

Vital ground

Tough Budget decisions may lie ahead and the threat to the tax-free pension lump sum allowance has not gone away. Chief Executive **Neil Marshall** explains why the Society's position on this 'vital ground' does not amount to 'special pleading'.

With 26 November's Budget looming, many in the media are speculating as to what measures the Chancellor may adopt to raise the revenue needed to fund increased expenditure. And she is not short of advice (or lobbying) – plenty of organisations and commentators believe they know how best to balance the books and what should be out of bounds for tax rises.

We fully accept that tough tax and spend choices lie ahead. Long-term public sector and state pension affordability remains a concern, despite the introduction of the 2015 reforms that heralded AFPS 15, which the government of the day declared would be "good for 25 years".

The Pensions Commission has been revived to consider the long-term future of the UK's private (not public sector) pensions systems, including adequacy, auto enrolment levels and sustainability. And the next statutory government review into state pension age (currently 66, rising to 67 between 2026 and 2028, then to 68 between 2044 and 2046) is under way.

While the government has not announced any review into public sector pensions, this does not exempt the schemes from taxation policy choices. I wrote to the Chief Secretary

to the Treasury ahead of the 2024 Budget (*see Spring Pennant, page 8-9*), urging him and the Chancellor not to consider reducing the pension lump sum allowance level.

I cited the pension's direct link to sustaining operational capability by incentivising retention, and asserted that promises that Service personnel would receive a tax-free lump sum when they leave the Armed Forces should be honoured.

We were encouraged to receive a reply from the Pensions Minister (*above*). This recognised "the invaluable work of both current and Veteran servicemen and women across the UK", that there were "no changes to the tax-free pension commencement lump sum in the

[2024] Autumn Budget" and thanked us "for taking the trouble to make me aware of these concerns".

We have continued this approach, seeking to influence government policy by highlighting the vital importance of Armed Forces pensions – including Early Departure Payments and tax-free lump sums – to the nation's defence capability.

Our recent article published in *The House*, Parliament's bi-weekly magazine (*facing page*) does not amount to 'special pleading' for a particular community or interest group. For us, this is simply a reminder to those charged with making key decisions that this is much more than 'tax and spend'. It is indeed 'vital ground'. 📌



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Major General Neil Marshall OBE
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19 June 2025

Dear Major General Neil Marshall,

Thank you for your letter of 11 October to the Chief Secretary to the Treasury enclosing correspondence, about the possibility of changes to the current system of pensions tax relief, specifically the tax-free pension commencement lump sum. I am Pensions Minister. I would like to offer my sincere apologies for the delayed response.

Firstly, I would like to assure you that the Government recognises the invaluable work of both current and veteran servicemen and women across the UK.

The Government wishes to encourage pension saving, to help ensure that people have an income, or funds on which they can draw on, throughout retirement. The Government is committed to supporting savers of all incomes and at all stages of life. That is why, for the majority of savers, pension contributions made from income during working life are tax-free. Pensions tax relief is one of the most expensive reliefs in the personal tax system, costing £70.6 billion in 2022/23.

As you may be aware, there were no changes to the tax-free pension commencement lump sum in the Autumn Budget. Any pension income received outside of the tax-free lump sum (for example as a regular annuity payment or as income drawn down from a pension) is subject to income tax at an individual's marginal rate, to reflect the fact that pensions in payment are a form of deferred income and have not been previously taxed.

Thank you for taking the trouble to make me aware of these concerns.

Yours sincerely,

TORSTEN BELL MP
MINISTER FOR PENSIONS

The vital importance of armed forces pensions to our defence capability

The armed forces pension is not a perk but a vital promise, central to morale, retention and security. To safeguard defence, government must honour and protect it, resisting changes that undermine trust and commitment from those who serve



Maj Gen Neil Marshall
CEO
Forces Pension Society

It's people who deliver our winning edge. War may evolve with drones, cyber-attacks, and operations in space, but it is still the men and women of the armed forces who put the nation's will into action. Whether on land, at sea, in the air, or in cyberspace, it is their skill, courage, and commitment that gives us our decisive edge.

The latest Strategic Defence Review put it plainly: the transformation of UK defence "must ultimately be delivered by its people." Retaining those people – highly trained, deeply experienced, and mission-focused – must therefore be a top priority for defence and government alike. And incentivising service is a key feature of the armed forces pension.

Pension as a critical component of 'the promise'

Service people are generally not highly paid, but they are increasingly highly skilled. One of the most valuable elements of their overall reward is the Armed Forces Pension Scheme (AFPS15).

At the Forces Pension Society, we work tirelessly to ensure the armed forces community fully understands and values this benefit.

AFPS15 delivers more than simply a retirement income, it provides vital reassurance to those who serve in harm's way, that their loved ones will be protected (including Death-in-Service benefits). It also offers a launchpad for a second career, recognising that military careers often end earlier than civilian ones.

The pension is not a perk; it is a solemn promise, integral to morale, retention and operational integrity. It must be honoured and protected.

This is why we urge government to resist "tinkering" with taxation on key elements such as Early Departure Payments or pension tax-free lump sums. Service people plan their futures around these commitments – and people are not easily replaced if they walk away.

Government and the Armed Forces Covenant

On 28 June, government announced it would enshrine the Armed Forces Covenant in law. The Prime Minister stated: "I made a promise to serve those who have served us. Through the new Armed Forces Covenant, we are delivering on that promise... our Armed Forces Covenant will put our armed forces community at the very heart of government decision-making."

This was accompanied by a pledge for a "wider commitment to renew the contract with those who have served the country, ensuring they are treated with respect and long-term security". Long-term security demands long-term commitment – and that commitment must go both ways, because without our people, we have no defence.



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