs. The absence of an equivalent payment decreases the competitive position by as much as 15%, particularly in comparison to the Private sector. The decrease is particularly marked among the OF3, OF5 and OF6 populations and this may point to changes in practice in the Civilian sector as we move from Professional to Management to Senior Management roles.

# Impact of Armed Forces Pension on Annual Total Reward

## Annual total reward

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	
	<b>Armed Forces*</b>	<b>Civilian Sector</b>					<b>Public Sector</b>				<b>Private Sector</b>			
<b>OF6</b>	£134,220	£103,139	£140,928	£185,011	95%	£92,106	£116,457	£151,801	115%	£116,524	£139,067	£167,834	97%	
<b>OF4</b>	£87,625	£59,876	£78,433	£98,296	112%	£48,094	£65,655	£81,816	133%	£67,694	£78,351	£90,678	112%	
<b>OF3</b>	£55,795	£48,181	£61,833	£77,205	90%	£41,779	£53,183	£63,963	105%	£51,775	£60,207	£70,829	93%	
<b>OF2</b>	£44,230	£33,377	£42,206	£52,229	105%	£35,725	£41,512	£48,252	107%	£34,336	£39,361	£45,928	112%	
<b>OR9</b>	£47,164	£36,557	£47,214	£59,355	100%	£38,881	£46,294	£54,945	102%	£38,257	£44,398	£51,910	106%	
<b>OR6</b>	£36,933	£25,504	£31,957	£38,860	116%	£23,839	£27,754	£33,131	133%	£30,059	£34,269	£38,272	108%	
<b>OR4</b>	£32,653	£21,199	£26,231	£31,952	124%	£19,187	£21,785	£24,478	150%	£26,035	£29,567	£34,013	110%	
<b>OR2</b>	£22,735	£16,572	£19,558	£22,691	116%	£15,430	£16,708	£18,507	136%	£18,809	£21,601	£24,488	105%	

\*Pay data is based on figures used in PwC's 2013 report on *Comparison of Pay in the Armed Forces and the Civilian Sector* plus 1% flat rate 2014 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# **Observations of 2014 report**

## **Conclusions**

In the context of limited changes to pay in the wider market, the overall positioning has not changed.

### **Officer Ranks**

- The Officer population midpoint salaries remain within the adjusted pay ranges overall for the Civilian sector
- The position slips when considering total cash
- When broken down by sector, midpoint salary is at or just above median against the Public sector for base pay and total cash
- Against the private sector, salary is also positioned around the median but falls behind the total cash ranges – particularly at OF3 and above reflecting the impact of incentives in the private sector
- When pension is included, the total reward position varies by role
- The mid point of the Armed Forces pay is above the median for OF4 and OF2 but behind for OF6 and OF3 in our samples when compared to the civilian sector

### **Other Ranks**

- When compared against the overall Civilian sector, base salary is broadly above median
- Total cash is also above median for most roles up to OR8 and OR9
- Against the public sector, salaries and total cash for all OR posts are above upper quartile with the exception of OR9 which is just above median
- Against the private sector, while base pay is at or above median, the total cash position is just below median
- Total reward is above median against the Civilian sector with the exception of OR9 which is just behind the market

# *Appendices*

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# **Appendix A: Appendix A: Approach to pay comparison**

## **Data sources used**

The pay data on which the comparisons have been based have been drawn from the following sources:

- Our pay database which contains unpublished data on a range of jobs, covering all aspects of reward ranging from salary, bonus and pension to benefits such as private medical cover, financial planning and health insurance;
- Data brought in from surveys (including third party surveys) where we are able to make a robust assessment of the size of the role through the PwC JES; and
- Publically available data in respect of groups of employees where roles can be (or have been) evaluated using the PwC JES. These will include jobs in both the public and private sector.

Using the data gathered from these sources, we have reviewed the comparison with reference to the JE results and included all job records appropriate to each Armed Forces rank. Examples of the selected jobs can be found on the previous pages of this report.

The job samples were then divided into three groups to provide different points of comparison:

1. All jobs eligible for comparison to the Armed Forces rank, becoming the “Civilian Sector” comparator group;
  2. All jobs eligible for comparison and are currently employed by a private sector organisation, becoming the “Private Sector” comparator group; and
  3. All jobs eligible for comparison and are currently employed by a public sector organisation, becoming the “Public Sector” comparator group.
- In the case of each Armed Forces rank, we then proceeded to undertake an analysis of the pay levels with reference to the pay categories outlined on page 6 of this report.

*It should be noted that JE does not guarantee a perfect comparison between the Armed Forces ranks and the Civilian sector jobs. The roles within the Armed Forces are all unique by nature and so have no direct counterparts outside the organisation; however, by using JE to establish the relative size of jobs to compare against peers, we are able to obtain an illustration of pay levels and track these over time.*

## Appendix A: Composition of data sample

We outline below the composition of our Civilian sector sample below which shows the break-down between the Private and Public sub-sectors in terms of organisations and jobs. Please note that the overall total of organisations shown for the Private and Public sector refers to the total number of organisations used in the overall sample.

We have also weighted the distribution of jobs in the Civilian sector to ensure that the Private sector does not overly dominate the sample used in the analysis for each rank. This weighting is based on our experience and judgement of these scenarios to create a representative picture of the external market (e.g. ONS figures indicate that the Public sector typically represent between 20% and 25% of the UK market depending on level and location).

### Distribution of jobs by rank in terms of organisation and jobs

Rank	Private Sector		Public Sector		Civilian Sector				
	Number of organisations	Jobs	Number of organisations	Jobs	Total organisations	Total jobs	Number of Total Jobs as % of Overall Total	Number of private jobs as % of Total Jobs	Number of public jobs as % of Total Jobs
<b>OF6</b>	366	644	46	109	412	753	2%	86%	14%
<b>OF5</b>	377	1,157	80	199	457	1,356	4%	82%	18%
<b>OF4</b>	385	1,815	131	410	516	2,225	6%	75%	25%
<b>OF3</b>	389	2,134	157	860	546	2,994	8%	71%	29%
<b>OF2</b>	383	2,435	149	767	532	3,202	9%	72%	28%
<b>OF1</b>	348	2,287	132	427	480	2,714	8%	73%	27%
<b>OR9</b>	382	2,200	131	410	513	2,610	7%	74%	26%
<b>OR8</b>	384	2,671	157	860	541	3,531	10%	71%	29%
<b>OR7</b>	384	2,671	149	767	533	3,438	10%	72%	28%
<b>OR6</b>	357	1,920	132	427	489	2,347	7%	73%	27%
<b>OR4</b>	340	2,653	79	223	419	2,876	8%	81%	19%
<b>OR3</b>	318	2,828	88	261	406	3,089	9%	78%	22%
<b>OR2</b>	318	3,994	75	255	393	4,249	12%	81%	19%
<b>Overall Total</b>	389	29,410	157	5,975	546	35,385	100%	71%	29%

# Appendix B: Impact of Armed Forces Pension on Annual Total Reward

## Comparing pensions benefits

The value of the pensions benefits for the Armed Forces was derived from the 2012 review of Armed Forces pensions<sup>^</sup> by PwC. The review methodology set out eight career paths (four each at Officer and Other Rank), defined by career length and rank on leaving. It should be noted that the analysis has been developed with a number of caveats;

1. The 2012 pension scheme valuation was developed around a series of typical career paths rather than in relation to all ranks of the Armed Forces with assumptions on exit points. We have extrapolated from the information on the assumption that this leaving rank will provide a reference point for these specific ranks and the job equivalence in other sectors as per our job matching approach.

Rank	Career path	Length of service	Example rank on leaving	Pension benefits as a percentage of salary*
<b>Other Ranks</b>	<b>A</b>	4	Private	10.6
	<b>B</b>	12	Corporal	13.2
	<b>C</b>	22	Sergeant	14.5
	<b>D</b>	22	WO1	15.6
<b>Officers</b>	<b>E</b>	8	Captain	14.5
	<b>F</b>	18	Major	16.3
	<b>G</b>	33	Lt Colonel	36.9
	<b>H</b>	33	Brigadier	38.4

Table 5.2 from PwC Pension Scheme Valuation (pg. 39 of AFPRB Forty-Second Report, March 2013)

\*The definition of salary here includes X-Factor of 14.5% of base salary, i.e. military salary

2. We have not made any adjustments on the impact of early departure payments (EDI) and immediate pension (IP) as we believe this ran the risk of under-representing the pensions benefits in these specific career scenarios. This should however be factored into any final considerations of the pay analysis.
3. The value of the pension scheme shown in the pensions review relates to a specific length of service in the Armed Forces. However as the length of service in the Armed Forces is generally shorter than alternative careers in other sectors, it is important to bear in mind that this pension benefit may not be a whole career benefit. EDI and IP are intended to balance the requirement to find a second career after service with the Armed Forces but this may still lead to some shortfall in career earnings.

<sup>^</sup>Report available at <https://www.gov.uk/government/publications/armed-forces-pension-scheme-valuation-2012>

# Appendix B: Impact of Armed Forces Pension on Annual Total Reward

## Market practice on pension benefits

We have reviewed our understanding of market practice on levels of pensions benefits, assuming average life expectancy. This draws on organisation practice, both defined benefit and defined contribution, and converted to a defined contribution value. This excludes the impact of employee contributions.

### Pension Benefits expressed as % of Base Salary

Employee Group	Private Sector			Public Sector		
	LQ	Med	UQ	LQ	Med	UQ
Senior Management	11.6%	17.5%	24.5%	14.5%	22.0%	30.8%
Management	10.2%	15.5%	21.7%	13.9%	21.0%	29.4%
Professionals	6.1%	9.3%	13.0%	7.6%	11.5%	16.1%
Supervisory / Junior Professionals	5.1%	7.7%	10.8%	6.2%	9.4%	13.2%
Administrative/Technician	3.8%	5.8%	8.1%	4.3%	6.5%	9.1%
Manual	3.6%	5.5%	7.7%	4.0%	6.0%	8.4%

We have matched the Armed Forces ranks to the typical levels of pensions benefits in the Private and Public sectors in our market comparison:

Rank	Armed Forces	Private Sector (median)	Public Sector (median)
OF 6	38.4%	17.0%	22.0%
OF 4	36.9%	11.0%	17.0%
OF 3	16.3%	9.0%	11.5%
OF 2	14.5%	6.0%	10.2%
OR 9	15.6%	9.5%	15.0%
OR 6	14.5%	6.5%	8.6%
OR 4	13.2%	5.0%	7.5%
OR 2	10.6%	4.0%	7.0%

It should however be noted that as jobs become more senior, the application of pension benefits does begin to alter, particularly where individuals start to reach salary levels that no longer have tax-efficiency benefits. This can then lead to alternative practices such as separate cash allowances, which are difficult to represent in market analysis due to lack of available data at this time.

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