



## BRIEFING PAPER 1: BRITISH GOVERNMENT PENSIONS THAT ARE NOT FROZEN

### UK government pension schemes

1. There are other UK Government pension schemes that may be payable to Australian residents. These are separate to the state pension scheme and subject to different rules. The two most significant such pensions are those paid to former members of the UK armed forces and those paid to NHS employees.
2. BPiA has attempted to use former members of the UK armed forces and former NHS employees as examples of people who are hard done by because of the frozen pensions policy. This is to emphasise that the frozen pensions policy is affecting people who are highly regarded because of their service to the country. The use of these people as examples is unrelated to the income they receive from the armed forces pension schemes or the NHS pension scheme.

### Taxation

3. BPiA does not have expertise in the UK or Australian taxation of pension schemes other than State Pension. We do not know how pension entitlements for members of the UK armed forces or NHS employees are taxed nor of their portability from the UK to Australia.

### The Armed Forces Covenant

4. The UK Government has issued a Covenant with its Armed Forces. This Covenant is enshrined in law in the Armed Forces Act 2011. In part, it reads:  
“Those who serve in the Armed Forces, whether regular or Reserve, those who have served in the past, and their families, should face no disadvantage compared to other citizens in the provision of public and commercial services.”
5. You can read more about the Covenant [here](#). The Covenant is available [here](#).
6. The UK Government published a paper entitled “The Strategy For Our Veterans” in November 2018. The strategy sets out the Government’s principles and aims to continue to empower and support veterans over the period to 2028.

### Applicability

7. Officers and other ranks are members of the same scheme. There is a separate scheme for Gurkhas. There is also a separate scheme for full-time Reserve Service personnel (“FTRS 97”)

### Prior to 1975

8. Soldiers, sailors and aircrew who completed their service prior to 1975 only received post-service benefits if their Reckonable Service (time spent in the armed forces from age 21 for officers and from age 18 for other ranks) met the criteria for a pension. Minimum Reckonable Service for officers was 16 years and 22 years for other ranks. If they had the required length of Reckonable Service, they received an indexed pension from the date they left. If they left before achieving the required length of Reckonable Service, they received nothing.

9. A Resettlement Grant was paid to officers with 9 years Reckonable Service but left before reaching the 16 year requirement and to other ranks with 12 years Reckonable Service but left before reaching the 22 year requirement. The Resettlement Grant is a tax-free lump sum designed to help the individual settle into civilian life.

### The 1975 Scheme

10. A new pension scheme came into force in April 1975 ("AFPS 75"). Prior to 6<sup>th</sup> April 1988, members of AFPS 75 needed a minimum of five years' service to qualify for benefits. From 6<sup>th</sup> April 1988 the minimum was reduced to two years' service. The pension payable on reaching retirement age is based on the number of years' service and the rank reached when retiring. The maximum pensionable service is 34 years for officers and 37 years for other ranks. Pensionable service is calculated from age 21 (or date of joining if later) for officers and 18 (or date of joining if later) for other ranks.

In addition to the pension, a tax-free lump sum equivalent to three years' pension is paid on retirement.

AFPS 75 is non-contributory. Membership of AFPS 75 is not compulsory. Personnel can opt out if they wish. Benefits can be increased by making additional voluntary contributions. If personnel have insufficient years' service, they can buy "added years".

Officers retiring at age 55 or older with 34 years' service and other ranks retiring at age 55 or older with 37 years' service receive an immediate full pension on retirement.

Officers retiring before age 55 with 16 years' service and other ranks retiring before age 55 with 22 years' service receive an immediate part pension on retirement. The part pension is fixed in amount until the pensioner reaches their 55<sup>th</sup> birthday, when it starts being indexed to CPI.

Armed forces personnel who leave service without the required service to receive a full or part pension receive a deferred pension. Deferred pensions are paid from age 60 for personnel who left service up to 6<sup>th</sup> April 2006 and age 65 for personnel who left service after 6<sup>th</sup> April 2006. The deferred pension is fixed in amount until the pension starts being paid. From then on, it is indexed to CPI.

Indexation is calculated in September each year and is paid from the following April. Increases in armed forces' pay after a pensioner leaves service does not affect his or her pension. Indexation of pensions occurs regardless of the location of the pensioner.

Officers who transition from other ranks are treated as other ranks until they have completed five years' service as an officer. There are compensation payments or concessions for personnel who suffer from ill-health whilst in service or after service. These payments or concessions may be affected by awards from the War Pension Scheme. A resettlement grant may be available to help personnel adjust to civilian life.

Dependant's benefits are available to dependants of personnel who die. Dependant's benefits may be reassessed if the dependent remarries.

AFPS 75 was closed to new members from 6<sup>th</sup> April 2005.

11. Personnel of the regular armed forces who enlisted or were commissioned after 5<sup>th</sup> April 2005 are members of AFPS 05. Members of AFPS 75 were offered the opportunity to move from AFPS 75 to AFPS 05 and became members of AFPS 05 from the date they transferred. The pension payable under AFPS 05 is based on the pensioner's highest annual earnings in their last 3 years of service. The annual pension payable is 1/70<sup>th</sup> of this amount multiplied by the years of service.

AFPS 05 is non-contributory. Personnel must be a member of AFPS 05 for at least two years to be entitled to benefits.

Personnel who leave service at age 55 or older receive an immediate pension.

Personnel who leave service before their 55<sup>th</sup> birthday receive a deferred pension, which is payable from their 65<sup>th</sup> birthday.

Personnel who leave service before their 55<sup>th</sup> birthday due to ill-health receive benefits related to the severity of the ill-health. These range from a tax-free lump sum for tier 1 (unfit for military service but capable of civilian employment), a taxable pension for life based on service to date and a proportion of potential service plus a tax-free lump sum for tier 2 (unfit for military service and an impaired capability for civilian employment), a taxable pension for life based on service to date and a greater proportion of potential service plus a tax-free lump sum for tier 3 (unfit for military service and incapable of full-time civilian employment). Additional or altered benefits are available if the ill-health is mainly due to or worsened by military service.

A resettlement grant may be available to help personnel adjust to civilian life.

There are redundancy payments (“early departure payment”) including a lump-sum payment and a part pension paid until age 65 available to personnel who leave the armed forces after age 40 but before age 55.

Dependant’s benefits are available to dependants of personnel who die. Dependant’s benefits are paid for life and are not reassessed if they remarry.

It is possible to allocate part of the pension payable to a pensioner to a financially dependent beneficiary. However, if that beneficiary were to pre-decease the pensioner, the pension paid to that beneficiary ceases and the pensioner will continue to receive a reduced pension.

Members of AFPS 05 may purchase additional years (“added years”) to increase their pension. Pensions can also be increased by foregoing lump sum payments (“inverse commutation”).

The rate of pension is indexed to CPI. Indexation is calculated in September each year and is paid from the following April. Increases in armed forces’ pay after a pensioner leaves service does not affect his or her pension. Indexation of pensions occurs regardless of the location of the pensioner.

AFPS 05 was closed to new members from 31<sup>st</sup> March 2015.

12. Personnel of the regular armed forces who enlisted or were commissioned after 1<sup>st</sup> April 2015 are members of AFPS 15. Members of AFPS 75 and AFPS 05 who had more than ten years to serve on 1<sup>st</sup> April 2012 were automatically moved into AFPS 15. Entitlements under AFPS 15 for personnel automatically transferred from AFPS 75 and AFPS 05 cannot be less than would have been received under AFPS 75 and AFPS 05.

The pension payable under AFPS 15 is based on the pensioner’s Career Average Revalued Earnings (“CARE”). Each year, an amount equivalent to 1/47th of a member’s earnings is added to a notional “pension pot”. In addition, amounts previously added to the “pension pot” are adjusted for inflation.

AFPS 15 is non-contributory. Personnel must a member of AFPS 15 for at least two years to be entitled to benefits. Membership of AFPS 15 is not compulsory. Personnel can opt out if they wish.

Personnel who leave service at age 60 or older receive an immediate pension.

Personnel who leave service before their 60<sup>th</sup> birthday receive a deferred pension, which is payable from State Pension Age.

Personnel who leave service early due to ill-health receive benefits related to the severity of the ill-health. These range from a tax-free lump sum for tier 1 (unfit for military service but capable

of civilian employment), a taxable pension for life based on service to date and a proportion of potential service plus a tax-free lump sum for tier 2 (unfit for military service and an impaired capability for civilian employment), a taxable pension for life based on service to date and a greater proportion of potential service plus a tax-free lump sum for tier 3 (unfit for military service and incapable of full-time civilian employment). Additional or altered benefits are available if the ill-health is mainly due to or worsened by military service.

A resettlement grant may be available to help personnel adjust to civilian life.

There are redundancy payments (“early departure payment”) including a lump-sum payment and a part pension paid until age 65 available to personnel who leave the armed forces after age 40 but before age 55.

Dependant’s benefits are available to dependants of personnel who die. Dependants’ benefits are paid for life and are not reassessed if they remarry.

It is possible to allocate part of the pension payable to a pensioner to a financially dependent beneficiary. However, if that beneficiary were to pre-decease the pensioner, the pension paid to that beneficiary ceases and the pensioner will continue to receive a reduced pension.

Members of AFPS 15 may purchase additional pension (“added pension”) to increase their pension. Pensions can also be increased by foregoing lump sum payments (“inverse commutation”).

The rate of pension is indexed to CPI. Indexation is calculated in September each year and is paid from the following April. Increases in armed forces’ pay after a pensioner leaves service does not affect his or her pension. Indexation of pensions occurs regardless of the location of the pensioner.

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