



# An Introduction to Pensions

## Transition Individual Planning & Personal Development (IPPD) Information Sheet 11



Most Service personnel (SP) will know very little about pensions other than the Armed Forces has historically had a good one in comparison to others in the public sector. People are generally now living longer which means more money is being drawn from pension funds to sustain pensioners in their retirement. The government periodically makes adjustments to pensions based on these and other factors. SP should have an understanding of pensions as they will form a significant part of their financial security in old age. It is important that dependants should know about **State** and **Workplace** pensions so they can ensure their pension plans are managed appropriately.

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### Aim

This Information Sheet seeks to provide the Service community with a basic understanding of Pensions. It will introduce to you the State Pension, the Work Place Pension and the Armed Forces Pension Schemes. It will not provide specialist information or advice but will provide links to where such information can be found. It may be particularly helpful to spouses, dependants and Service leavers who are, or will be, in civilian employment and regular serving personnel who will

be on the current Armed Forces Pension Scheme 15 or one of the legacy schemes and wish to know how they can access more information.

### What is a pension?

In simple terms, a pension scheme is just a type of savings plan to help you save money for later life providing a monthly income during your retirement. In short, you and possibly your employer(s), pay into a pension over your working life and through sound and beneficial long term investment and favourable tax treatment you achieve a level of financial security during retirement. There are several different pension schemes available but the 2 main ones are the **State Pension Scheme** and the **Workplace Pension Scheme** of which the latter would include the Armed Forces Pension Schemes.



### State Pension Scheme

The state pension is essentially a regular payment people can claim when they reach the state pension age - [State Pension Age](#). State pension age is determined by your date of birth. The amount you receive will depend on certain factors, including the number of years you have made National Insurance contributions and the date you reach the State Pension age. The state pension on its own is not enough to fund a comfortable retirement, so pension experts strongly recommend people save into a private or workplace pension as well if they want to avoid being 'short' in their old age.

**Do I qualify for a British State Pension?** To get the full basic State Pension you need a total of 35 qualifying years of National Insurance contributions or credits. You must claim the new State

Pension if you reach State Pension age on or after 6 April each year.



### State Pension Forecast

For the current tax year 2017/2018 the state pension is £159.55 per week. It is recommended that you periodically get a Pension Forecast so you avoid any surprises. You

can apply for a State Pension Forecast Statement on [DWP BR19 Application Form](#). You'll get a forecast statement within 10 working days which will estimate how much State Pension you may get when you reach State Pension age. This estimate will be based on your national Insurance Record at the date the statement is produced. An application can be accessed via and should be posted to:

Newcastle Pension Centre, Futures Group  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton WV98 1LU

### State Pensions - National Insurance Contributions.

SP pay National Insurance contributions through their military salary to qualify for the State Pension. You pay Class 1 National Insurance contributions as a percentage of your earnings and they are deducted direct from your salary, they show as 'NI A' on your payslip.

### When do I stop paying national insurance?

You stop paying Class 1 National Insurance when you reach the State Pension age - even if you're still working

### National Insurance credits (if you have gaps in your employment).

You may be able to get National Insurance credits if you're not paying National Insurance, for example when you're claiming benefits because you're ill or unemployed. [Check your National Insurance record](#) for gaps. Partners of people in the armed forces - may have circumstances that allow them to get National Insurance credits. [Check if you're eligible](#) for National Insurance credits. You may get them automatically or you may have to apply for them. To apply for Class 1 credits, write to: National Insurance contributions and Employers Office, HM Revenue and Customs, BX9 1AN. Include your National Insurance number and say when the credits are for and why you're eligible. If you are eligible you will get either:

- **Class 1** - these count towards your State Pension, bereavement benefits and [some other benefits](#), for example Jobseeker's Allowance [Apply for Class 1 credits](#)
- **Class 3** - these count towards your State Pension only [Apply for Class 3 credits](#)

You can't usually get credits if you're a married woman paying [reduced rate National Insurance](#) or [self-employed and need to pay Class 2](#) National Insurance contributions.

If you did not pay enough National Insurance over the last six years, you can usually pay a lump sum to top up your National Insurance contributions on the GOV.UK website: [Paying Voluntary National Insurance Contributions](#)

## State Pension – Tax Considerations

**Is the State Pension subject to tax?** The State Pension is liable to income tax but it's paid to you gross (without any tax deducted). If your gross income is more than your personal allowance, you're liable to pay income tax on the amount that exceeds the personal allowance, although you don't pay any National Insurance contributions on your state pension income.

### Do I pay tax on my state pension if I am still working?

If your overall taxable income is more than your tax-free allowances you'll be taxed at the usual Income Tax rates on the difference.



## Workplace Pension

A Workplace Pension is arranged through your employer. The employer contributes money to the pension plan while you are in

their employment. A work place pension can also be called an occupational, works or work-based pensions. A percentage of pay is paid into the pension scheme each pay day and in most cases is added to by your employer if:

- You are classed as a worker
- You are aged between 22 and State Pension age
- You earn at least £10,000 per year
- You ordinarily work in the UK

Your employer doesn't have to contribute to a pension if you earn less than £113 per week, £490 per month or £452 per 4 weeks.

An employer will write to you informing you of:

- That you have automatically been enrolled into the workplace pension scheme.
- The date you joined
- The type of pension scheme and who runs it
- How much they will contribute and how much you pay in
- How to leave the scheme
- How tax relief applies to you.

Your pension provider will send you a statement each year informing you how much you have in your pension pot. On your pay slip you may see 'Net pay' or 'Relief at source'. **Net pay** means that your employer takes your contribution from your pay before it is taxed so you only pay tax on what is left which means you are getting tax relief. What you will see on your payslip will be your contribution plus the tax relief.

**Relief at source** means that your employer takes your pension contribution after taking tax and National Insurance from your pay. Your pension provider then adds tax relief to your pension pot at the basic rate. You can access information on leaving your work place pension at <https://www.gov.uk/workplace-pensions/if-you-want-to-leave-your-workplace-pension-scheme>

## Defined Benefit & Defined Contribution Schemes

Pensions will either be defined benefit or defined contribution schemes.

**Defined benefit pensions** - also known as final salary schemes, promise to pay a retirement income based on a

percentage of your salary. What you receive depends on how long you spent working for your employer, and how much you were earning at the time you gave up work.

**Defined contribution schemes** are a type of pension which you (and perhaps an employer) pay contributions each month. Typically, these contributions are invested into shares or bonds (the stock market), and the ultimate size of the pension pot depends on how well these investments perform over time. Personal pensions are normally defined contribution schemes.

It is important to keep track of pensions that you have paid into throughout your working career. The pensions Tracking Service could help you find pensions you've paid into but lost track of [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension).

If you change job your workplace pension still belongs to you. If you don't carry on paying into the scheme the money will remain invested and you will get a pension when you reach pension age. You can join another workplace pension scheme if you get another job and may carry on making contributions to your old pension or combine the old and new pension schemes. [www.gov.uk/transferring-your-pension](http://www.gov.uk/transferring-your-pension)

## More than one civilian job?

Spouses and dependants may wish to note:

- If you work for more than one employer, you may be automatically enrolled into more than one workplace pension scheme (through Automatic Enrolment)
- If you have more than one job, each of your employers will check whether you're an eligible jobholder for that employment. If you are, then you will be automatically enrolled into that employer's workplace pension scheme, but you may decide to opt out.
- If you're a non-eligible jobholder or an entitled worker, you may ask to join that employer's workplace pension scheme.
- You may be asked to pay contributions, based on your pay from that employment, to each of the schemes that you join.
- Since 2006, there has been no restriction on the number of different pension schemes that you can belong to, although there are limits on the total amounts that can be contributed across all schemes each year, if you are to receive tax relief on contributions.

## Armed Forces Pension Schemes

SP will belong to **AFPS 15** or one of the legacy schemes: **AFPS 05**, **AFPS 75** or **RFPS 05**. A useful guide to pay pensions and other benefits is contained in the [Service Leaver's Guide](#)

You are/were a member of **AFPS 75** if you were serving in the Army before 6 April 2005 and did not choose to Transfer to **AFPS 05**. You were a member of **AFPS 05** if you joined the Army after 6 April 2005 or accepted the Offer to Transfer from **AFPS 75** to **AFPS 05**. AFPS 75 and AFPS 05 are both final salary schemes so the value of their benefits is determined by what those personnel have earned at the end of their careers. The RFPS scheme is a Defined Benefits Scheme.

### Armed Forces Pension Scheme 2015 (AFPS 15)

You are a member of AFPS 15 if you were a serving member of the Regular or Reserve Armed Forces on 1 April 2015. AFPS 15 is based on what service personnel have earned throughout their careers, it is called a **Career Average Revalued Earning (CARE) Scheme**.

#### How the CARE Scheme works

You personally have a pension pot on the **CARE** Scheme which is part of **AFPS 15**

- Each year an amount equal to 1/47th (the accrual rate) of

your annual salary is placed in your pension pot.

- The scheme is non-contributory in that the MoD makes the contribution (the accrual rate) on your behalf.
- The amount in your pension pot is increased each year by a percentage called the Average Earnings Index, which means it is protected against inflation.
- Each year you will be issued with a pension statement telling you how much is in your pension pot.
- When you leave the Army your pension benefits are worked out using the total from your pension pot

**Pension Entitlement.** The amount of paid service you have completed determines what benefits you are entitled to:

- **Deferred Pension.** If you leave before you have achieved 20 years of service and reached age 40 (the 20/40 point) you will be entitled to a Deferred Pension that will be paid at State Pension Age.
- **Early Departure Payment (EDP).** If you complete 20 years of service and reach age 40, and do not serve through to the Normal Pension Age of 60, you will be entitled to an EDP when they leave the Armed Forces consisting of :
  - Tax Free Lump Sum
  - Monthly Income
  - At State Pension Age you will stop receiving EDP and your monthly income will change to a pension.
  - If you leave the Army before reaching EDP you should find out what you have in your pension pot and what you can do with it by writing to:Pensions Division, MP 480, Kentigern House, 65 Brown Street, Glasgow G2 8EX
- **Full Pension.** If you serve to the age of 60 you will be entitled to claim your Full Pension immediately. Once the pension is in payment, it will increase annually in line with the Consumer Price Index (CPI)

**Pension Forecast.** To help you understand what pension and related benefits you might receive and when they are due to be paid; you can get an online forecast based on your service career from the Online Pension Calculator [www.mod-abc.co.uk](http://www.mod-abc.co.uk).

## Top Tips:

- Understand your pension(s), they will be an important part of your, and your family's long-term financial future.
- Know what Armed Forces pension you are on and understand it in detail
- Understand civilian workplace pensions as they will affect your spouse and children, and most likely you when you become a civilian
- Make provision early and consider taking professional independent financial advice for which there will be most likely a charge.
- Look out for the Forces Pension Society who brief Service personnel during roadshows and brief Service leavers during their resettlement.

## Reference links

1. **AFPS 15** [AFPS-2015-what-you-need-to-know](#),
2. **AFPS 05** [AFPS05 Your Pension Scheme and Other Benefits explained](#)
3. **AFPS 75** [Armed Forces Pension Scheme 1975](#)
4. **RFPS 05** [RFPS 05 Your Pension Scheme explained](#)
5. [Service Leaver's Guide](#)
6. [Pension Wise](#)
7. [Forces Pension Society](#)

