

ANNUAL REPORT 2016 / 17
For the year ended 31 March 2017

To the Minister for the Armed Forces on the
Armed Forces Pension Schemes

Robert Branagh
Chair, Armed Forces Pension Board

Executive Summary

I am delighted to present this second Annual report on the Armed Forces Pension Schemes (AFPS) and I am pleased to report that we have continued to build on last year's strong foundations as a body charged with assisting the Scheme Manager in administering the scheme, or in laymen's terms, assisting with the oversight and governance of the Armed Forces Pension Schemes.



The Board continues to meet every quarter and reviews the quality and quantity of the pension's administration service provided by our colleagues at DBS Veterans UK. Primarily serviced from its Glasgow operation, they continue to provide a quality service to our members with relatively few formal complaints. DBS attend our Board meetings and continue to enjoy a transparent and collaborative approach to dealing with core business issues, projects or on areas of improvement.

Board members come from a wide range of backgrounds and all bring different skills to the Pensions Board. They represent the interest of all beneficiaries and have access to suitably qualified and experienced advisers to complement their own knowledge. This is further enhanced by members undertaking the Pensions Regulator's (tPR) public sector Trustee toolkit. I would like to thank all my Board colleagues for their attendance and contribution at our meetings and engagement has again been very good around the table this past 12 months. We have begun the process of reviewing our effectiveness as individual members of, and as, a Board and I hope to report on lessons learnt from this in our next report.

Across the 75, 05 and 15 Schemes we have over 1 million members to support with the vast majority having already left service or drawing a pension. A high quality, well run and efficient administration service is critical in supporting our members enjoy the benefits of what remains, a first class pension scheme compared with many others in the UK workplace today. We have received independent feedback from CEM Benchmarking during the period to update us on our value for money and complexity compared to similar sized schemes in the UK. Against this peer group we continue to cost less and have a higher total member's service score compared to the peer median.

Looking ahead the Board will be spending more time looking at how the complexity and the benefits of the Scheme are communicated alongside supporting improvements to administration process and the underlying quality of our data. As this is the second report produced for AFPS, I very much welcome any feedback or comments on its contents.

I would like to thank all of those involved in making the AFPS a success this year and look forward to our third year; maintaining the high level of service to members and seeing what other great things can be achieved for our membership.

RB
Chair of the AFPS Pension Board

Introduction

1. Lord Hutton's Independent Public Service Pensions Commission (IPSPC) Report in 2011 outlined key recommendations for the reform of all public service pension schemes. This led to the enactment of legislation, specifically primary legislation, ratified under the Public Services Pension Act 2013 (PSPA 13) and Scheme specific secondary legislation under the Armed Forces Pension Scheme 2015 (AFPS 15).
2. Lord Hutton's overarching principles were that public service employees and tax payers should expect public service pensions that are:
 - a. **designed to protect the tax payer from rising costs**, through a 'cost cap' mechanism;
 - b. **fair and sustainable for future generations**, with elements protected for a period of time (such as the extent to which the pension is on a career average (i.e. not a final salary) pension scheme, or members' contribution rates); and
 - c. **subject to better governance and greater transparency for members**. For the Armed Forces this was through the establishment of a Board; to ensure member interests are protected, with the Pensions Regulator now providing independent oversight of all schemes.
3. AFPS 15 is a Career Average Re-valued Earnings pension scheme which replaced the earlier final salary scheme. It is a non-contributory, defined benefit scheme which has been designed in accordance with the PSPA 13 and was launched on 1 April 2015. AFPS 15 increased the normal pension age from 55 to 60 and linked the deferred pension age to the State Pension age. It retained the Early Departure Payment (an income stream and tax-free lump sum designed to compensate individuals for the early age at which they leave the Armed Forces), ill-health benefits and dependents' benefits schemes.
4. There are two main legacy pension schemes for members of the regular Armed Forces: the Armed Forces Pension Scheme 1975 (AFPS 75), which closed to new entrants on 6 April 2005; and the Armed Forces Pension Scheme 2005 (AFPS 05), which was introduced thereafter and closed to new recruits on 31 March 2015. Further pre-AFPS 15 schemes still exist, therefore management of the current pensions systems is complex.

Pension Governance

5. Lord Hutton's report identified a perceived separation between those responsible for the governance of public service pension schemes and those delivering the benefits. Additionally, he highlighted a lack of member involvement in the analysis and decision making process. The PSPA 13 introduced a framework designed to ensure better governance and greater transparency, including the oversight of all public service pension schemes by the Pensions Regulator. The PSPA 13 mandated a formal Governance Structure specifically for Public Service pensions, with two new roles and two new boards.
6. **New Roles:**
 - a. **Responsible Authority.** The PSPA 13 specifies that the Secretary of State for Defence (SofS) must be the Responsible Authority. The Responsible Authority has the power to make and amend Scheme Regulations.
 - b. **Scheme Manager.** The Scheme Manager is responsible for managing and administering the AFPS. SofS appointed himself the Scheme Manager but delegated the management of the AFPS to the two Boards. Whilst authority is delegated, overall responsibility remains with the Scheme Manager.

7. **New Boards:**

a. **Scheme Advisory Board.** The Scheme Advisory Board has responsibility for providing advice on the desirability of changes to the scheme when required to do so by the Responsible Authority. Chaired by the Permanent Secretary, the Scheme Advisory Board will only be required to make decisions on major changes to the scheme design, and as such, it sits by exception. It has authority to make recommendations to the SofS on major changes to the Scheme rules and is advised by the Pension Board and HM Treasury. The Chair of the Pension Board is a member of the Scheme Advisory Board.

b. **Pension Board.** The Pension Board was created following the mandating by the PSPA 13 for a formal governance structure specifically for Public Service pensions. It is responsible for assisting the Scheme Manager in complying with scheme regulations and other legislation relating to governance and administration, as well as requirements imposed by the Pension Regulator. SofS appointed Robert Branagh as the Non-Executive Chair of the Pension Board in January 2015.

8. The Scheme Advisory Board has the authority to recommend to SofS changes to scheme rules; the Pension Board ensures that those rules are followed. Annex A provides an overview of the governance structure and those areas that support the Scheme Advisory and Pension Boards.

9. The AFPS is supported by DBS Veterans UK, who has delegated authority to deliver pension administration through a contractual arrangement covered later on in this Annual Report. This arrangement includes agreement on Governance, Audit and pension reporting. Specific groups have been established, including the Authority Audit Committee, to provide objective advice and support in the areas of risk, control, governance process and associated assurances. A rolling programme of Defence Internal Audits are undertaken to review pension processes. In addition to this there is an annual audit undertaken by the National Audit Office.

10. Overall governance arrangements and that of day to day management control are now in place and remained largely effective. The AFPS has its own assurance three year programme, which forms the basis of a rolling year on year programme of assurance, undertaken by Defence Internal Audit. During the 2016/17 period one Full assurance was awarded for Award Preserved Pension and four Substantial assurances were issued against Internal Dispute Resolution Process, Provide Membership Information to Member, Apply External Legislative Changes and Overarching Governance & Oversight of AFPS. This positive effort was recognised, resulting in DIA awarding AFPS an overall Substantial Assurance for 2016/17.

11. I am pleased to report that the 2016/17 Armed Forces Pension Scheme financial statement was certified by the Controller and Auditor General with an unqualified audit opinion without modification. As Chair of the Pensions Board I have a standing invitation to the DBS Audit and Risk Committee where the Accounts and wider scheme assurance are currently monitored and overseen.

12. We continue to deliver on all three schemes including AFPS 15, AFPS 75 and AFPS 05. The Annual Benefit Information Statements (BIS) rolling programme to all members commenced in September 15. The BIS provides scheme members with a description of the benefits earned. By the 31 March 2017 over 313, 388 statements had been issued.

The Pension Board

13. **Pension Board Membership.** There are currently 15 members (including the Chair) and 4 attendees in an advisory capacity. The construct of the Pension Board has been maintained to ensure the interests of the Schemes' beneficiaries and stakeholders are represented, with seven employee representatives and seven employer representatives. Details on the composition of the Pension Board along with the Terms of References are at Annex B.

14. **Financial Costs.** There is a direct cost in running the Pension Board, ranging from fees for the Non-Executive Chair, training and development for Pension Board members, to travel and subsistence costs for those attending. A breakdown can be found below:

Direct Costs 2016/2017 (Approx.)	Cost
Non-Executive Chair	£ 12,000
Training and development	£ 2,000
Travel and subsistence costs	£ 0
Total	£ 14,000

15. **Meeting Attendance & Training.** During the period, the Pension Board has met three times. The Pension Board is committed to complying with the statutory duty of monitoring its training needs to ensure a better understanding of the Armed Forces Pension Schemes. We all agreed early on, that training, continuing leading and development were key elements of helping us become an effective Board. Consequently, all Pension Board members have commenced training through the Pension Regulator Trustee Toolkit, which will give them all a strong understanding of Pensions in order to allow them to appropriately discharge their responsibilities as a Board. A log detailing the training the Board has undertaken is at Annex C. We also recognise the need for bespoke training and the Pension Board are currently reviewing what further training is required and setting this in place.

16. **Conflicts of Interest.** No Conflicts of Interests have arisen during the year.

17. **DIA Audit of the Pension Board, (PB).** Defence Internal Audit (DIA) is responsible for providing the Permanent Secretary and Defence Audit Committee with an independent, objective assurance on the effectiveness of MOD's systems of governance, risk management and internal control.

18. An audit was included in their 2016/17 programme to contribute to that assurance. It reviewed the control framework that was in place to manage the risks associated with People – Overarching Governance and Oversight of Armed Forces Pension Scheme (AFPS). Fieldwork was conducted between November 2016 and January 2017 primarily within the People Defence Authority and AFPS organisation.

19. The framework of controls in place to ensure effective overarching Governance and Oversight of AFPS were established and found to be working as intended.

20. There were several areas of the current control framework in which controls were found to be effective and working as intended. These included:

21. Tone at the Top; the Pension Board (PB) Terms of Reference dated 3 July 2015 set out expectations for PB business under headings of Tenure & Attendance; COI; Conduct of Business; PB Responsibilities and PB Members Responsibilities. There was no evidence in the PB minutes reviewed that indicated behaviour had breached the tone expected for PB business. This was further evidenced during DIA attendance at the July 2016 Pension Board meeting.

22. Communication; In line with tPR's requirements for scheme governance, key PB information had been published on the Defence Intranet. This included PB Terms of Reference (TOR), Annual

Report 2015/16 and PB Forward Plan 2016/17. PB Annual Report 2015/16 had also been published on gov.uk and Forces Pension Society internet pages.

23. There was also communication at both working and senior levels between AFPS Policy Team/Pay Colonels/DBS about DIN production and policy interpretation.

24. PB Governance; The PB TOR dated 3 July 2015 set out the composition of the Pension Board. This was confirmed by the PB Annual Report 2015/16, which also evidenced PB composition was subject to periodic review. Tenure of PB members was in line with best practice; TOR clearly outlined PB roles/responsibilities; and included requirements for scheme governance as highlighted by tPR.

25. The PB forward work plan focused on strategic matters and was regularly reviewed; there was an effective induction procedure in operation for new PB members; Management Information (MI) requirements of PB were regularly reviewed; MI was challenged at PB meetings; and performance reports covered key AFPS activity. PB meetings were minuted, with actions allocated to specific PB members; and all outstanding actions were considered at subsequent meetings until they were closed.

26. Policy/Delivery Team Boundaries/Responsibilities; the boundaries between AFPS Policy Team and DBS Vets UK Delivery Team were clearly documented and subject to periodic review; as were the responsibilities of both teams. The process by which AFPS Policy was interpreted by DBS Vets UK was evidenced and AFPS Assurance Team were in the process of reviewing all MOD Authority Instructions (MAI).

27. **Pension Board areas of interest.** Since its inception, the Pension Board has focused on various areas, including:

a. **Review of DBS Veterans performance.** Key performance indicators (KPIs) are used to monitor DBS Veterans performance to improve the service delivery for all pension scheme members. In addition to monitoring BAU administration we continue to monitor how DBS and other professional advisors such as the Government Actuary's Department (GAD) have been dealing with the contracting out and major projects such as on GMP reconciliation. Member data reconciliation continues at pace with AFPS working collaboratively with HMRC, through the scheme reconciliation scheme, to match data and ensure members are recorded accurately. An additional line of assurance was introduced within the AFPS Authority team to address less routine aspects of pension administration. To date, the team have quality assured more than 700 awards carried out by its commercial partner and MOD Authority staff.

b. **The effectiveness of communications to members.** Veterans UK launched the 'Service to Civvy: Are you Pension Ready?' publicity campaign in December 2016 to promote the Armed Forces Pension Schemes and to encourage further engagement with the armed forces community to start thinking about their pension throughout their service career and not just as they are reaching the end of it. This was achieved by a series of animated videos targeted to reach the largest audience possible via social media & internet channels. AFPS continued the campaign by pushing the content to external stakeholders via Press packs (70+ including over 20 publications). Along with the assistance partner and stakeholder contacts to capitalise on audience reach, AFPS estimate that the campaign has reached almost a million people. By the end of March 2017, the campaign had a social media reach of over 40,000 and over 6,000 direct views from the campaign videos. There has also been a 10% uptake in requests for forecasts that can be directly attributed to the campaign, with Veterans UK receiving more than 1,000 additional deferred pension applications than in the same months in previous years.

Service to Civvy

Are you PENSION ready?



c. **Risk and assurance.** In addition to the work of the Pension Board, to help us understand our risks further, as Chair, I have attended five DBS Assurance and Risk Committee (ARC) meetings this year. This allows me to contribute to the assurance oversight of the Schemes via that forum. In linking the Pensions Board with ARC, we can benefit from work undertaken by Defence Internal Audit and National Audit Office activity. This in turn builds on the existing internal controls and assurance activities performed by DBS and MOD supported by the Internal Contract Performance Monitoring Team (CPMT) and the newly formed AFPS Assurance Team. I am satisfied with the coverage of this assurance activity.

28. **Forward view of Pension Board Programme.** As the Pension Board develops its capability to challenge and provide an overview on pensions, the breadth of topics and issues being considered has increased proportionately in complexity. Having been in place for the second year, the Pension Board has been continuously assessing the current and future pension situation and realise that prioritisation is key. Our priorities are those that are legal and mandated, followed by those deliverables that are assessed as providing the greatest opportunity for our members. Based on our knowledge, we have captured tasks in a forward plan. Further details are at Annex D. As with all plans, this will be reviewed regularly to ensure we are still balancing opportunities with risk but compliance with tPR's requirements, assurance and member communications will be our main areas to evolve and refine going forward.

29. At the end of the second year of operation I am encouraged. We face ongoing challenges to deliver pensions accurately and on time, to answer queries sympathetically and fairly, to respond with agility to changes in the pension's world, and to present our activity to those regulating us. In all of this I judge we are fit for purpose, and that we compare well with other major public sector schemes. This is not to say that we cannot get any better; indeed, we must get better as the demands on us increase. However, by building on this year's activities I believe we are well placed to face those challenges.

Membership and Transaction Information

30. **DBS Contracted Support Arrangements.** DBS Veterans have two major suppliers assisting them with the administration of the schemes. Equiniti Paymaster delivers pension administration services to our pensioner members, largely involving paying 428,222 pensioners and dependents. Secondly with Computer Sciences Corporation (CSC) (now known as DXC), who cover many tasks

for the delivery of pensions. To enable this, the MOD provides CSC with access to appropriate expertise to enable CSC to discharge its obligations. Whilst the MOD has responsibility for ensuring that pension casework is processed in accordance with appropriate guidelines, the Authority for making such discretionary decisions is delegated to DBS Veterans UK from the Admiralty, Army and RAF Boards.

Overview of AFPS 2016/17 Performance

31. We strive to ensure that our pension schemes provide a good level of service. In addition to MOD and the Boards scrutiny of supplier performance, we use CEM, a global benchmarking company that specialises in objective and actionable benchmarking information which includes pension funds. This benchmarks costs, performance and administration against pension companies here in the UK and overseas. The benchmarking enables DBS Veterans UK to compare costs, administration and performance against peers. This in turn helps to give an understanding of the level of service other schemes offer and understand industry best practices. CEM has helped towards continuous improvement in the AFPS service delivery at a very reasonable cost.

32. Scheme membership balances brought forward from 31 March 2016 have been restated to account for better information obtained from the membership databases. The databases used to manage member data records are dynamic systems that allow records to be updated retrospectively. It is therefore accepted that the opening balances will not exactly reconcile to the previous year's closing balances.

33. The report ending March 2016 compared the governance and pension administration costs and the member service with a peer group of other schemes. The peer group comprised 8 pension schemes with between 337,733 and 2,899,429 members. The peer median was 874,960 members, compared with our own 1,232,033 members. The peer group has been selected based on the availability of data, scheme size, membership mix and to include both in-house and outsourced schemes.

34. Our total member service score was 65 out of 100. This was above the peer median of 64. Service is defined from a member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality. The total service score is equal to the service scores for active members, deferred members and pensioners, weighted by the membership mix. The membership mix is also used to weight the total scores for our peers.

35. The key outliers influencing the total service relative to peers include:

- a. 100% of our deferred member new pension set-ups were paid without an interruption in cash flow greater than one month, compared to a peer median of 98%. Lump sum payments to deferred members were also issued quickly;
- b. The call centre received over 210,000 calls in the year. 100% connected to the system (i.e. no callers experienced in an engaged tone, call another time message or the phone "rang out");
- c. The average caller wait time is shorter than our peers, 33 seconds compared to a peer median of 54; and
- d. DBS measure more administrative tasks than many of our peers. Specifically, we measure 17 of CEM's 20 listed administrative tasks for active members, 13 of 15 for deferred members, and 7 out of 8 for pensioners. DBS also measure "elapsed times" (this was time experienced by the member, including delays caused by third-parties) – only a few of our peers do so.

36. In terms of cost effectiveness, in summary, we were positioned in the low cost, high service quadrant on the CEM administration cost effectiveness matrix.

AFPS MEMBERSHIP STATISTICS

	01 April 2016	31 March 2017	Movement
Active Members (inc Reserves)	196,471	199,576	+3105
Pensioner Members	425,540	428,222	+2,682
Deferred Members (inc Reserves)	468,519	478,380	+9,861

Source: AFPS Finance

37. The total transactions processed by CSC are detailed at Annex E. Only 5.7% of complaints received by CSC were upheld – the majority were queries with policy – further information is provided in Annex F. CSC has comfortably exceeded the contractual measures of performance required during 2016/17, as detailed in Annex G.

38. The annual AFPS Newsletter was issued to all pension members during April 2017, with positive feedback received from members on changes following a full review of the style, content and layout. This document provides key pension information including; enquiry centre details, advice on pension increases, information on survivor pensions, information on the Veterans Welfare Service and scheme updates. A newly formed Pension Board communications sub group is consulted on wider communication to members, and this newsletter will benefit from Pensions Board input next year.

Quality of Service

39. AFPS 75/05/15 schemes are run in partnership with CSC and Equiniti against contractual measures of performance against accuracy and timeliness. Varying levels of audit and assurance are provided by the NAO, the Defence Internal Audit (annual audit programme) and teams who check monthly compliance. The contract includes reporting incentives where by CSC reported failures carry a significantly lower penalty than if failures are identified by the Authority and/or any of our assurance/audit partners. As part of the Boards oversight of the administration performance each quarter, I believe that our suppliers have provided us with a good service this year and I understand that we continue to have very low amounts of complaints, internal disputes, or Pension Ombudsman cases compared to our peer schemes. The Pension Board will be working hard with all stakeholders to continue this trend going forward whilst also looking at areas the service can be enhanced for members.

Improvements

40. **Enhancement of the pension forecasting process.** In response to feedback, an early triage of forecast requests was trialed to ensure complex cases are given an additional level of scrutiny. The triage has proved successful and 100% peer checks remain in place.

41. **Pension Ready Campaign.** To raise awareness of Scheme benefits AFPS launched a ‘Service to Civvy: Are you Pension ready’ publicity campaign in December 2016. By the end of March 2017, the campaign had reached a social media reach of over 40,000 and over 6,000 direct views of the campaign videos on the various platforms.

42. **Gone Away.** An exercise was started to contact existing pensioners for whom a ‘gone away’ notification has been received because of returned postal communications. Starting with 1805 members,

we have issued 500 life certificates to date, with 118 returned complete and 130 returned no trace. In addition, this has triggered 30 death notifications and a nil response from the remaining 222. The aim is to validate the last known address held on the pension administration system and to ensure continuing entitlement to pension.

43. **Unclaimed Pensions.** An exercise is underway to identify the unclaimed pension population. To date 609 application forms have been sent to pensioners, of which 174 have been returned. 35 of those had no entitlement to a pension, whilst 63 unclaimed pensions have now gone into payment. Out of the 3427 names listed we could identify that 1359 already had a pension in payment and required no further action.

44. **Social Media.** Veterans UK main communications channels targeting the Armed Forces Community have been increased to include: The Veterans UK pages on GOV.UK, which include the 'Veterans Today' Blog. Social Media channels – Facebook and Twitter (posts are frequently shared by other defence accounts). AFPS has worked to extend the audience reach on these platforms with recent posts having an audience reach of over 200,000. AFPS has also developed a stakeholder directory holding over 100 contacts that we utilise for more targeted communications (e.g. asbestos charities for mesothelioma, Tri-service and Veterans contact for 'Service to Civvy' etc.). AFPS fully expect that the Veterans UK Demand Management work will see new channels developed to further reach our Armed Forces Community.

45. **Assurance Team.** The Armed Forces Pension Scheme (AFPS) Assurance Team (AT) was set up in August 2016 and represents an additional line of assurance that includes adherence to scheme rules and guidance as well as quality checking the accuracy of pension calculations. The team supports the wider, rolling assurance programme that includes Contract Performance Monitoring Team (CPMT); Defence Internal Audit (DIA) and the National Audit Office (NAO).

Future improvements

46. Action will continue on the unclaimed membership data to reduce the number of unclaimed pensions. The intention is to reduce the number of unclaimed pensions by tracing preserved pensioners as pensions become due for payment.

47. There will be further analysis of the results of the 2016 AFPS external CEM benchmarking results to inform business improvements, by comparing AFPS pension delivery against other public service pension schemes.

48. Further development of our communication strategy by enhancing Social Media outlets, including a dedicated Facebook page and continue to fully utilise the AFPS Twitter account to help maximise engagement.

49. Conduct a full review of the IDR process, working collaboratively with the Pension Board to identifying improvement's that enhance the customer experience, by making the process more accessible, simple and streamlined.

50. Complete a review of the AFPS Benefit Information Statement to members, to improve the content and quality of the overall document by 31 March 2018.

51. Further develop additional targeted assurance cover that enhances the current rolling assurance programme.

The Pension Landscape 2016 - 2017

52. This year, the Communications Sub Group was established to support the Pension Board with the aim of enabling members to understand the pension they are entitled to as well as assisting the Pension Board to ensure the effective and efficient scheme administration of the Armed Forces

Pension Schemes. It is chaired by John Pitt-Brooke (the Director of the Armed Forces Pension Society) and there are approximately an equal number of employer and employee representatives. The Sub Group has met twice this year.

53. In autumn 2016, the Pensions Regulator surveyed public service pension schemes to assess how they were being run. On behalf of Board colleagues, I contributed answers to the survey in which we again appear to be one of the more proactively governed public sector pension boards. This built on a previous tPR survey in summer 2015, and considered key risks and why some schemes are still slow to improve. Some of the figures are included below:

- a. 23% of survey responses were completed without involving the scheme manager, who is ultimately accountable for most of the legal requirements. The pension board chair was involved in only 28% of survey responses, and other pension board members in only 21%.
- b. Over a quarter (27%) of scheme managers do not attend pension board meetings regularly, and 17% never attend.
- c. Our discussions with scheme managers, pension boards and other stakeholders have highlighted some gaps in understanding the roles and responsibilities of various parties involved in public service pension schemes, particularly pension boards.
- d. 81% have a conflicts policy and procedure for pension board members.
- e. 84% have procedures to identify, assess and report breaches of the law.
- f. Only 43% of respondents reported that all their members received their statements on time. Overall 21% of members did not receive their statements on time. This aligns with our experience – the failure to issue timely annual benefit statements accounted for the majority of breach of law reports relating to public service pension schemes in 2016.

54. On 8 July 2015, the Chancellor announced further tax restrictions on pension tax relief. To support Scheme members, MOD focused efforts on targeted communications interventions, ensuring that members were made aware of what the changes meant for them. This was also a useful opportunity for MOD to consider the impact that these changes had on overall recruitment and retention. For example, the changes taper available Annual Allowance for the 2016/17 tax year onwards for higher earning members. To enable this change, MOD issued guidance for the 2015/16 tax year. Active members were notified if they were likely to have breached the pensions Annual Allowance by a variety of internal communications.

55. As the Pension Board continues to evolve, increase its capability and effectiveness, tPR's expectations of compliance will increase in line with its Code of Practice and its experience of other pension scheme governance and best practice. In common with the other public service schemes, the financial position of AFPS is now reviewed at four-yearly actuarial valuations, as required by PSPA 13. These valuations are carried out by the scheme actuary, the Government Actuary's Department (GAD). The first valuation was completed with an effective date of 31 March 2012. The next valuation with an effective date of 31 March 2016 is currently underway. The actuarial valuations have two main purposes: to set the contributions payable by MOD and to assess any changes in the cost of the scheme, through the 'backstop' protection mechanism known as the employer cost cap. Significant changes up or down (more than 2% of pensionable pay) will result in changes to member benefits.

56. The new actuarial valuation requirement imposes stronger and more formal obligations on AFPS in relation to cost control to minimise changes to member benefits. It is now even more important that the membership data supplied by DBS to GAD for the valuations is accurate. If not, there may be large unexpected changes in the cost to MOD, and/or changes to member

benefits via the cost cap mechanism. DBS has prepared a prioritised valuation data improvement plan, (with input from GAD), and this has been shared with HM Treasury and tPR.

57. This additional workload will not impact on day to day service delivery and should help improve both the accuracy and quality of our membership data but also provide us with even better financial analysis for future funding and policy decisions.

The Near Future

58. **Pension Codes:** The AFPS 75 scheme calculates pensions based on a representative rate of pay of the member's final rank. This means that everyone with the same rank and same length of service will receive the same pension, regardless of actual pay. The method of calculation under Pay 2000 has been to select a pay level from within the scale structure. Once pay tables are updated to reflect the pay award each year a single rate from each pay band is selected. In AFPS 15, the pension is based on career average re-valued earnings.

59. Because of a new single tier State Pension being introduced from 6 April 2016, all Defence employees previously benefiting from lower National Insurance contributions (NIC), because of being a member of a contracted out Defined Benefit workplace pension scheme, have seen their NIC rise once the existing NIC rebate is withdrawn. Those in other, non-Defined Benefit pension schemes, e.g. civil servants in the Partnership Pension Scheme, and others who have opted out of the MOD workplace pension arrangements altogether, were unaffected as they already pay the higher rate of NIC. For employers, the standard rate of National Insurance Contributions increased to 13.8% with the removal of the 3.4% National Insurance rebate as a proportion of earnings. This is another example of where the MOD realised this would impact our members, resulting in another communications intervention in April 2016 to ensure people were aware of the impact this would have on them.

60. Following on from the **Strategic Defence and Security Review 2015**, MOD announced that it would be developing a modernised offer for the Armed Forces. This gives the Pension Board the opportunity to help shape how pension's policy is developed. The modernised offer will be delivered through the following initiatives:

a. **Flexible Engagements System.** This aims to enable Regular Service Personnel to vary the nature of their Service, enabling flexible working and exploring the scope to temporarily adjust liability for deployment to support an individual's personal circumstances. Flexible engagements will also provide improved opportunities for Reservists to be employed in higher commitment jobs for which they have the knowledge, skills and experience that Defence needs.

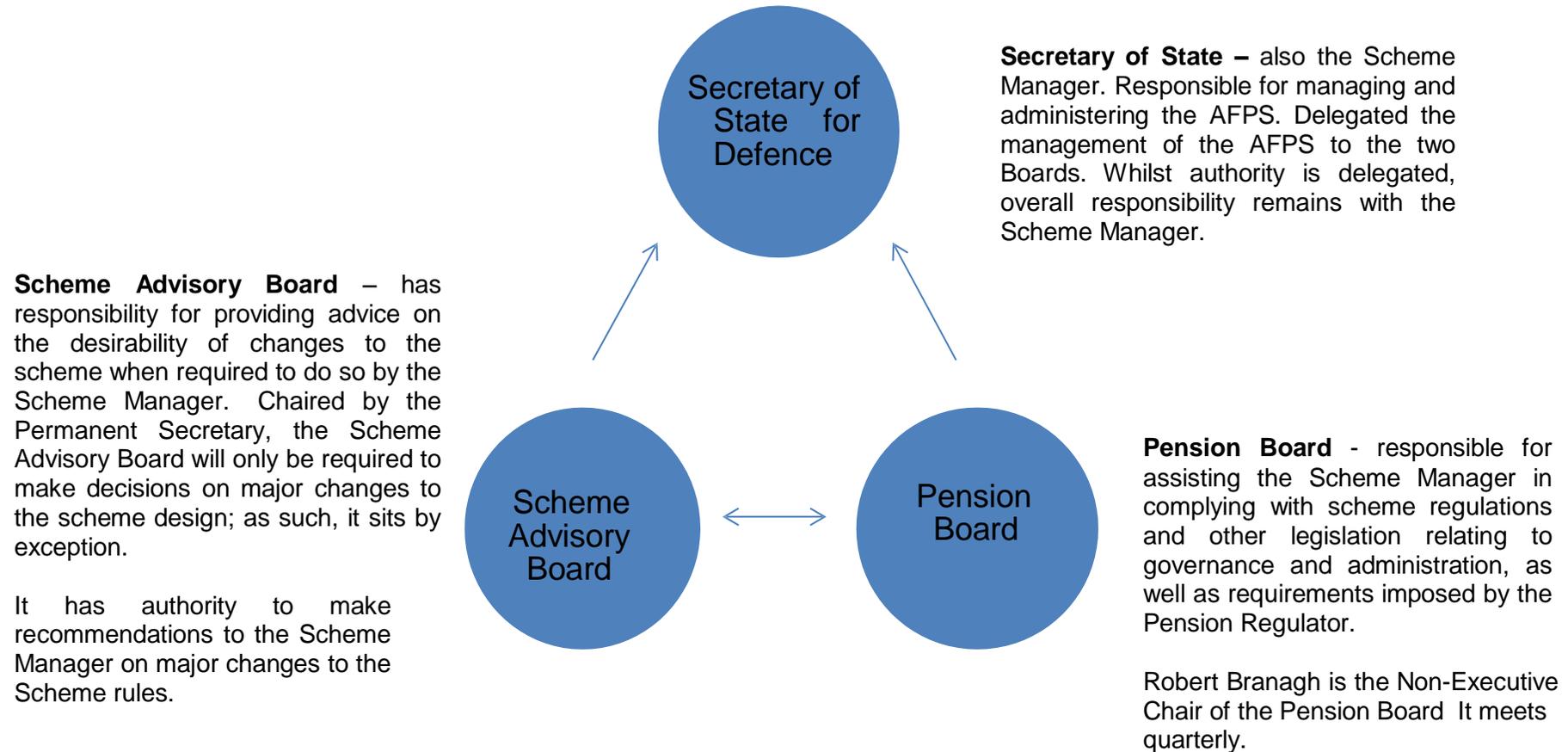
b. **New Joiner Offer (NJO).** This initiative aims to design a new offer for those joining the Armed Forces, which better meets their expectations and allows Defence to target resources where they are most needed. Officials are due to present options on the future scope of the NJO to Ministers before the end of the financial year.

61. **Cross Whitehall Participation.** Keen to ensure that the pensions we offer are in line with other Government departments, we regularly engage with the HM Treasury Official Committee on Occupational Pensions (MOCOP), who are in place to ensure that a cross Departmental view is taken for any significant policy changes. This ensures that the requirements of the Armed Forces are being considered across Whitehall. The Pension Board are committed to building upon relationships to improve the Board's effectiveness and I regularly meet with the Chairs of the other Big 4 public sector pension schemes and with tPR's public service schemes forum where we share information and best practice on central and local government pensions.

Conclusion

I am pleased to be able to present a positive report for a year that has had a wide range of challenges for all those involved with the Schemes. Next year will be equally challenging with increasing regulatory, actuarial and commercial issues to address and I am confident that Board members will continue to assist the Scheme Manager deliver a quality member's experience.

GOVERNANCE STRUCTURE FOR ARMED FORCES PENSION SCHEMES



PENSION BOARD TERMS OF REFERENCE

Armed Forces Pension Board Terms of Reference reviewed January, ratified wef April 2017

General

1. The Pension Board will be set up in compliance with the Public Service Pensions Act 2013 and be in place from 1 Apr 15. The Board will be responsible for assisting the Scheme Manager in ensuring compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it.

The Pensions Regulator

2. The Pension Board is also responsible for assisting the Scheme Manager in securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator (tPR). The Pension Board will, at all times, work to protect the reputation of the scheme for effective governance and administration and for proper use of taxpayers' money in accordance with such good practice guidance that may be issued by the Pensions Regulator. The Pension Board will respond to any requests/directions made by tPR and ensure that they oversee the development of processes and systems to incorporate any new statutory requirements.

Purpose of the Pension Board

3. In addition to the statutory responsibilities¹ the Pension Board has key functions as follows;
- Responsibility for the effective and efficient governance of the Armed Forces Pension Schemes. To ensure that those in receipt of a benefit receive accurate, timely benefits under the scheme rules and satisfactory customer service thereby ensuring that schemes are administered correctly and appropriately, and in accordance with regulations;
 - Oversee and advise on pension delivery and represent Pension Schemes interest in MOD's management of the wider Shared Services contract;
 - Provide advice on policy issues which affect members' interests;
 - Contribute to the planning and influencing of the risk management and audit activity for Armed Forces Pension Scheme, to include internal audit programmes;
 - Advise and influence the selection, appointment and reappointment of all third party providers including the Scheme Administrator in conjunction with the provision of wider people services;
 - Oversee and contribute to communications on pension management issues;
 - Monitor all Pension Scheme material issues to ensure consistency of application and a seamless service for members;
 - Develop positive, co-operative working relationships with all of the stakeholders and provide a forum to receive feedback from them on issues affecting the scheme.

Changes to the Terms of Reference

4. The Terms of Reference can be amended subject to the agreement of the Chair.

¹ Section 5 of Public Services Pension Act 2013.

Chair

5. The Pension Board will be chaired by an independent, voting Non Executive Director (NED) who has responsibility for ‘...*assisting the Scheme Manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the Pension) Regulator.*² Chief of Defence People (CDP) will appoint the Chair on behalf of the Scheme Manager.

Pension Board Members

6. The Pension Board will have an equal number of employer³ and employee⁴ members. All appointments to the Pension Board are personal. All members will represent the interests of all of the Schemes’ beneficiaries and stakeholders. There are 15 members (including the Chair) and 4 attendees in an advisory capacity as follows:

- **Chair** - NED
- **Employer representatives**
 - Director Service Personnel Policy (D SP Pol) - 2* Civil Servant
 - Head of Armed Forces Remuneration (Hd AF REM) - 1* Military
 - Director Resources Assistant Head Plans (D Res AHd Plans) - 1* Civil Servant
 - Reserve Forces & Cadets Assistant Head Capability (RFC AHd Cap) -
 - RN Pay Colonel - Capt RN
 - Army Pay Colonel - Col
 - RAF Pay Colonel - Gp Capt
- **Member/Employee Representatives**
 - Forces Pension Society (FPS)
 - Royal British Legion (RBL)
 - Single representative from the Forces Families’ Federations
 - Reservist Members’ Representative; a volunteer from the Chain of Command
 - Members’ Representative from the RN; a volunteer from the Chain of Command
 - Members’ Representative from the Army; a volunteer from the Chain of Command
 - Members’ Representative from the RAF; a volunteer from the Chain of Command
- **Not Board Members, but in attendance to provide technical, legal and actuarial advice as and when required**
 - Defence Business Services (DBS) - Service Provider
 - Command Legal Services (CLS)
 - Government Actuary’s Department (GAD)
 - Deputy Head Armed Forces Pension Schemes – Secretary
 - MOD – Commercial/ Change

Tenure and Attendance

7. The Chair’s appointment will be for an initial 3 years. The military employer members will typically change every 2 to 3 years as this is the normal length of an assignment. Where the Board member is a Civil Servant, the tenure will endure whilst the incumbent is in the appointment. Employee members can remain for a period of up to 4 years. The Chair will need to consult with Pension Board members to try, if possible, to avoid too many Board members changing at the same time.

² tPR Draft Code of Practice.

³ Employer representatives means persons appointed to the board for the purpose of representing employers for the scheme and any connected scheme.

⁴ Employee or member representatives means persons appointed to the board for the purpose of representing members of the scheme and any connected scheme.

8. Pension Board members are expected to attend all meetings in person and there will be no alternate representation. If a short notice meeting is called, all Board members should make their best efforts to attend.

9. Each member must agree that information provided or gleaned in the course of their duties as a member of the Board (which may include confidential/personal information) will not be used for purposes outside of the delivery of the Board's function unless specifically agreed.

10. There must be at least 3 employer and 3 employee representatives at each Pension Board meeting.

Removal

11. Pension Board members (including the Chair) may only be removed from office during a term of appointment by the Scheme Manager.

12. Members of the Pension Board may resign from the Pensions Board by giving one months' notice in writing to the Chair.

13. In the event of resignation or other removal the Chair will work with the Secretary to ensure that an alternative member is appointed within three months of the date of resignation or removal.

14. In the event of resignation or other removal, the Pension Board can continue to meet and conduct its business although every effort should be made to ensure that there is a balance of employers/employees.

Voting

15. All 15 members of the Pension Board are voting members. Items arising at any meeting will be decided by a majority of voting members present. The Chair will have the casting vote.

Conflict of Interest

16. Conflict of interest means a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).

17. Subject to the agreement of the Scheme Manager, the Chair must be satisfied that none of the members have any conflict of interest. If it is determined that a member of the Pension Board has an enduring conflict of interest, the appointment of the member must be terminated.

18. All members are to sign the Conflict of Interest declaration form and these should be held as a record and reviewed annually. Any individual conflict of interest should be declared before each meeting. Conflict of interest will be a standing agenda item.

Conduct of Business

19. The Chair of the Pension Board will report annually at the end of the FY on the activities of the Pension Board to the Responsible Authority (SofS). This is to include a suitable response to the Pension Regulator's annual report. This annual report should include input and support from Pension Board members.

20. The Pension Board will meet at least every six months but usually no more than 4 meetings a year.

21. The Chair of the Pension Board may call a meeting at any time providing two weeks' notice is given, if practicable. Such meetings may be in person, via telephone, video conference or other media as appropriate.

22. Minutes of all Pension Board Meetings will be recorded. Draft minutes will be circulated to the Pension Board and will be ratified by members at the next meeting; paperwork should be circulated 5 days before the next meeting.

23. A standing agenda will be used to guide the meeting and where there are specific issues to discuss, these will be put in as separate agenda items.

24. The Pension Board can decide to ask its professional advisers, representatives from third party suppliers, including the scheme administrator, and any other person to attend its meetings as it sees fit.

25. The Pension Board may agree on a decision outside of a meeting if 3 employee representatives and 3 employer representatives confirm their agreement either in writing or by electronic mail. Any such decision will be as valid and effective as if it had been passed by a meeting of the Board.

Committees and Sub Groups

26. The Pension Board may establish such committees and sub-groups as it sees fit. They will decide if they need to have separate ToRs and if so, they will take responsibility for writing them within the Pension Board ToRs; any ToRs will be approved by the Chair.

27. Minutes of any sub-committee meetings will also be recorded.

28. The Chair of the Pension Board will appoint the Chair of each sub-group.

Pension Board's Responsibilities

29. The Pension Board will monitor the effectiveness and efficiency of the scheme administration and focus on scheme performance, continuous improvement, value for money, risk management and compliance with statutory requirements. The Pension Board:

- will monitor and advise the Responsible Authority on the performance of the service administration of the Pension Schemes;
- will ensure that an appropriate risk management strategy is in place for the scheme and monitor the Scheme Administrator's risk management framework and internal control procedures;
- will ensure that the Scheme Administrator has an effective audit strategy in place for the scheme and monitor the internal audit programme to check compliance;
- will ensure there is a process to allow compliance with data management requirements;
- will monitor the process and viability of the System Administrator's electronic data storage in order to assist with data extracts needed for actuarial valuations;
- will report breaches of the law to the Regulator, when they have reasonable cause to believe that a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions;
- may consider and advise on (but not give final approval as not solely a pension's contract) any amendments to the terms of the Commercial Contract in place with the Scheme Administrator;
- The Pension Board may request (if Department funding is agreed) additional services from the Scheme Administrator.

Pension Board Members' Responsibilities

30. Members will be expected to:

- contribute in a way that will benefit scheme members, employers and the taxpayer;
- contribute to any discussion on policy issues as it affects the management and oversight of the Armed Forces Pension Schemes;
- be a credible and visible consultative body for Armed Forces Pension Schemes;
- have or be prepared to develop, appropriate knowledge and understanding of pensions legislation and best practice pensions governance; have a good understanding of and conversance⁵ with the Armed Forces Pension Schemes⁶ and allocate sufficient time to consider Pension Board Papers prior to boards;
- take part in training to gain and retain, up to date and working knowledge of the Armed Forces Pension Schemes. Thereafter keep their knowledge up to date by undergoing training as required;
- know where scheme rules and administration policies are relevant and where a particular provision or policy may apply;
- be aware of the range and extent of pensions law applying to the scheme and recognise when and how it impacts on their responsibilities;
- be able to challenge failures to comply with the scheme rules and legislation relating to governance and administration;
- make every effort to attend any short notice meetings;
- understand that if they fail to attend three consecutive meetings, they may be removed as a member;
- will be expected to inform the Chair of any changes in respect of possible conflicts of interest.

⁵ Conversance is working knowledge of scheme rules and policy documents so members can use them effectively in carrying out their duties.

⁶ AFPS 75, AFPS 05, AFPS 15, FTRS 97, RFPS 05 and NRPS.

Annex C

ARMED FORCES PENSIONS SCHMES (AFPS) PENSION BOARD TRAINING LOG																						
	TOPIC	ROBERT BRANAGH	HEATHER McNAUGHTON	GARRY TUNNICLIFFE	JAMES MACLEOD	CHRIS SKIDMORE	JOHN OLDROYD	RICH PAUL	CAROL SMITH	MARK COLLINS	BILL MAHON	JOHN PITT-BROOKE	JOHN MOORE-BICK	SIMON MACKIE	ROBERT ECCLES	STEVE CASS	MARK SPEEKS	NICHOLAS WRIGHT	CLAYTON FISHER	ADRIAN BETTERIDGE	ANNETTE MATTON	KEVIN FUDGE
	RELEVANT MODULES OF PENSION REGULATOR TRUSTEE TOOLKIT	✓					✓															
17 Mar 16	5TH PENSION BOARD MEETING:																					
	PRESENTATION ON PENSION TAX BY GAD	✓	✓	✓		✓	✓	ABSENT	✓		✓	✓		✓	✓	ABSENT	ABSENT	✓				
	PENSION BOARD DEVELOPMENT AND PRIORITIES FOR FY 16/17	✓	✓	✓		✓	✓	ABSENT	✓		✓	✓		✓	✓	ABSENT	ABSENT	✓				
05 Jul 16	6TH PENSION BOARD MEETING:			LEFT POST										LEFT POST								
	ANNUAL DEFENCE INTERNAL AUDIT (DIA) REPORT ON GOVERNANCE AND RISK MANAGEMENT	✓	ABSENT			ABSENT	✓	✓	ABSENT		ABSENT	✓			✓	✓	✓	✓				JOINED
																						ABSENT
20 Sep 16	7TH PENSION BOARD MEETING:																					
	REFRESHER ON VALUATION	✓	ABSENT																			
19 Jan 17	8TH PENSION BOARD MEETING:																					
	BRIEF BY GAD ON THE ACTUARIAL VALUATION EXERCISE	✓	✓				ABSENT	LEFT POST			JOINED				✓	✓	✓	ABSENT	JOINED	JOINED	✓	JOINED
	SELF-ASSESSMENT AGAINST THE PENSION REGULATOR CODE OF	✓	✓				ABSENT				✓	✓	✓	ABSENT	✓	✓	✓	ABSENT	✓	✓	✓	✓
20 Apr 17	9TH PENSION BOARD MEETING:																					
	BRIEFING ON 2016 PUBLIC GOVERNANCE SURVEY RESULTS AND WAY THE PENSION REGULATOR	✓	✓				ABSENT		LEFT POST		ABSENT	✓	✓		✓	LEFT POST			✓	✓	ABSENT	ABSENT
	BRIEFING ON CEM BENCHMARKING RESULTS	✓	✓				ABSENT				ABSENT	✓	✓		✓				✓	✓	ABSENT	ABSENT

Forward Plan of Activity.

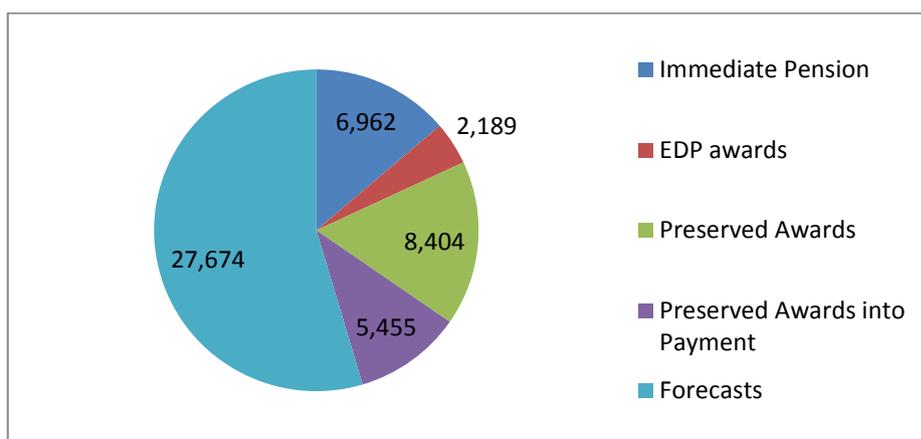
Pension Board - 5 Jul 16	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Setting and reviewing Member's training programme • Scheme Annual Report completion • Update on pensions reform/tPR activity including Governance Compliance of Scheme against practical guidance of tPR Code of Practice (13) • Scheme Accounts update and presentation • Audit & Risk committee update incl DIA annual audit • Communication committee ToR and workplan
Pension Board – 20 Sep 16	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Valuation update - early indicators and planning • Board knowledge and understanding – annual assessment preparation • Communication committee ToR's sign off • Review of compliance with the Pensions Regulator Code of Practice and PSPA13 • Data strategy review of progress and against tPR tests (39) • Training for Board members via visit to DBS in Glasgow
Pension Board – January 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Preliminary Actuarial Valuation themes • Communications committee update • Formal self-assessment against tPR Code of Practice <i>Done via tPR public service governance survey Jan 2017(1)</i> • Quality review of breaches, complaints, Pensions Ombudsman cases and IDR procedures/activities • Audit & Risk Committee update – <i>no committee established yet, verbal updates from Chair continue</i> • Document/establish Scheme documents repository and link to tPR record keeping requirements <i>Ongoing</i> • <i>Reviewed and signed off slight revisions to Board ToR</i>
Pension Board - April 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Actuarial Valuation Assumptions* <i>c/f as not yet available</i> • DR/business continuity plan* <i>c/f as not yet available</i> • Scheme future work plan 2017/18* <i>finalise next meeting</i> • CEM administration benchmarking <i>presenting at Board</i> • Communication committee update • Audit & Risk Committee update/revise risk register* – <i>no committee established yet, verbal updates from Chair continue and Risk Register to be drafted</i> • Training for Board members - <i>tPR at Board</i>
Pension Board Sept 2017	<ul style="list-style-type: none"> • Quarterly Administrative Key Performance Indicators Report • Matters for Scheme Advisory Board • Actuarial Valuation Results • Annual Report published • Communication committee update • Audit & Risk Committee update

AFPS HIGH LEVEL TRANSACTIONS

The following data has been provided by our commercial partner CSC and details the number of AFPS high level transactions processed during 2016/17 by transaction type.

Immediate and Preserved Award volumes are in line with normal turnover. Forecast figures appear to have plateaued and are only slightly down on last year.

Total AFPS High Level Transactions: 2016/17



BUSINESS INFORMATION STATEMENT

We are continuing to monitor BIS feedback and have made a number of enhancements to the process and BIS template as a result.

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Benefit Information Statement (BIS)	21,998	19,606	17,362	18,197	17,266	16,182	14,539	15,423	14,547	17,380	14,565	15,954

Source: CSC

COMPLAINTS

The number of complaints in relation to the population is exceptionally low and represents good work by the services as well as the CSC Enquiry Centre.

CSC Complaints:

Total complaints received by CSC – 52, of which 3 were upheld. Majority were queries/disagreements with policy.

Internal Disputes Resolution Process:

Members of an occupational pension scheme have a legislative right to have their complaint/appeal reviewed if they are dissatisfied with any decisions made in relation to the AFPS Schemes. This review process is known as the Internal Disputes Resolution and if members are unhappy with the decisions made by the administrators of the scheme under this process they will have recourse to the Pensions Ombudsman, whose decision is final and binding on both parties (unless the case is taken to the appropriate Court on a point of law).

Total Internal Disputes Resolution Process (IDRP) and Discretionary Awards Reviews processed by AFPS Authority staff during 2016/17:

Discretionary Award Review (DAR)	182
Discretionary Award Appeal Review (DAAR)	36
Internal Dispute Review Process (IDRP) Stage 1	194
Internal Dispute Review Process (IDRP) Stage 2	63

Source: AFPS

- The IDR procedures are broken down into two types, formal complaints and ill-health appeals; against ill-health Tier assessments.
- Approximately 80% (153) of Stage 1 IDRPs are ill-health Tier appeals, the remaining 20% (41) are IDRP formal complaints for maladministration.
- Approximately 63% (40) of stage 2 IDRP's are ill-health appeals, the remaining 37% (36) are IDRP formal complaints for maladministration.
- Stage 1 ill-health appeals were 153 of which – 15 were upheld. (There were a total of 2041 ill-health Tier assessments made for the period).
- Formal Complaints were 41 of which 12 were upheld of these 6 were upheld in part, that is maladministration had taken place but the outcome requested was rejected. For example incorrect forecast, maladministration accepted but the incorrect pension to be put into payment was rejected, no entitlement.

Further AFPS Complaints Information provided by Pensions Ombudsman

Since January 2013 over 1,650 IDRPs completed by AFPS during the period since Jan 13 to Mar 17.

PENSIONS OMBUDSMAN AFPS COMPLAINTS INFORMATION:

TOTAL APPROACHES FROM AFPS PENSIONERS: 42

ANALYSIS:

JURISDICTION REJECTED: 4

INVESTIGATED: **14**

INVESTIGATION NOW CLOSED: 8* 3 not upheld, 2 upheld, 0 partially upheld, 3 withdrawn/resolved

ONGOING INVESTIGATION: 6

QUALITY OF SERVICE**ARMED FORCES PENSION SCHEME KPI-1 & 2 Measurement 16-17**

This is a summary of the DBS Key Performance Indicator reporting for AFPS and on the achievement of the contractual element of AFPS Measure of Performance reporting by our Commercial partner CSC.

The level of performance from our commercial partner CSC continues to exceed the contractual targets set.

PENSION VOLUMES 2016/17		
Pension Caseload	New Awards	Combined TOTALS
4,892,992	6,962	4,899,954

Failures No's reported - By Due Date	2*
Delivery on Time %	100.00%
Target	99.3%

Failures No's reported - By Accuracy	19*
Delivery on Time %	100.00%
Target	99.0%

Source – DBS CPMT

AFPS ACCURACY ASSURANCE CHECKS 2016/17

These awards are processed by our Commercial Partner and the Authority checks for accuracy and timeliness on a monthly basis.

Total AFPS Awards:	23,185
Total checked:	894
% checked:	3.86%
Total No of Errors:	9

Source – DBS CPMT

- Total % Checked
- Total % Errors

Total % Of Pension Awards Checked

