

**EXPLANATORY MEMORANDUM TO THE  
ARMED FORCES EARLY DEPARTURE PAYMENT SCHEME ORDER  
2005 NO 437**

1. This explanatory memorandum has been prepared by the Ministry of Defence (MOD) and is laid before Parliament by Command of Her Majesty.

**2. Description**

2.1. The Armed Forces (Pensions and Compensation) Act 2004 (“the 2004 Act”) gives the Secretary of State the power to make a new Early Departure Payment (EDP) scheme for members of the Armed Forces.

2.2. There is also provision for a Resettlement Grant (RG) and for a lump sum paid to those leaving the Armed Forces because of ill-health (see paragraph 7.4 below).

2.3. The new arrangements will be take effect from 6 April 2005.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1. None.

**4. Legislative background**

4.1. The EDP and ill-health lump sum are new arrangements, for which there is no relevant background. There is already a RG is paid under earlier arrangements. The rules are set out in three separate instruments which make up the current Armed Forces Pension Scheme (see related Armed Forces Pension Scheme Order 2005 for more details).

4.2. None of these is a pension payment, which is why the provisions have been included in a separate instrument.

4.3. The SI to which this explanatory memorandum is attached is being made alongside related instruments: the Armed Forces Pension Scheme Order 2005 (SI 2005/438) and the Armed Forces and Reserve Forces Compensation Scheme Order 2005 (SI 2005 439). Two commencement orders have already been made under the 2004 Act.

**5. Extent**

5.1. This instrument applies to all of the United Kingdom.

**6. European Convention on Human Rights**

6.1. Not applicable.

## **7. Policy background**

- 7.1. The EDP meets two purposes: it acts as a retention tool by providing an incentive to personnel to serve at least 18 years; and it provides compensation for those whom the Armed Forces is unable to offer a career through to normal retirement age.
- 7.2. The EDP provides a tax-free lump sum and income for Service personnel leaving from age 40 (and with at least 18 years' service), but before normal retirement age of 55. It replaces the Immediate Pension in the earlier arrangements, but it is not a pension, which is why the scheme is in a separate order and not within the pension scheme order. Under Inland Revenue proposals, it will not be possible to pay a pension before age 55 from 2010.
- 7.3. The saving from reducing the value of mid-career leaver benefits as part of this change is being used to pay for improved dependants' benefits and to help cover the cost of pensioners living longer. Those leaving before the EDP point will receive a pension preserved to age 65 (age 60 in the current scheme, although this is also changing to age 65 for service from 6 April 2006).
- 7.4. The ill-health lump sum is part of new arrangements based on three tiers of payments for those leaving the Armed Forces with conditions not caused mainly by their military service. Tier 1 covers this lump sum and is paid for minor conditions which are not judged to affect an individual's employment prospects. Tiers 2 and 3 involve both a lump sum and ill-health pension. They cover more serious conditions where the individual's employment prospects are judged to be more seriously affected.
- 7.5. The RG pays a lump sum of £9,000(to be reviewed annually) to those leaving after at least 12 years' service, but less than 18 years' service, and who are not receiving any ill-health benefits. They also have a pension preserved until age 65.

## **8. Impact**

- 8.1. A Regulatory Impact Assessment has not been prepared for this instrument, as it has no impact on business, charities or voluntary bodies.

## **9. Contact**

- 9.1. Contact Sue McIntosh, Ministry of Defence, 0207 218 0564, email [sue.mcintosh641@mod.uk](mailto:sue.mcintosh641@mod.uk) if you have any queries on the memorandum.