



Army Money Facts



Edition 1 | August 2016

Army Money News has been replaced with **Army Money Facts** – a guide for all, not just G1 staff. It is in your personal interest to understand your pay, pension and allowances. Without this knowledge you are unlikely to make the most of the benefits available to you. Your HR staff are there to advise but at the end of the day it is your responsibility to ensure you have the right money in your pocket. Over the last 18 months there has been significant change to pay and pensions. This first edition will inform you of the basics, later editions will focus on specific areas.

Pay 16 Implementation

PAY 16, the new pay model, launched on 1 Apr 16. What's new? 4 'Trade Supplements' now exist for ORs (these are shown on your pay statement) but rank still has the biggest impact on pay. Annual pay increases 'Incremental Progression' have been retained with limited change. Where applicable, Recruiting and Retention Pay (para/flying pay etc) and Financial Incentives are also paid. The below headlines cover some of the questions and concerns raised:

- Pay 16 is based on 'Job Evaluation' (JE) to work out [Through Career Whole Trade Scores](#). The resulting placements are adjusted in some cases using [Management Discretion \(page 15\)](#) to provide fairness across the Army, Navy and Air Force.
- MOD HR staff are working on policy to allow Trade Supplement Placements (TSP) to be reviewed and changed as necessary and will also outline how changes to trade groupings for pay purposes can be made. Before the first review of the TSP, a full refresh of JE evidence is planned, with priority going to those trades that have expressed concern over their Pay 16 Supplement.
- Approximately 30% of the Army are now in [Pay Protection \(page 17\)](#) after moving to Pay 16. This will last at least 3 years. An MOD review as to whether to extend protection further will commence in Apr 17. Once a decision is made it will be communicated promptly.

Pay Round 17 update

Army pay policy staff conduct unit visits every year with the Armed Forces Pay Review Body (AFPRB) to inform the following year's pay award. This year they visited BFG, Kuwait and Iraq, GB and NI. As well as pay, they heard your concerns about **recruitment, retention and motivation**. Key areas raised included:

- tempo of activity made worse by under-manning and non-deployability;
- reducing job satisfaction linked to work-life balance;
- Pay 16, CAAS (for SFA charges), National Insurance Contribution rises all coming at the same time;
- on-going '1% pay restraint' and the future of Pay 16 transitional Pay Protection;
- the removal of Commitment Bonuses and end of Accelerated Incremental Progression;
- Armed Forces Pension Scheme 2015;
- the poor performance by Carillion Amey;
- Op Allowance eligibility; and
- the standard of some SLA and access to reasonable cooking facilities.

AFPRB Pay Round 17 recommendations will be published in March 2017 and all evidence from the visits will be presented to the MOD and Government Ministers.

X Factor

- ✓ X Factor has been part of your pay since 1970; it is currently **14.5% of your salary** for Regulars with other rates paid to those on lower commitment levels such as the Royal Gibraltar Regiment and MPGS.
- ✓ X-Factor is paid in full up to OF4 (Lt Col) but tapers downwards from OF5 (Col) onwards.
- ✓ X Factor is 'a pensionable addition to basic pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment.'
- ✓ X Factor compensates for things such as *Turbulence; Spouse/Partner employment issues; Danger, Separation from home/family, Hours of Work and Stress and impact of the job.*
- ✓ You receive X-Factor every day regardless of what you're doing – it is intended to compensate you for the ups and downs of Army life averaged out over your career.
- ✓ X Factor is now shown separately on your pay statement – you've earned it.

Armed Forces pension key facts

Three Armed Forces Pension Schemes (AFPS) are now running; **AFPS 75, 05 & 15**. Regardless of the scheme you started on, everyone moved to AFPS 15 (except those who were within 10 years of their AFPS normal pension age (55 for AFPS 75 & 05) as of 1 Apr 12). There are **four key reasons** why your pension is one of the best pension schemes available anywhere:

- 1. Defined Benefit** – On retirement you get a guaranteed lifetime pension based on earnings (or rank) during periods of pensionable service. A defined contribution pension (private sector scheme) does not guarantee pension benefits as the value will be affected by fluctuations in the financial markets.
- 2. Non-Contributory** – There is no requirement to pay into the AFPS to guarantee benefits! It is non-contributory. Other public sector schemes require a % of salary to be paid in: Teachers 6.4%; NHS 5.5 – 8.5%; Police 9.5 – 11%; Fire Brigades 8.5 – 11%.
- 3. Early Departure Payment (EDP) and Resettlement Grant** – The AFPS is the only public sector scheme that will provide you with an EDP annual income and EDP lump sum when you retire before your normal pension age. To qualify on AFPS 15 you must complete at least 20 years service and be aged 40 or over, known as the **20/40 point**. If you complete between 12 and 20 years you will be entitled to a Resettlement Grant of £10,550 (if you do qualify for an EDP you are no longer entitled to a Resettlement Grant).
- 4. Growth** – The value of the pension, while in service, is indexed linked with Average Weekly Earnings (AWE) rather than CPI or RPI. Last year the AFPS 15 value grew by 2%, greater than CPI of c. 0% and RPI of c.1%.

How much is your pension worth?

- Get an estimate of your pension benefits from the Armed Forces [Pension Calculator](#). It allows you to project future dates for leaving the Service and what rank you might be. You can also request a free annual forecast from Defence Business Services (DBS) using [Form 12 statement](#).
- The Benefit Information Statement (**BIS**) launched on 1 Aug 16, is free and is issued shortly after an individual's birthday. It shows pension benefits accrued up to the date of issue. Known concerns surrounding pension sharing orders, aggregated service and layout are being addressed by with DBS by the Army Pay Colonel.
- If any details are incorrect on individual BIS, you should contact **DBS** directly on **94560 3600**.

For 70 years our focus has been your Armed Forces pension



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Forces Pension Society, 68 South Lambeth Road, Vauxhall, London, SW8 1RL Tel: 020 7820 9988

AFPS 15....

- ...is based on career average pensionable pay which provides pension benefits that are directly proportionate to pensionable earnings received throughout a career.
- ...eligibility starts from the first day of paid service, regardless of age, with no limit to the number of years you can be a member, unlike AFPS 75 where the maximum is 34 years and AFPS 05 maximum of 40 years.
- ...provides a Resettlement Grant and EDP. EDP at 20/40 at least 34% of deferred pension (tax paid) and lump sum worth 2.25 x deferred pension (tax free). The EDP % increases by 0.85% every year after 20/40 point.
- ...offers deferred pension entitlement after only 2 years qualifying service, to be paid at the state pension age.
- ...pays your full immediate pension if you retire from age 60 onwards.
- ...gives the option of a tax free pension lump sum through commutation of income. A maximum of 25% of pension benefit can be commuted at a rate of £1 of income to generate £12 of lump sum.
- ...allows members to draw a reduced immediate pension early (from age 55).
- ...allows added pension payments, so scheme members can make personal contributions to increase their pension benefits in a tax efficient manner.
- ...payments are not abated if you take an FTRS post.

Current **Pension Tax** arrangements were introduced in 2006. The aim of the new arrangement is to simplify the complicated rules and regulations which were seen as a barrier to people's retirement planning. All eight previous tax regimes have been replaced with a single regime for all individual and occupational pensions. The changes included the introduction of an **Annual Allowance**, **Lifetime Allowance** and **Earnings Cap**. An overarching ABN is [here](#) to help explain these taxes:

- **Annual allowance** (currently £40k) is the annual limit on the increase in the value of an individual's pension without incurring a tax charge. However, any unused allowance can be carried over from the three previous years. As a result, only 16 people in the Army incurred a tax charge last year. A helpful guide is [here](#).
- **Lifetime allowance** is the upper limit of total pension value accumulated before tax is charged. In 2006 it was £1.5m, reduced to £1.25m in 2014 and then further to £1m in 2016. There are some protection schemes in place and further information can be found [here](#).
- **Earnings cap** restricts the pensionable earnings for personnel who joined AFPS 75 between 1 Jun 89 and 5 Apr 05 - the current limit is £144,000 (OF8 IL4) and will not apply to any Army personnel until 2022. A helpful guide is [here](#).

Personal Taxation

National Insurance Contributions (NIC). NIC changed on 6 Apr 16. All earnings between £8,060 and £43,004 will pay NIC at 12% and a further 2% is levied on all earnings above £43,004. Further information is contained within [ABN 12/16](#) and [2016DIN01-005](#).

Personal Allowance Tax Threshold represents the amount of salary that you receive without incurring income tax. On 6 Apr 16 the threshold rose from £10,600 to £11,000 and from 6 Apr 17 it will increase again to £11,500. This will mean that the typical basic-rate taxpayer will pay £1,000 less in tax each year than they did in 10/11, when the personal allowance was £6,475. The current plan is to further increase the threshold to £12,500 by 20/21.

Higher Rate Tax Threshold is the point where tax increases from 20% to 40%. As of 6 Apr 16 this increased from £42,385 to £43,000 and it is expected to rise to £45,000 on 6 Apr 17. This will mean those earning £45,000 or more will see a tax saving of £400 a year compared with 16/17. The current plan is to further increase this threshold to £50,000 by 20/21.

In 20/21, the combination of the £12,500 personal allowance tax threshold and the £50,000 higher rate tax threshold will see those earning £50,000 or more pay £1300 less tax than in 16/17.

These taxation changes were announced prior to the formation of the new government and may be subject to review.

Married or in a civil partnership?

Does your partner earn less than £11,000? If so pay less tax by applying for the Marriage Allowance.

The Marriage Allowance allows couples to transfer a proportion of their personal allowance (the amount you can earn tax-free each tax year) between them. To apply:

- Couples must be married or in a civil partnership.
- One needs to be earning less than £11,000.
- The other must be a basic rate taxpayer.

Across the UK only 10% of eligible couples claim the allowance! **Don't miss out! Apply [here](#).**

You can register at any point in the tax year to gain full benefits.

BREXIT

What you need to know about Local Overseas Allowance (LOA) and exchange rates (the falling value of Sterling!)

- LOA rates are initially calculated during visits by DBS and the Pay Colonel's staff. The rates set contribute to the difference between the cost of living in the UK and the overseas location.
- The payments are subject to the Fixed Forces Rate (FFR) of foreign currency exchange; this ensures that as the value of the £ changes the rate of LOA is adjusted to maintain the value of LOA payments and the basket of goods they equate to.
- DBS track the £'s value to see if an FFR change is necessary with any change necessary published on the 1st of the month.

Quick Links...

Army Briefing Notes Library (Intranet)	http://defenceintranet.diif.r.mil.uk/Reference/Briefs/ABN/Pages/ABNsHome.aspx
PS10(Army) Website (Intranet)	http://defenceintranet.diif.r.mil.uk/Organisations/Orgs/Army/Organisations/Orgs/ag/Organisations/Orgs/dgpers/Organisations/Orgs/dpsa/Orgs/ps10/Pages/PS10A-ArmyPayColonel-Page.aspx
JSP 752 – Tri-Service Regulations for Allowances - (Intranet)	http://defenceintranet.diif.r.mil.uk/Personnel/Military/Remuneration/Pages/JSP752.aspx
Pension & Annual Allowance Calculator - (Internet)	http://www.mod-pc.co.uk
Personal Insurance (Intranet)	<ul style="list-style-type: none">• http://defenceintranet.diif.r.mil.uk/libraries/corporate/DINSpersonnel/2013/2013DIN01-125.pdf• http://defenceintranet.diif.r.mil.uk/libraries/corporate/DINSpersonnel/2016/2016DIN01-105.pdf• http://defenceintranet.diif.r.mil.uk/libraries/corporate/DINSpersonnel/2013/2013DIN01-113.pdf
Armed Forces Benefits Calculator (Internet)	http://www.mod-abc.co.uk/WizTrsDisclaimer.aspx

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