

*Office of Manpower  
Economics*

*Comparison of Pay in the Armed  
Forces and the Civilian Sector*

*Final report*

November 2013

# Content

Section	Page
<b>1. Introduction</b>	3
<b>2. Executive summary</b>	4
<b>3. Approach to pay comparison</b>	12
<b>4. Detailed pay comparison findings</b>	25
<b>5. Impact of Armed Forces Pension on Annual Total Reward</b>	32
<b>6. Implications of findings</b>	36
<b>Appendices</b>	
1. The PwC Job Evaluation System	40
2. Armed Forces Job Evaluation System	41
3. Formulaic translation	43
4. PwC JES results	46
5. PwC JES – range of scores	47
6. Detailed job evaluation scores	48
7. Armed Forces rank and title matching	49

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# ***1. Introduction***

## **Background and purpose**

PwC has been commissioned by the Office of Manpower Economics (“OME”) to undertake a project providing support to the OME to conduct a comparison of pay between members of the Armed Forces and that of civilian roles which are of comparable job size on behalf of the Armed Forces Pay Review Body (“AFPRB”).

The purpose of this report is to provide independent research for the AFPRB comparing levels of pay in the different armed forces ranks with levels of pay of roles of similar job size in the civilian sector. This will contribute to the AFPRB's consideration of pay comparability which in turn is part of the review body's wider remit to provide independent advice on remuneration for the armed forces. The comparisons typically exclude the X-Factor<sup>1</sup> adjustments which separately take account of the unique aspects of Armed Forces roles. The only area where the X-Factor has been included is in the pension valuation used in the analysis of annual total reward.

This report makes comparison between the pay of members of the Armed Forces and that of civilian (public and private sector) roles which are of comparable job size. These roles are difficult to compare and some aspects, such as warfare and danger, are impossible to place a value on. We have assessed the size of 286 Armed Forces jobs and using our job evaluation system we have compared these with 35,385 civilian jobs in both the public and the private sectors.

<sup>1</sup> The X-Factor is a pensionable addition to basic military pay. It is currently 14.5% of pay for most personnel, and is intended to reflect the balance of advantages and disadvantages of conditions of service experienced by members of the Armed Forces compared to workers in the civilian sector.

## 2. Executive summary

The last few years have been a challenging time for many organisations, regardless of their sector. Pay freezes continue to be operated by a large number of organisations, and while the number of organisations operating these has varied from year to year, smaller pay budgets have become the norm.

There has therefore been a shift in employee expectations whereby there is now, in general, an acceptance of a pay freeze or pay cut. Union pressures continue to exist but there is also an acceptance of the new reality. There is also a greater emphasis in the Private Sector on the use of incentives, in contrast to annual increases in annual base salary, to be better able to differentiate and reward for meaningful performance levels in line with limited budget spend. This has also been used as a response to changes in pension benefits as final salary plans continue to close and auto-enrolment pension schemes start to take effect.

In the light of these developments, there is a very strong need for organisations to look at the composition of jobs in their organisation, the demographics of the current employee population and the available budget for pay decisions. It is a major challenge for many organisations as to how best to use a smaller budget to effectively engage employees, recognise talent and reward contribution.

Our analysis comparing pay levels against the Private and Public sectors in 2013 indicates the following:

- Overall, the Armed Forces salaries are broadly competitive with those in the Civilian Sector but this does depend on the particular elements of pay when comparing to the market median as shown in the table below:

Pay Comparison	Civilian Sector (Combined Private & Public)		Private Sector		Public Sector	
	Officer Ranks	Other Ranks	Officer Ranks	Other Ranks	Officer Ranks	Other Ranks
Annual Base Salary	100% - 109%	107% - 118%	98% - 111%	101% - 109%	99% - 113%	105% - 137%
Annual Total Cash	79% - 107%	100% - 119%	78% - 105%	101% - 104%	102% - 116%	109% - 145%

- Annual Base Salary levels are competitive with the median of the Civilian Sector, especially so among the Other Rank (“OR”) population; and
- Annual Total Cash levels are less competitive with the Civilian Sector, particularly among the Officer ranks (“OF”) population where there is no opportunity to earn equivalent incentive levels. The OR population remains competitive, particularly in comparison to very junior jobs in the Civilian sector that are typically lower paid in comparison to OR ranks and are not recognised with significant incentives for their contribution.

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## ***2. Executive summary continued***

2. The Armed Forces is almost unique within the jobs market because it does not have external recruitments other than for the entry points. This means that it would put a greater value on retaining high calibre people than other employers and does so through;
  - a) The Armed Forces uses bespoke pay spines to address specific job categories (for example, Chaplains, Veterinary Officers, Nurses and others). Bespoke pay spines are specific to a small percentage (7%) of the Armed Forces and hence broader conclusions should be treated carefully;
  - b) The use of recruitment and retention payments (“RRP”) does also add significantly to a recipient's pay position. This can, for example, range from between £664 - £4,869 per year for Hydrographic to between £2,657 - £21,900 for flying. However, once again as there are only 17,250 (13%) personnel currently in receipt of RRP, it is difficult to generalise the impact of RRP other than as a very specific pay tool; and
  - c) The current Armed Forces pension scheme does appear to be a very significant component of the Armed Forces’ approach to reward, delivering benefits that are very attractive in comparison to the Civilian Sector, and particularly Private Sector jobs. This is particularly striking among the OR population but does present challenges as the value will vary depending on length of service and it can be difficult for personnel to appreciate the value of the deferred nature of this component.

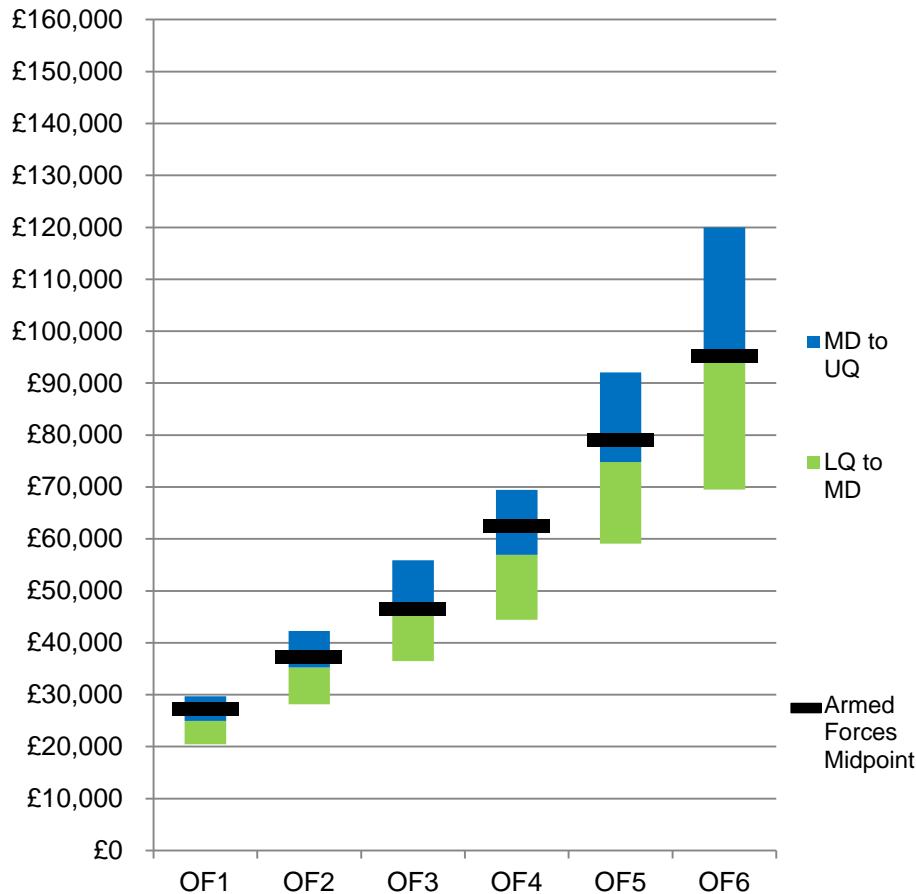
The key conclusions to be drawn from the pay comparisons are that:

- i. Job evaluation contributes to developing an understanding of how Armed Forces jobs compare to the Civilian Sector by comparing broad groups of employees operating at similar levels. It should be noted that it does not follow that direct pay comparison is always straightforward (the pay progression for comparable careers may not be that similar to those for Armed Forces personnel due to differences in career potential, supply and demand of candidates, use of budgets and performance management);
- ii. The pay position for the OR population is competitive compared to current market pay levels. This population is generally well positioned against all pay comparisons, with a particularly positive position with the addition of the pension benefit. This may be due in part to the fact that we have seen little or no movement in pay levels in the Civilian Sector for the equivalent jobs and so the Armed Forces, while not receiving sizable increases in recent years, have seen greater salary increases than has been the norm in other sectors;
- iii. Pay for the OF population is not as competitive, particularly in terms of annual total cash (i.e. annual base salary, allowances and incentives). This situation would appear to point to a divergence in the approach to pay, particularly among Private Sector organisations where there has been a shift to differentiate performance assessment and more selective pay and bonus payments. The pay gap does appear to disappear with the addition of the pension scheme; and
- iv. It should also be noted that this analysis is a snapshot in time and comes after an unprecedented period of economic slowdown that has resulted in a long period of pay restraint across the economy. It remains to be seen if this situation will continue into the future.

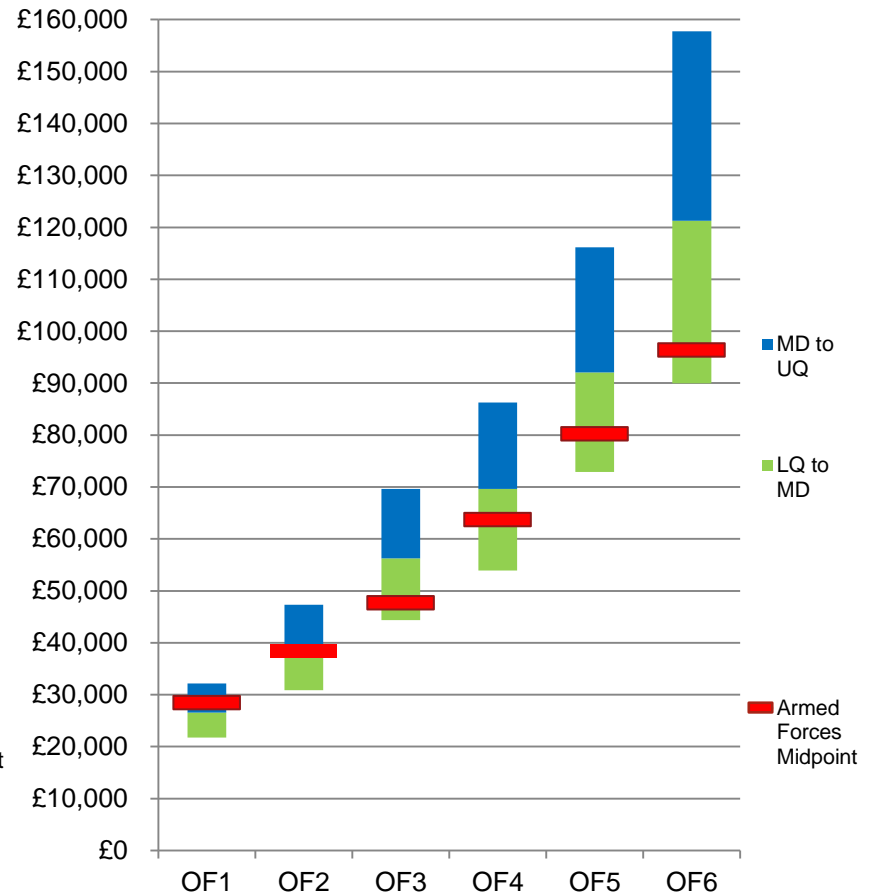
# How does the OF population compare to Civilian employees?

The following graphs show a comparison of the Armed Forces by each OF rank against a combined sample of private and public sector peers. A table matching each of the ranks to their rank names can be found in Appendix 7.

Analysis of Annual Base Salary

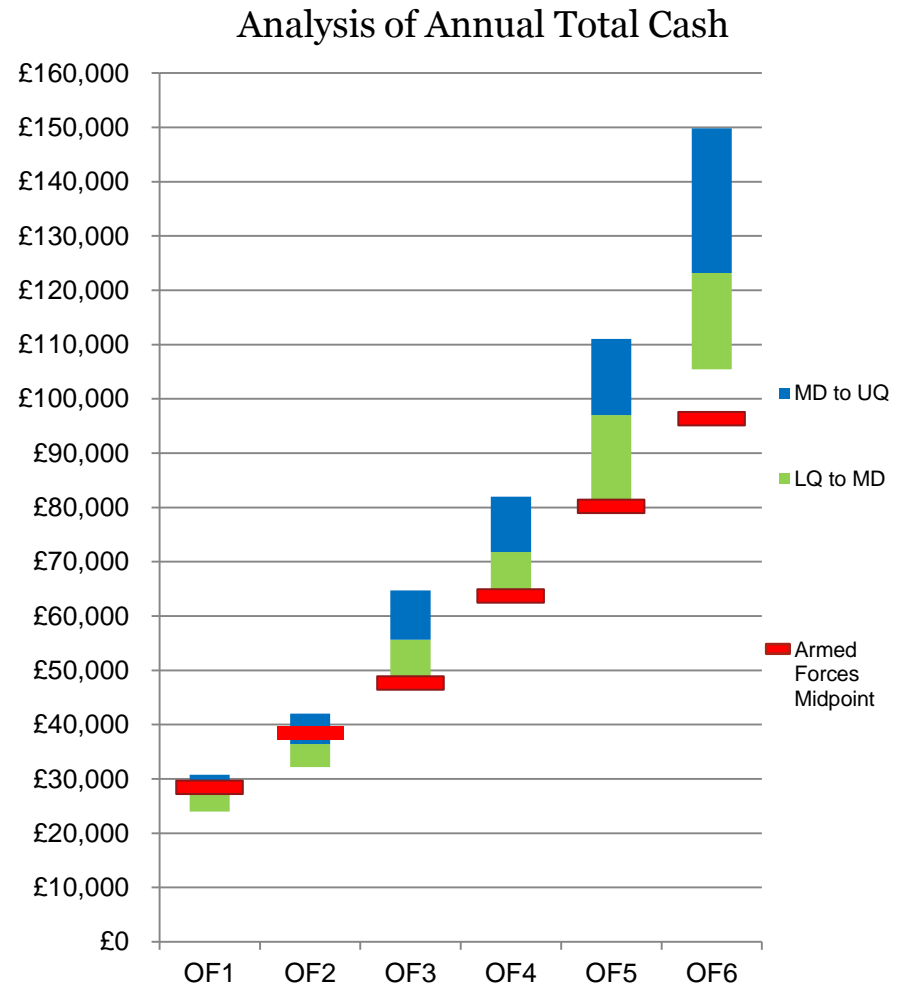
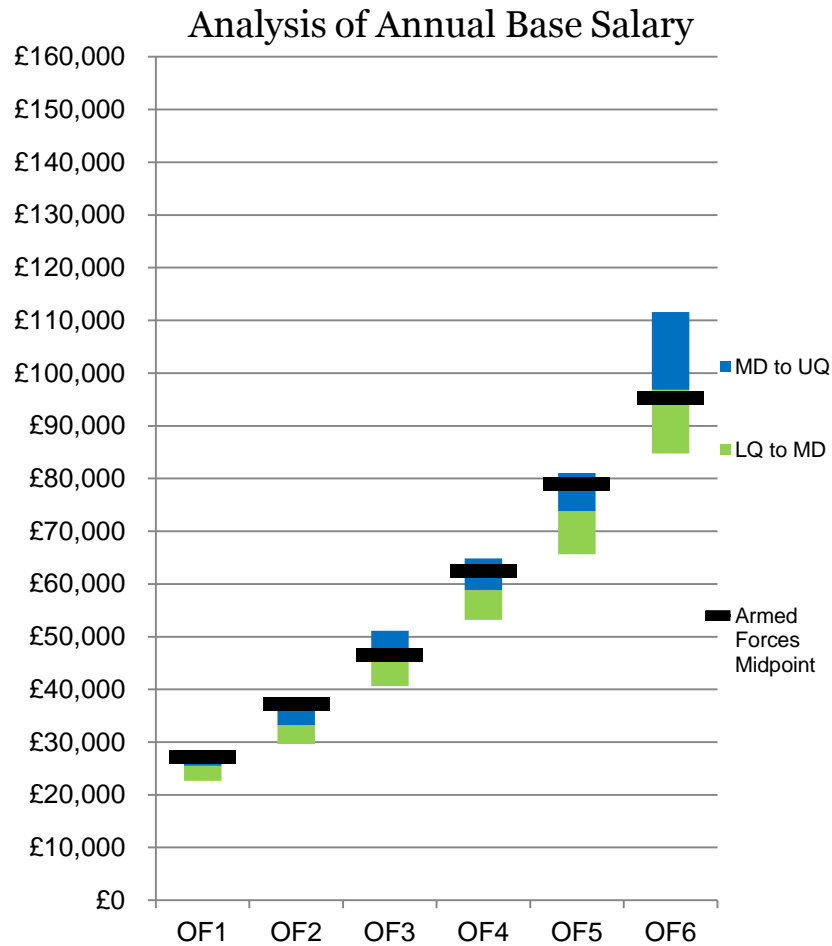


Analysis of Annual Total Cash



# How does the OF population compare to the Private sector?

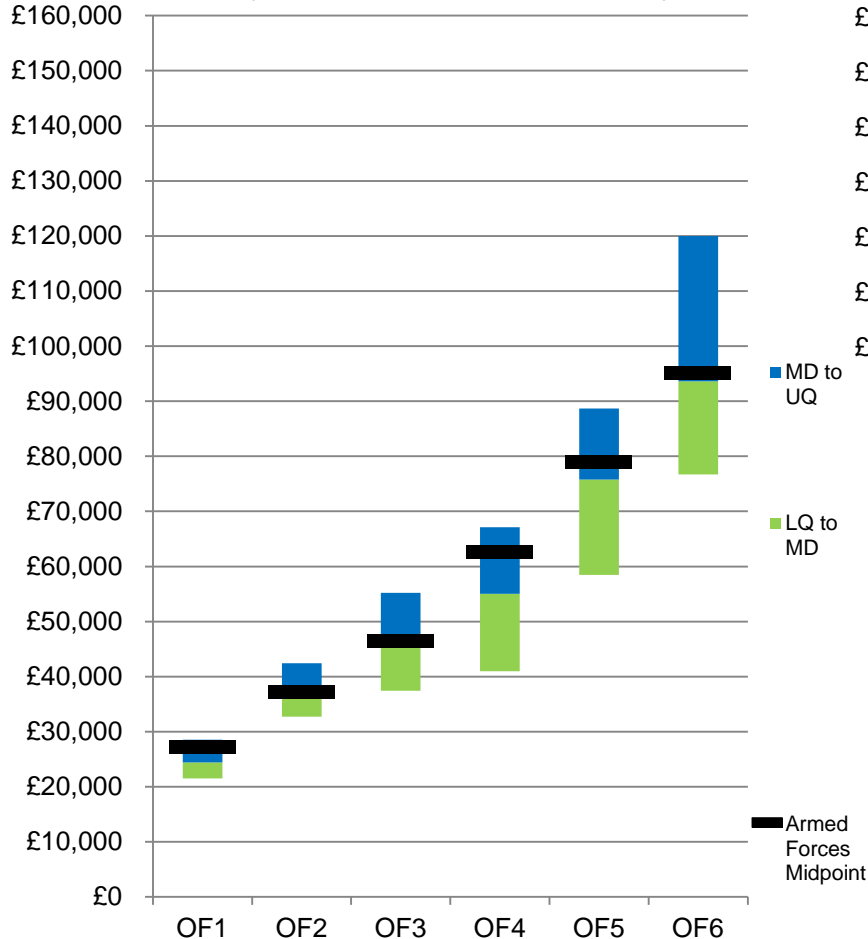
The following graphs show a comparison of the Armed Forces by each OF rank across private sector comparators based on job evaluation. A table matching each of the ranks to their rank names can be found in Appendix 7.



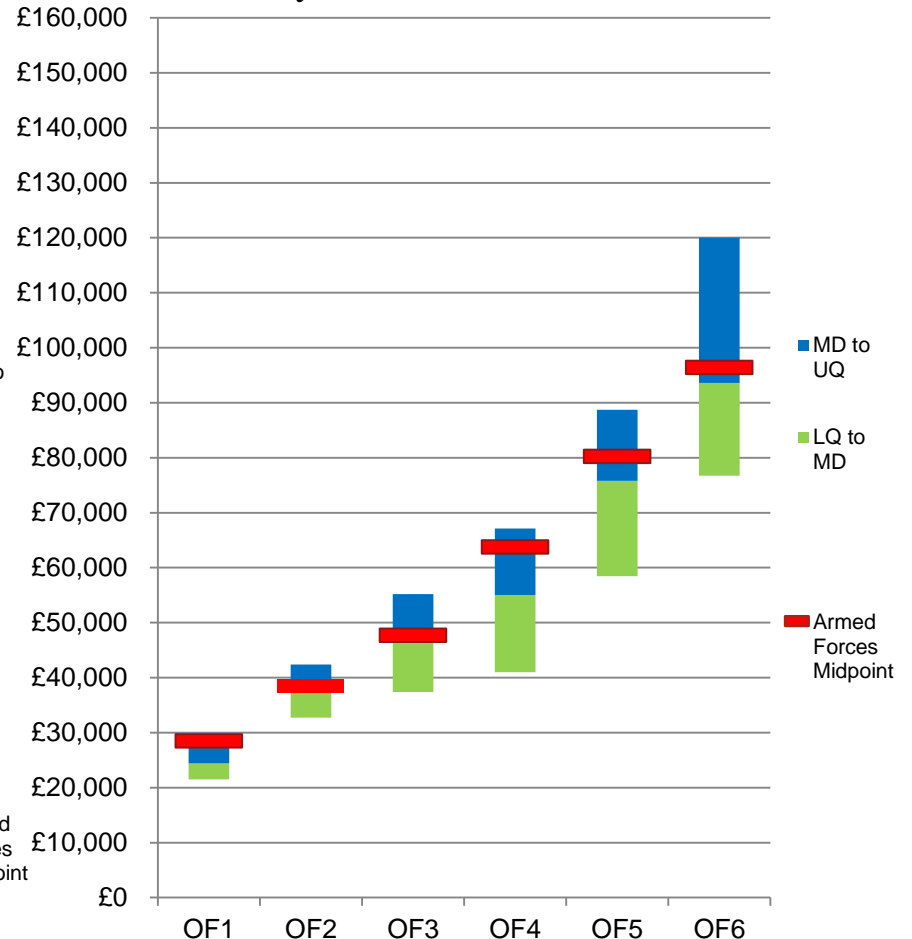
# How does the OF population compare to the Public sector?

The following graphs show a comparison of the Armed Forces by each OF rank across public sector job matches. A table matching each of the ranks to their rank names can be found in Appendix 7.

### Analysis of Annual Base Salary



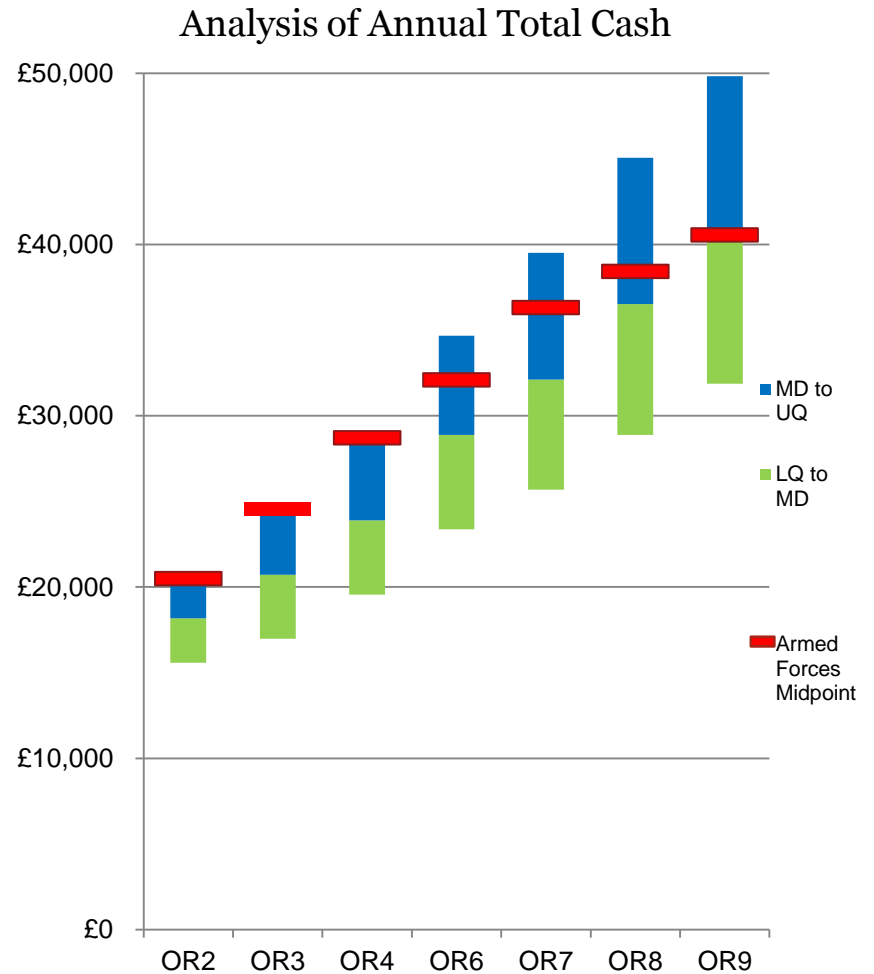
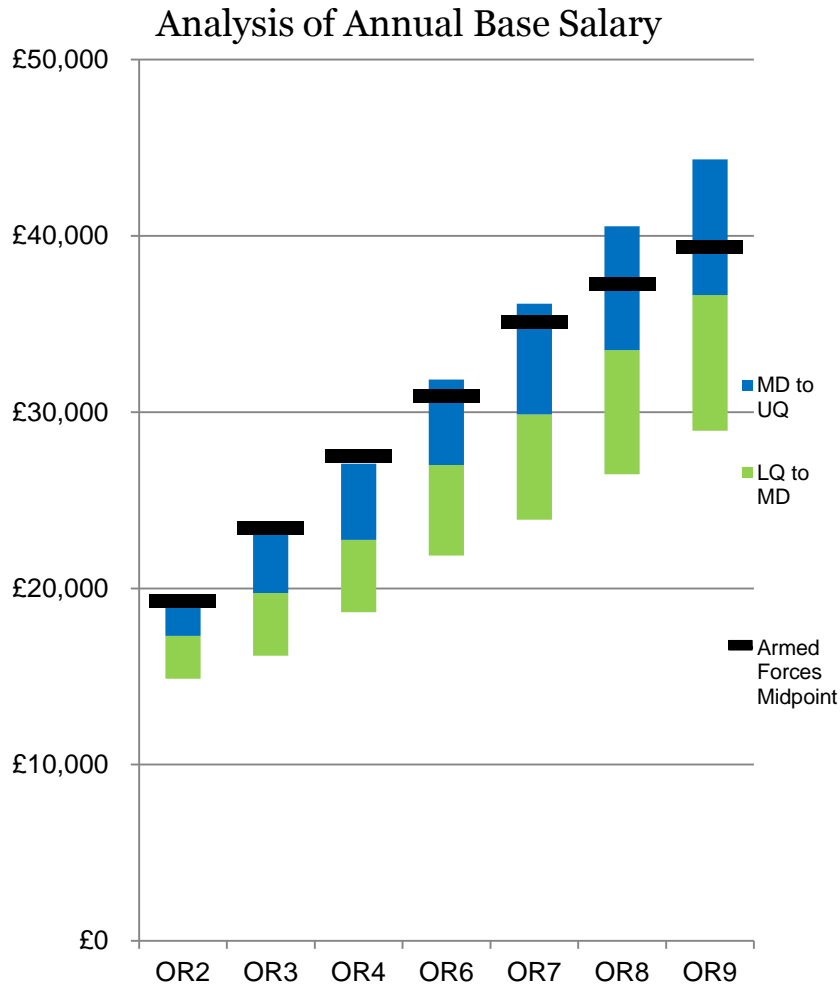
### Analysis of Annual Total Cash





# How does the OR population compare to Civilian employees?

The following graphs show a comparison of the Armed Forces by OR rank against a combined sample of private and public sector peers. A table matching each of the ranks to their rank names can be found in Appendix 7.



# How does the OR population compare to the Private sector?

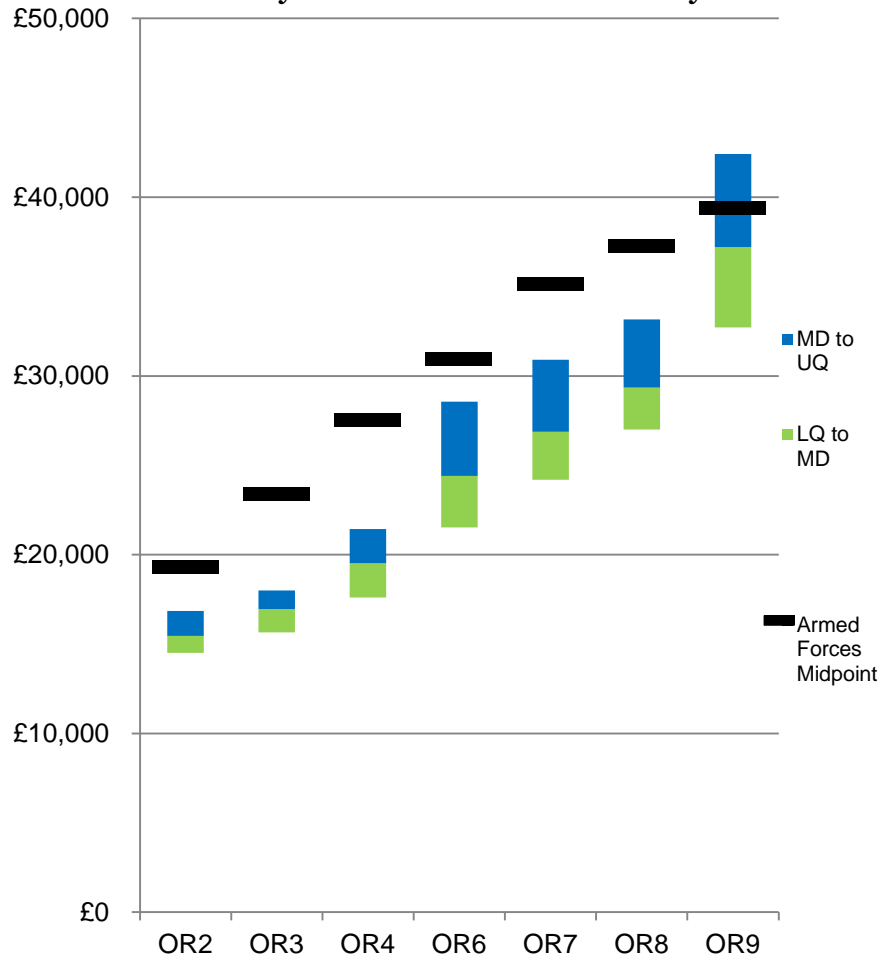
The following graphs show a comparison of the Armed Forces by each OR rank across private sector comparators based on job evaluation. A table matching each of the ranks to their rank names can be found in Appendix 7.



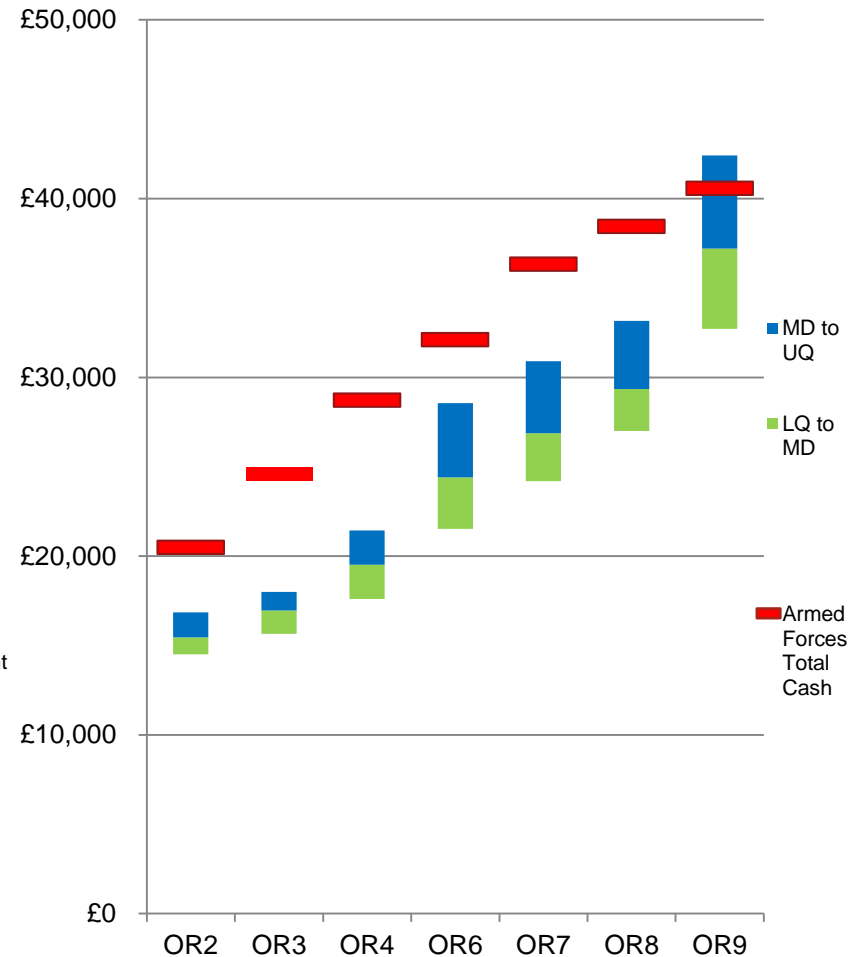
# How does the OR population compare to the Public sector?

The following graphs show a comparison of the Armed Forces by each OR rank across public sector job matches. A table matching each of the ranks to their rank names can be found in Appendix 7.

### Analysis of Annual Base Salary



### Analysis of Annual Total Cash

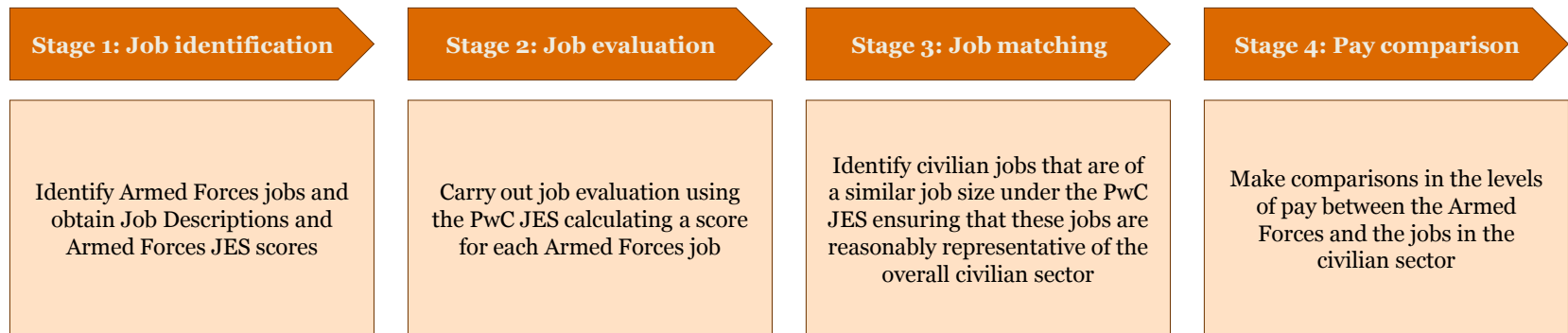


### 3. Approach to pay comparison

As many roles in the Armed Forces are not directly comparable with any roles in the civilian sector, the comparisons are made by assessing the main aspects of each Armed Forces role under a set of generic criteria, which can be applied on the same basis to both the Armed Forces roles and roles in the civilian sector. The process of assessing jobs under generic criteria is commonly referred to as job evaluation or job sizing.

To make the comparisons, we have used PwC's proprietary Job Evaluation System (JES). The PwC JES has seven factors/criteria and a descriptor of each is provided in Appendix 1. Each of the seven factors in the PwC JES has a number of predefined levels with a score attached. For each factor the level that is most appropriate for each job is selected and the seven individual scores that are identified for each job are then aggregated to produce a total score for the job (referred to as the job size). Through this process we are able to make comparisons between Armed Forces jobs and civilian jobs, even though the content of the jobs is very different. The final stage in the process is to make comparisons of levels of pay between the jobs in the Armed Forces and comparable jobs in the civilian sector.

Each stage in the pay comparison process against the civilian sector that we have followed is summarised below and outlined in more detail on the following pages:



### 3. Approach to pay comparison continued

#### Stage 1: Job identification

As part of this stage we:

- Obtained full job descriptions for a representative sample of 286 Armed Forces jobs across the different OF (83 jobs) and OR (203 jobs). We also obtained details regarding the job evaluations carried out for these jobs under the Armed Forces JES. The Armed Forces JES has six factors/criteria and a descriptor of each is provided in Appendix 2;
- Reviewed the sample to ensure that it was reasonably representative of the overall numbers of roles and strength within the Armed Forces. In the table opposite we summarise the 286 jobs and how they compare with:
  - The total number of jobs in the Armed Forces, based on the number of different job evaluations carried out by the MOD using the Armed Forces JES; and
  - The total strength of each service within the Armed Forces.
- It can be seen from the table that the sample of 286 Armed Forces jobs is reasonably representative of the overall population. We have included a larger number of Officer jobs in the sample on the basis that these jobs are more complex and more diverse than the Other ranks;
- It should be noted then, as with previous pay comparison, the entrants ranks (University cadet and other entrants) have not been included in this study on the basis that these are not fully established Armed Forces jobs.

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	Number of jobs				Total number of Armed Forces JES Results***	Sample as a % of Armed Forces JES Results****
	Army	Navy & Marines	RAF	Total		
<b>Other Ranks</b>						
OR2	10	19	10	39	744	5%
OR3	8	0	5	13	274	5%
OR4	11	16	8	35	872	4%
OR6	11	11	11	33	950	3%
OR7	9	15	17	41	1,021	4%
OR8	10	6	0	16	319	5%
OR9	8	10	8	26	628	4%
	<b>67</b>	<b>77</b>	<b>59</b>	<b>203</b>	<b>4,808</b>	<b>4%</b>
Percentage of sample	33%	38%	29%	100%		
Total strength *	79,500	24,900	27,200	131,600		
Percentage of total strength **	60%	19%	21%	100%		
<b>Officer Ranks</b>						
OF1	3	1	2	6	49	12%
OF2	7	7	8	22	230	10%
OF3	7	5	8	20	200	10%
OF4	6	5	6	17	156	11%
OF5	3	3	3	9	80	11%
OF6	2	6	1	9	76	12%
	<b>28</b>	<b>27</b>	<b>28</b>	<b>83</b>	<b>791</b>	<b>10%</b>
Percentage of sample	34%	33%	34%	100%		
Total strength 8	13,010	6,170	7,400	26,580		
Percentage of total strength **	49%	23%	28%	100%		
<b>All ranks</b>						
	95	104	87	286		
Percentage of sample	33%	36%	30%	100%		
Total strength *	92,510	31,070	34,600	158,180		
Percentage of total strength	58%	20%	22%	100%		

#### Notes:

\*Using figures drawn from the UK Armed Forces Quarterly Manning Report at 1 July 2013.

\*\* Figures represent number of personnel, which should not be confused with number of jobs.

\*\*\*Figures supplied by the MOD Armed Forces job evaluation team, showing the number of evaluations they hold for each rank.

\*\*\*\* Sample as a % of total Armed Forces JES results is consistent with the 2009 sample: 4% and 10% for Other Ranks and Officers Rank respectively.

All percentage values in the table above have been rounded to the nearest integer.

### 3. Approach to pay comparison continued

#### Stage 2: Job evaluation

We carried out the job evaluation of the 286 identified Armed Forces jobs through a two step process:

- Firstly, we read the job descriptions for each of the jobs and evaluated them through the PwC JES based on the information within the job descriptions; and
- Secondly, we then carried out a formulaic translation between the scores in the Armed Forces JES and the scores in the PwC JES to verify our evaluations. Please see Appendix 3 which details a table showing how the levels in the Armed Forces JES were mapped to the levels in the PwC JES. This was facilitated by the similarities between the Armed Forces JES factors and PwC JES factors, as set out below:

PwC JES factors	Comparable Armed Forces JES factors
Knowledge	Knowledge, skills and experience
Specialist skills	Knowledge, skills and experience
People skills	Communication
Customer service / external impact	Use of resources
Decision making	Judgement and decision making
Creative thinking	Complexity and mental challenge
Physical environment / emotional demands	Working conditions

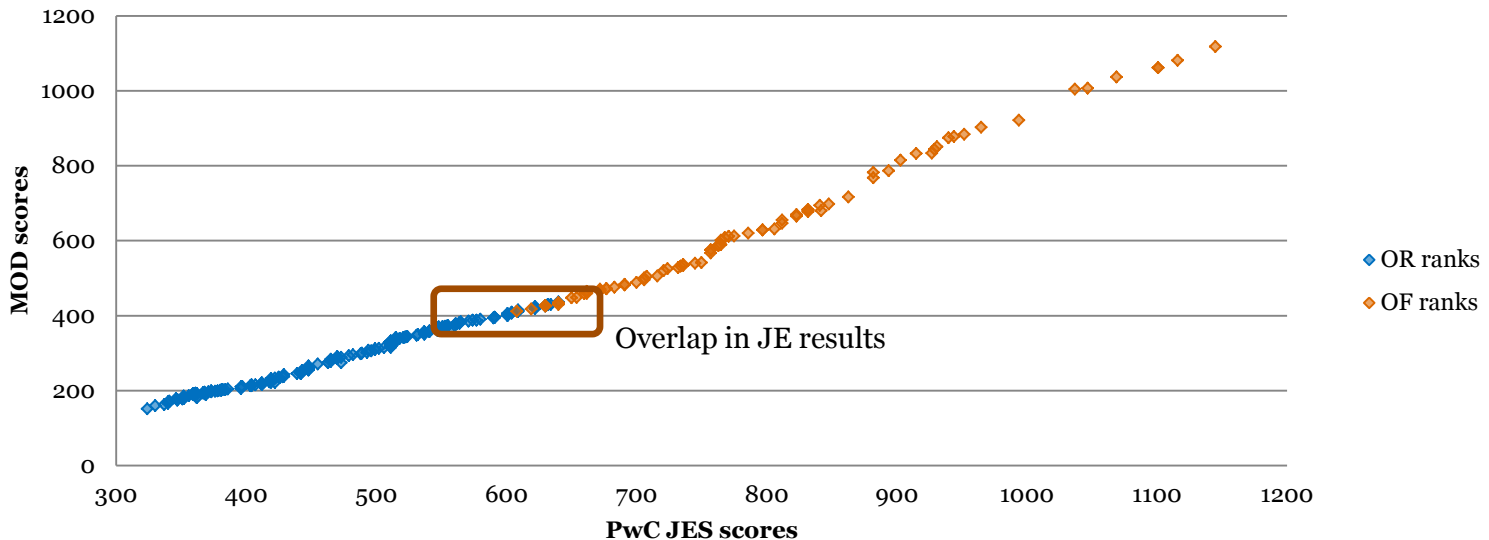
Where there were differences between our initial PwC JES evaluation and the findings from the comparison with the Armed Forces JES we verified the reason for this, either confirming that the initial evaluation was correct or revisiting our understanding of the Armed Forces job and amending the initial evaluation.

The evaluation of jobs through PwC's JES produced a similar rank order to the one produced using the Armed Forces JE scheme. Only 19 jobs were in a different order to that produced using the Armed Forces scheme. Upon review of these jobs, the rank order using the PwC scheme would not have placed these jobs into a different grade. The graph on the next page shows the strong correlation between the PwC scores and the Armed Forces scores. Please see Appendices 4 and 5 for further information on the outputs of the job evaluation activity.

### 3. Approach to pay comparison continued

#### Stage 2: Job evaluation continued

The graph below demonstrates the correlation between the two JE systems and confirms that there is a strong connection between the two systems. It gives a high degree of comfort in terms of comparison to the PwC JES results and hence supports the pay comparisons.



While job evaluation is designed to construct a hierarchy of jobs in an organisation (i.e. the larger the accountabilities, the larger the role and hence a higher JE score), there are points in many organisations where jobs in different career paths (for example, University graduate and school leaver with 8 years of work experience) may overlap as incumbents in both jobs may be capable of delivering similar results regardless of background.

In this study, the results would appear to point to an overlap in the JE scores at OF1 and OF2 with OR7, 8 and 9, this is not unusual for an organisation. This overlap concept is important to consider as it can challenge the hierarchical view of an organisation, particularly where hierarchical positions may be deemed to automatically entitle a job to a higher degree of status without necessarily having greater capability than less senior jobs.

This does not however mean that jobs in this overlap zone will be automatically paid in a similar fashion but may point to the recognition of the full potential and wider capabilities of incumbents who would be promoted through the officer ranks. This may also be considered in the light of incumbents understanding the difference between job responsibilities and personal capability, and the consequences for pay management.

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## ***3. Approach to pay comparison continued***

### ***Stage 3: Job matching***

We compared the MOD JE results to our pay database and developed a read-across to jobs in the Civilian Sector. We then matched each rank in terms of comparator roles and accountabilities. Examples of the jobs against which comparisons have been made for each rank are shown on the following pages. A table matching each of the ranks to their rank names can be found in Appendix 7. It should be noted that the overlap highlighted on the previous page does result in some differences in the use of example jobs, particularly at OR8 and OR9 in comparison to OF1 and OF 2.

Job scores for the comparator roles will not exactly match those in the Armed Forces. However, they will be the closest matches within those types of occupations. They may have actual scores which are higher or lower. This in turn will lead to some jobs where there is an overlap being paired with different comparators. For example, OR8 is matched against a newly qualified teacher and an AO while OF1 is matched against a newly qualified teacher and an EO.

It should be noted that the job matching will not be completely precise as every organisation has unique features that may influence the final results. Job evaluation is an important tool for establishing the quality of the job match but is dependent on the availability and quality of current information. There are also job elements (e.g. threat of danger) that are more unique to some jobs (e.g. the Armed Forces) that may not be possible to truly assess in a job evaluation methodology and may require a unique solution (e.g. the X-factor).

Details of how the comparative JE scores compare with those of the Armed Forces jobs are set out in Appendix 6.



### 3. Approach to pay comparison continued

#### Stage 3: Job matching continued

Rank**	Description of Job Expectations & Accountabilities	Example of comparator roles in the private sector	Example of comparator roles in the public sector*
OF-1	Entry level technical/professional roles providing support to others. Works within defined processes and procedures or methodologies and may help determine the appropriate approach for issues. Making a contribution through allocating work and supervising the activities of others.	Trainee Accountant, HR Officer/Graduate, Business Analyst,, Marketing Officer, Graduate Scientist, Project Analyst, Graduate Engineer	Newly Qualified Teacher, Police Constable, Specialist Nurse, Doctor (FHO2), Social Worker, EO graded Civil Service roles
OF-2	Management and /or technical/professional role requiring experience to make a contribution through leading others in a defined area. As a manager, will exercise full management authority, including performance reviews, pay decisions and other personnel actions. In a technical/professional capacity, will make a contribution through applying acquired knowledge and guides others in resolving complex issues in specialized area based on existing solutions and procedures.	Qualified Accountant, HR Officer, Qualified Auditor, Project Manager, Marketing Manager, Qualified Solicitor, Qualified Engineer	Experienced Teacher, Police Sergeant, Nurse Team Manager, Clinical Medical Officer, EO graded Civil Service roles
OF-3	Leads a large operational team or professional team, or provides high-level technical/professional advice. May set policies related to area of responsibility, with oversight from more senior roles. Responsible for end results & contributing to planning.	Finance Manager, HR Manager, Audit Manager, Senior Project Manager, Deputy Company Secretary, Legal Manager, Engineering Manager/Senior Engineer	Head of School Department, Police Inspector, Junior GP, HEO graded Civil Service roles
OF-4	Leads a significant operational unit or business within a business segment /Function, focused on ensuring that operational plans are delivered upon and responsible for setting policy. May include key technical leadership roles that provide professional or thought leadership.	Site Manager, Programme Manager, Senior Marketing Manager, Lead Audit Manager, Engineering Function Head	Deputy Head Teacher, Police Chief Inspector, GP, Hospital Consultant, SEO graded Civil Service roles
OF-5	Leads a significant function within an organisation or part of a Functional group. Significantly influences strategy at either a functional level or business strategy. Translates organisation strategy into medium-term strategic and operational plans. Includes highly experienced professionals who contribute through applying their expertise in a business or functional area.	Financial Controller, Head of HR, Legal Head, Programme Director, Divisional Head of Geographical Area, Company Secretary, Head Of Marketing	Head Teacher, Prison Governor, Senior GP, Grade 7 Civil Service roles
OF-6	Ultimately accountable for an organisation or leads a large segment of a very large organisation. Responsible for long-term business-critical decisions that are focused on maximising the effectiveness of the organisation.	Chief Auditor, Finance Director, HR Director, Head of Treasury, Head of Engineering, Head of Merchandising, Divisional Director	Director of Social Services, Area Director, Head Teacher of largest school, SCS Pay Grade 1 Civil Service roles

**Note:** \* Civil Service grades sourced from MOD, <http://www.dasa.mod.uk/modintranet/UKDS/UKDS2011/pdf/c2/Chap2Table24.pdf>

\*\* A table matching each of the ranks to their rank names can be found in Appendix 7.

## 3. Approach to pay comparison continued

### Stage 3: Job matching continued

Rank**	Description of Job Expectations & Accountabilities	Example of comparator roles in the private sector	Example of comparator roles in the public sector*
<b>OR-2</b>	Work requires developed literacy and numeracy skills and the ability to perform routine tasks within procedures that may include keyboard and practical skills and initial contact with customers. Some previous experience is required.	Accounts Clerk, Clerical Assistant, Marketing Assistant, Junior Personal Assistant, Fitter, Receptionist	Nursery Assistant, Catering Assistant, Teaching Assistant, Refuse Driver, AA graded Civil Service roles
<b>OR-3</b>	Focus on use of specific administrative, practical, craft or technical skills gained by previous experience and qualifications to carry out a range of less routine work and to provide specialist support, and could include closer contact with the public/customer.	Finance Assistant, HR Assistant, LGV Driver, Planning Assistant, Apprentice-trained craft worker, Call Centre Operator	Social Work Assistant, Care Assistant, AA graded Civil Service roles
<b>OR-4</b>	Requires broad and deep administrative, technical or craft skills and experience to carry out a wider range of activities including staff supervision, undertaking specialist routines and procedures and providing some advice.	Finance Officer, Sales Administrator, Experienced multi-skilled craft worker, Experienced Personal Assistant, Engineering Technician	Experienced Teaching Assistant, Veterinary Nurse, Newly Qualified Nurse, AA graded Civil Service roles
<b>OR-6</b>	Work requires detailed experience and possibly some level of vocational qualification to be able to oversee the operation of an important procedure or to provide specialist advice and services, involving applied knowledge of internal systems and procedures.	Recruitment Officer, Buyer, Marketing Analyst, Production Controller, Sales Analyst, Planning Coordinator, Warehouse Team Leader	Prison Officer, Newly qualified Social Worker, AO graded Civil Service roles
<b>OR-7</b>	Work requires a vocational qualification and/or sufficient relevant specialist experience to be able to supervise colleagues or operate with self-contained expertise in a specialist discipline or activity.	Trainee Accountant, HR Officer/Graduate, Call Centre Team Leader, Graduate Engineer, Project Analyst, Senior Engineering Technician	Specialist Nurse, Probation Officer, Paramedic, Social Worker, AO graded Civil Service roles
<b>OR-8</b>	Has developed expertise in a variety of work processes or activities typically developed through a combination of job-related training and considerable on-the-job experience. Typically acts as a lead, coordinating the work of others but not necessarily as a supervisor.	Qualified Accountant, Senior Buyer, HR Officer, Call Centre Team Manager, Qualified Engineer, Shift Engineering Team Leader	Police Constable, Newly qualified Teacher, Nurse team Manager, Specialist Nurse, AO graded Civil Service roles
<b>OR-9</b>	Working supervisor of a team; may spend portion of time performing the work supervised. Responsible for results of the team. Works within established precedents and practices as required by professional technical specialists.	Customer Service Manager, Sales Account Manager, Project Manager, Marketing Manager, Qualified Solicitor	Police Sergeant, Experienced Teacher, Senior Prison Officer, EO graded Civil Service roles

**Note:** \* Civil Service grades sourced from MOD, <http://www.dasa.mod.uk/modintranet/UKDS/UKDS2011/pdf/c2/Chap2Table24.pdf>

\*\* A table matching each of the ranks to their rank names can be found in Appendix 7.

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## 3. Approach to pay comparison continued

### Stage 4: Pay comparison – data sources

The pay data on which the comparisons have been based have been drawn from the following sources:

- Our pay database which contains unpublished data on a range of jobs, covering all aspects of reward ranging from salary, bonus and pension to benefits such as private medical cover, financial planning and health insurance;
- Data brought in from surveys (including third party surveys) where we are able to make a robust assessment of the size of the role through the PwC JES; and
- Publicly available data in respect of groups of employees where roles can be (or have been) evaluated using the PwC JES. These will include jobs in both the public and private sector.

Using the data gathered from these sources, we have reviewed the comparison with reference to the JE results and included all job records appropriate to each Armed Forces rank. Examples of the selected jobs can be found on the previous pages of this report.

The job samples were then divided into three groups to provide different points of comparison:

1. All jobs eligible for comparison to the Armed Forces rank, becoming the “Civilian Sector” comparator group;
2. All jobs eligible for comparison and are currently employed by a private sector organisation, becoming the “Private Sector” comparator group; and
3. All jobs eligible for comparison and are currently employed by a public sector organisation, becoming the “Public Sector” comparator group.

In the case of each Armed Forces rank, we then proceeded to undertake an analysis of the pay levels with reference to the pay categories outlined on page 20 of this report.

It should be noted that the JE comparison will not guarantee a perfect comparison between the Armed Forces ranks and the Civilian Sector jobs as:

- Organisations will design and shape their jobs with requirements that are specific to the needs and culture of their organisation. This may then introduce slight differences in the size and shape of jobs that can result in differences in the profiles of job incumbents and a consequent impact on pay conditions; and
- There may also be organisational requirements that lead to missing levels/jobs in terms of comparison or multiple levels/jobs within one Armed Forces rank.

### 3. Approach to pay comparison continued

#### Stage 4: Pay comparison – composition of data sample

We have outlined the composition of our Civilian Sector sample below which shows the break-down between the Private and Public sub-sectors in terms of organisations and jobs. Please note that the overall total of organisations shown for the Private and Public Sector refers to the total number of organisations used in the overall sample.

We have also weighted the distribution of jobs in the Civilian Sector to ensure that the Private Sector does not overly dominate the sample used in the analysis for each rank. This weighting is based on our experience and judgement of these scenarios to create a representative picture of the external market (e.g. ONS figures indicate that the public sector typically represent between 20% and 25% of the UK market depending on level and location).

*Distribution of jobs by rank in terms of organisation and jobs*

Rank	Private Sector		Public Sector		Civilian Sector				
	Number of organisations	Jobs	Number of organisations	Jobs	Total Organisations	Total jobs	Number of Jobs as % of Overall Total	Number of Private Jobs as % of Overall Total	Number of Public Jobs as % of Overall Total
<b>OF6</b>	366	644	46	109	412	753	2%	86%	14%
<b>OF5</b>	377	1,157	80	199	457	1,356	4%	82%	18%
<b>OF4</b>	385	1,815	131	410	516	2,225	6%	75%	25%
<b>OF3</b>	389	2,134	157	860	546	2,994	8%	71%	29%
<b>OF2</b>	383	2,435	149	767	532	3,202	9%	72%	28%
<b>OF1</b>	348	2,287	132	427	480	2,714	8%	73%	27%
<b>OR9</b>	382	2,200	131	410	513	2,610	7%	74%	26%
<b>OR8</b>	384	2,671	157	860	541	3,531	10%	71%	29%
<b>OR7</b>	384	2,671	149	767	533	3,438	10%	72%	28%
<b>OR6</b>	357	1,920	132	427	489	2,347	7%	73%	27%
<b>OR4</b>	340	2,653	79	223	419	2,876	8%	81%	19%
<b>OR3</b>	318	2,828	88	261	406	3,089	9%	78%	22%
<b>OR2</b>	318	3,994	75	255	393	4,249	12%	81%	19%
<b>Overall Total</b>	389	29,410	157	5,975	546	35,385	100%	71%	29%

### 3. Approach to pay comparison continued

#### Stage 4: Pay comparison – elements of pay

We typically approach the comparison of market pay in the following categories:

- **Annual Base Salary:** The annual contracted level of pay, adjusted on an annual basis in line with market comparison, internal equity and incumbent development. This will typically form the basis of calculations for incentive targets (e.g. Target expressed as a % of salary) and pension calculations. Base salary does not include variable cash payments such as performance related pay and profit sharing bonus;
- **Annual Total Cash:** The total direct amount received by the incumbent in a given year and will include annual base salary, contractual allowances (related to status of the job) and any incentive award (e.g. bonus, profit share, sales incentive) that may be made in the given year; and
- **Annual Total Reward:** The total amount received by the incumbent in a given year and will include the annual total cash plus a cash valuations of benefits including the value of employer contribution into a defined contribution pension scheme.

For the purposes of this review, we have used the following comparisons:

Category	Armed Forces	External Market
Annual Base Salary	2013 Military Pay Ranges	Annual Base Salary
Annual Total Cash	Annual Base Salary plus allowances (e.g. LSA)	Annual Base Salary plus allowances plus incentives
Annual Total Reward	Annual Total Cash plus pensions benefits	Annual Total Cash plus pension benefits

We have also approached the comparison of pay for the Armed Forces and the External Market with the following caveats:

1. We have only analysed elements of pay where it is reasonable to expect that all employees will be receipt of these elements for reasons of company pay policy or hierarchical level. Some pay elements are irregular in usage (e.g. one-off recognition awards, overtime or shift allowances) and may introduce bias into the pay comparison that is not representative of all employees.
2. For the Armed Forces base salary we have used the pay for the Higher Bands, as was done in the previous comparison, because the majority of personnel are in those bands. We have excluded the impact of the X-Factor for the composition of Armed Forces base salary as this represents a unique pay component that is not found in any other sectors and hence would introduce a bias into the pay comparison. We have, however, included the X-Factor when calculating the pension figure for the Armed Forces which has been included in the Total Reward calculation.
3. We have also excluded any additional Armed Force allowances for Recruitment and Retention Payments, accommodation (SFA, SLA) and food as these represent elements that are not typically indicative of a specific rank or role and as such, should be viewed as “job need” rather than “job status” allowances.

### 3. Approach to pay comparison continued

#### Stage 4: Pay comparison – methodology (indicative elements)



### 3. Approach to pay comparison continued

#### Stage 4: Pay comparison – considerations on the economic climate

While the pay data has allowed us to build up a view of the current pay levels, we need to look at the wider economic climate to place these results into context.

The current economic climate is still characterised by a number of common themes:

1. Slow or plateaued growth rates of pay with relatively low inflation.
2. Recruitment market is competitive BUT turnover rates and recruitment activity is relatively low with low rate of salary increases.
3. Organisations have been controlling costs, particularly in the benefits arena and employees have seen the real value of their packages decreasing.

As shown in the diagrams opposite, the projected trends for 2013 and 2014 remain quite mixed according to most sources with the most optimistic GDP projections still low in comparison to the pre-2008 period.

In this light, many organisations are trying to strike a balance between cost management and employee expectations. This is due to concerns on increasing pay levels in an environment where revenue growth may be very weak. Hence organisations are reluctant to return to prior pay practices when there may not be sufficient business growth to sustain the extra spending.

While unemployment remains relatively low in comparison to other countries, the UK has also seen an increase in the use of temporary or part-time working conditions.

Recent reports on the use of “Zero – hour” contracts does point to a push by some organisations to better control their expenditure to sustain extra spending on fixed costs.

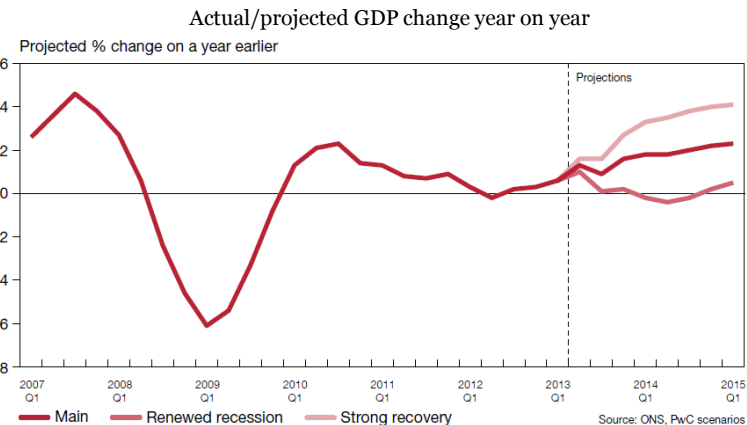


Table 1.2 – Summary of UK economic prospects

Indicator (% real annual growth)	OBR forecasts (March 2013)		Independent forecasts (June 2013)		PwC Main scenario (July 2013)	
	2013	2014	2013	2014	2013	2014
GDP	0.6	1.8	0.9	1.6	1.0	2.0
Consumer spending	0.5	1.6	1.1	1.5	1.4	1.7
CPI inflation	2.8	2.4	2.7	2.4	2.7	2.4

Source: PwC Economic outlook July 2013

### 3. Approach to pay comparison continued

#### Stage 4: Pay comparison – impact of economic downturn on pay increases

The rate of base salary increases has tended to follow in line with the economic downturn of 2008 to 2010 and the slow recovery from 2011 onwards.

However, many organisations also continue to use a number of approaches to manage their pay expenditure. These include:

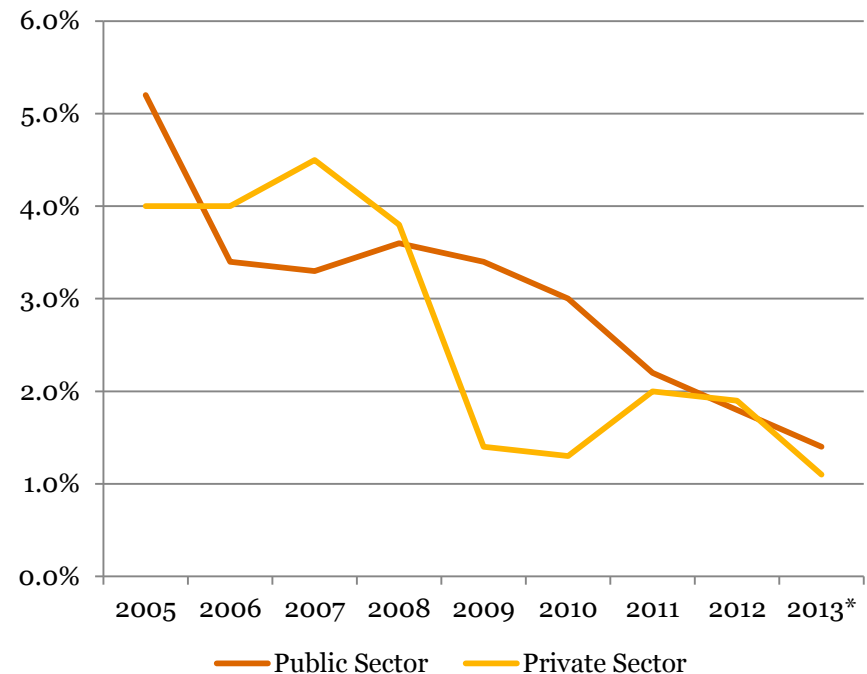
1. Continuing use of salary freezes for some employee groups (particularly among professional and management roles).
2. Greater use of performance differentiation in their approaches to performance management to ensure that the available funds are directed to the highest performing employees.
3. A shift in emphasis from base salary increases to variable (or bonus) incentive payments that will not attract additional pension or national insurance contributions.
4. A stronger emphasis on other compensation offerings, such as flexible working practices and non-cash (e.g. vouchers, company merchandise, team events) recognition awards.

Whilst these approaches have been relatively successful in allowing organisations to control costs and avoid redundancies, this has led to pressures on managing employee expectations and performance management.

These pressures are also being exacerbated by a belief that pay reductions or pay freezes from 2008 to 2010 have still not been addressed. This has, in some situations, led to sizable pay gaps with expected market rates of pay (e.g. if no pay increase since 2010 while some organisations have been paying at least 2% for comparable jobs in the intervening 3 years, there is now a 6% gap to be bridged just to balance the pay position).

PwC

Annual Base Salary increases 2005 – 2013



\* This is based on reported increases to June 2013

Source: Monthly Wages & Salaries Survey from ONS

Overall, this suggests that while some industries in the Private Sector have recovered from the economic downturn, other industries are still in recovery. This will mean that employees are experiencing very different pay conditions with those in recovering industries still seeing very little, if anything, in the way of salary increases.



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## 4. Detailed pay comparison findings

### *Observations on the Armed Forces approach to pay*

We would view the Armed Forces organisation as a “pyramid” shaped organisation and believe that this has had an influence on the approach to pay in the Armed Forces.

Every pay approach tends to be designed to reflect the nature, culture and organisational design of the specific organisation. This can lead to very different models of pay design and pay progression to deal with these requirements. Two common examples are:

1. If there is an emphasis on vertical career progression in a “pyramid” shaped organisation:

- We tend to see narrow pay ranges with the expectations that employees will move through the levels at a regular pace. This supports a predictable model of pay progression and allows for time-based pay increments;
- This is usually associated with a culture that is very hierarchical and status-driven. This will often lead to pressures on maintaining key personnel with specific skills sets that are not necessarily related to organisational level; and
- There is often a challenge between recognising individual performance in a way that will not add to the wider cost base and providing immediate and meaningful levels of reward that will be appreciated by the employee.

2. If there is an emphasis on vertical and lateral career progression in a more “diamond” shaped organisation:

- This will tend to lead to broad pay ranges where it is acceptable to be paid at levels that may exceed or be comparable to more senior colleagues. There is also more acceptance of “plateau” career points where pay progression may be slow;
- The culture is not typically status driven beyond a need to maintain a loose hierarchical model. This tends to be beneficial to those employees with specialist skills sets who can advance their careers without engaging in management or supervisory activities; and
- Pay expectations may be difficult to manage as employees are less able to appreciate the different market values for different skill sets and profiles. This is particularly important when there is a limited budget for salary increases and there is a strong need to use the available funds to recognise the best performing employees and/or the most critically skilled employees to the detriment of other employees who did not meet this criteria. This can then lead to very different types of pay experiences in the same organisation.

In our experience, there are varieties of both examples described above with “pyramid” shapes more common to the Public Sector and “diamond” shapes more common to the Private sector.

The existence of these shapes can make the area of pay comparison very challenging as two similar jobs may be treated very differently depending on the prevailing organisational design and pay model. This may explain the use of bespoke pay spines and RRP as the Armed Forces try to accommodate requirements that may be at odds with the organisational pay approach.

## 4. Detailed pay comparison findings continued

### Observations on the Armed Forces approach to pay continued

We have noted a number of features in the Armed Forces' approach to pay that may have a bearing on any comparative analysis. These are as follows:

- We would normally expect to see a salary progression model that shows an increase in pay opportunity in line with increasing responsibility. This will typically be designed to promote upward progression and make promotion a meaningful experience. On this basis, we would typically see increases of 15% (junior jobs) to 25% (senior jobs) of annual base salary on promotion.

When we examined the Armed Forces pay ranges, we noted that while the OF population seems to fit into this assumption, the same cannot be said of the OR population, which is much tighter and shows, with some exceptions, slower rates of progression.

- We would normally expect to see overlaps in salary ranges to allow smooth progression from one level to the next level without inflating costs. This is usually a sensible way to manage different levels of employee performance.

When we examined the Armed Forces ranges, we saw two different situations whereby the OR pay ranges all had overlaps with their neighbouring ranges while none of the OF ranges had overlaps. While this might be expected of a highly hierarchical organisation such as the OF population, this is not typical in many Civilian Sector organisations.

- We would normally expect to see a widening of salary ranges as we progress up the organisation to allow greater scope to manage individuals and job performance. This approach also ensures that organisations can model pay within reasonable and planned boundaries.

The Armed Forces ranges are far narrower than we would expect to see in Civilian Sector organisations with the exception of the OF1 and OR2 populations. This may be an intention of the pay model design but places a lot of pressure on upwards pay progression.

- The results of this analysis might also be influenced by the current approach to pay in the Armed Forces in that there are no overlaps between the OF salary ranges unlike in many pay structures in the Civilian Sector. The OR salary ranges show very minor overlaps but again this is much tighter than the comparison to the Civilian Sector.

Midpoint to Midpoint progression			
Rank	Armed Forces	Civilian Sector	Public Sector
OF6	20.5%	27.2%	23.5%
OF5	26.9%	31.4%	37.8%
OF4	34.5%	23.3%	17.6%
OF3	24.9%	31.1%	25.7%
OF2	36.6%	41.1%	52.4%
OF1	n/a	n/a	n/a
OR9	5.7%	9.3%	26.8%
OR8	6.0%	12.2%	9.2%
OR7	13.6%	10.7%	10.1%
OR6	12.3%	18.6%	25.0%
OR4	17.6%	15.3%	15.1%
OR3	21.3%	14.0%	9.8%
OR2	n/a	n/a	n/a

Width of Salary Ranges			
Rank	Armed Forces	Civilian Sector	Public Sector
OF6	4.3%	72.6%	56.4%
OF5	10.9%	55.7%	51.7%
OF4	15.8%	56.4%	63.8%
OF3	19.8%	53.2%	47.5%
OF2	18.9%	50.0%	29.6%
OF1	32.9%	45.1%	32.7%
OR9	11.1%	53.2%	29.6%
OR8	6.7%	53.2%	22.8%
OR7	13.8%	51.3%	27.8%
OR6	12.7%	45.7%	32.7%
OR4	20.3%	45.1%	21.8%
OR3	20.2%	45.1%	15.0%
OR2	50.8%	31.4%	16.1%

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## ***4. Detailed pay comparison findings continued***

### ***Annual base salary***

#### **Results**

The results on the next page outline the comparative position of the Armed Forces as compared with the Civilian Sector and also against the sub-sets of the Public and Private Sectors.

The results show that levels of annual base salary are competitive at all levels when compared to the market median of the Civilian Sector, typically in excess of 100% of the market median. Only OF2, OF3 and OF6 are less than 105% of the market median.

The OR population is particularly competitive at most ranks when compared to the Public Sector median base salary levels. When compared to the Private Sector however, the competitive gaps are closer to the Private Sector median for most ranks. As we noted earlier, there is overlap in the job evaluation scores between the highest OR ranks and the lower OF ranks. The OR roles may have a larger score range for the higher ranks than the lower ranks.

In addition, when looking at the Public Sector upper quartile base salary levels, these outstrip the maximum rank salary for most of the comparator Armed Forces Officers. This is quite likely due to increased pressures on the Public Sector in terms of senior management recruitment, to provide levels of annual base salary comparable to the Private Sector.

We note that the Armed Forces pay ranges (minimum to maximum) are narrower than the corresponding Civilian Sector ranges. This may result in a less competitive position as personnel progress through a pay range with gaps only being made up as they move into a more senior rank. Equally there are far wider gaps between the OF pay rank ranges, which may result in far greater jumps in pay on promotion than might be seen in the Civilian Sector.

#### **Considerations**

Overall, this suggests that base salary levels for the Armed Forces are competitive in most ranks and, while the Armed Forces have experienced pay freezes in recent years, these have not been as long or as extensive as has been experienced by parts of the Private Sector and the Public Sector. The continued use of zero or very low base salary increases in these other sectors may also be influencing the pay comparison.

It is worth considering that these results may be the consequences of the poor economic conditions of the past four years. Should the economic conditions improve, the wider market may begin to show more willingness to increase base salary levels and hence the current positive position represented in this analysis may be a very temporary snap-shot of the economic climate.

It is also worth considering if the current Armed Forces pay approach is creating a different model of salary progression that is not necessarily at odds with the wider market but reflects the specific nature and culture of the Armed Forces, as noted in the previous section of this report. Hence different outcomes should be expected and accepted by personnel.

## 4. Detailed pay comparison findings continued

### Annual base salary - findings

Rank	Min	Midpoint	Max	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	Armed Forces			Civilian Sector				Public Sector				Private Sector			
OF6	£93,187	<b>£95,171</b>	£97,160	£69,500	<b>£95,205</b>	£119,958	100%	£76,711	<b>£93,585</b>	£120,000	102%	£84,758	<b>£96,825</b>	£111,588	98%
OF5	£74,903	<b>£78,991</b>	£83,082	£59,115	<b>£74,829</b>	£92,040	106%	£58,448	<b>£75,804</b>	£88,691	104%	£65,614	<b>£73,855</b>	£81,070	107%
OF4	£59,388	<b>£62,515</b>	£68,766	£44,410	<b>£56,936</b>	£69,461	109%	£40,978	<b>£55,015</b>	£67,119	113%	£53,176	<b>£58,856</b>	£64,829	106%
OF3	£42,314	<b>£46,490</b>	£50,677	£36,485	<b>£46,183</b>	£55,882	100%	£37,410	<b>£46,763</b>	£55,180	99%	£40,648	<b>£45,604</b>	£51,097	101%
OF2	£33,592	<b>£37,220</b>	£39,949	£28,180	<b>£35,225</b>	£42,270	105%	£32,717	<b>£37,202</b>	£42,410	100%	£29,656	<b>£33,248</b>	£37,277	111%
OF1	£21,808	<b>£27,250</b>	£28,974	£20,468	<b>£24,961</b>	£29,703	109%	£21,519	<b>£24,404</b>	£28,552	111%	£22,637	<b>£25,518</b>	£28,267	106%
OR9	£37,282	<b>£39,379</b>	£41,422	£28,952	<b>£36,649</b>	£44,345	107%	£32,717	<b>£37,202</b>	£42,410	105%	£32,054	<b>£36,096</b>	£40,717	109%
OR8	£35,925	<b>£37,249</b>	£38,320	£26,477	<b>£33,516</b>	£40,554	110%	£27,000	<b>£29,350</b>	£33,166	126%	£31,040	<b>£34,489</b>	£38,628	107%
OR7	£32,740	<b>£35,127</b>	£37,249	£23,904	<b>£29,880</b>	£36,155	117%	£24,189	<b>£26,877</b>	£30,908	130%	£29,317	<b>£32,883</b>	£36,149	106%
OR6	£29,021	<b>£30,911</b>	£32,718	£21,866	<b>£26,995</b>	£31,854	114%	£21,519	<b>£24,404</b>	£28,552	126%	£26,497	<b>£29,587</b>	£31,747	104%
OR4	£24,446	<b>£27,522</b>	£29,398	£18,659	<b>£22,755</b>	£27,079	118%	£17,600	<b>£19,523</b>	£21,429	137%	£23,332	<b>£25,987</b>	£29,052	103%
OR3	£21,329	<b>£23,394</b>	£25,639	£16,184	<b>£19,736</b>	£23,486	118%	£15,650	<b>£16,962</b>	£18,000	138%	£19,657	<b>£22,511</b>	£25,391	104%
OR2	£15,518	<b>£19,290</b>	£23,394	£14,883	<b>£17,305</b>	£19,555	112%	£14,516	<b>£15,453</b>	£16,846	125%	£16,913	<b>£19,158</b>	£21,113	101%

## 4. Detailed pay comparison findings continued

### Annual total cash

#### Results

The results on the following pages outline the comparative position of the Armed Forces for annual total cash as compared to the Civilian Sector and also against the sub-sets of the Public and Private Sectors. We have included the longer separation allowance (“LSA”) in the makeup of the Armed Forces total cash figures but this is relatively small in comparison to market trends on incentive/bonus awards. We have for reference included a table below to outline the typical target levels of variable incentive (i.e. bonus) awards among Private Sector organisations.

#### Typical target incentive as percentage of annual base salary (Private Sector only)

Employee Group	LQ	Median	UQ
Senior Management	15%	20%	30%
Management	10%	15%	20%
Professionals	8%	10%	12%
Supervisory / Junior Professionals	5%	8%	10%
Administrative/Technician	3%	5%	8%
Manual	1%	3%	5%

The results for the OR population are competitive at all levels when compared to the market median of the Civilian Sector. There is however typically a decrease of 2% to 5% in the competitive position at the higher end of the OR population and this points to the appearance and impact of bonus awards at these levels. The impact is more pronounced in the Private Sector with very little evidence in the Public Sector, where bonus awards are still relatively uncommon and small in actual value in comparison to the Private Sector.

The impact of overtime, time off in lieu (TOIL), shift allowances or similar payments in the civilian sector may be a possible counter-balance to the small bonus awards in the OR-equivalent civilian population as this will often be the alternative for jobs that are measured more specifically on the basis of output rather than performance. In this light, and because such payments were excluded from our analysis as per the comments on page 20, the pay position for the OR population may look more competitive than it is actually is. This is particularly important given the longer than average hours worked by the Armed Forces in comparison to most civilian counterparts and hence the starting pay position for the OR population may in part be designed to offset these assumed working hours.

The competitive situation for the OF population is far less positive in terms of annual total cash, particularly when the Civilian market shows bonus payments in excess of 10% to 30% of base salary for equivalent jobs. The absence of an equivalent payment decreases the competitive position by as much as 15%, particularly in comparison to the Private Sector. The decrease is particularly marked among the OF3, OF5 and OF6 populations and this may point to changes in practice in the Civilian Sector as we move from Professional to Management to Senior Management roles.

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## ***4. Detailed pay comparison findings continued***

### ***Annual total cash (continued)***

#### **Considerations**

Overall, this analysis points to a gap in the approach to pay for the Armed Forces. The gap is less of an issue among the OR population because bonus payments for equivalent levels in the civilian sector are still relatively low (although overtime and similar aspects are not included). The issue is more concerning for the OF population as this does point to the significant value attached to incentive awards and also reflects the emphasis on rewarding individual performance as opposed to service-related increments linked purely to annual base salary.

This may however not be a concern as it may simply highlight a difference in the design and approach to pay between the Armed Forces and the Private Sector. There are notable differences in the way that organisations approach pay and we should be wary of direct comparisons. The ability of organisations to effectively measure the level of performance of employees is often critical to the design of appropriate pay and recognition outcomes. This can be a challenging process for jobs where outcomes and achievements are more difficult to define.

## 4. Detailed pay comparison findings continued

### Annual total cash - findings

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	<b>Armed Forces</b>	<b>Civilian Sector</b>				<b>Public Sector</b>				<b>Private Sector</b>			
OF6	<b>£96,358</b>	£89,933	<b>£121,246</b>	£157,720	79%	£76,711	<b>£93,585</b>	£120,000	103%	£105,450	<b>£123,190</b>	£149,835	78%
OF5	<b>£80,177</b>	£72,895	<b>£92,054</b>	£116,177	87%	£58,448	<b>£75,804</b>	£88,691	106%	£79,276	<b>£90,933</b>	£104,987	88%
OF4	<b>£63,702</b>	£53,903	<b>£69,653</b>	£86,237	91%	£40,978	<b>£55,015</b>	£67,119	115%	£62,862	<b>£71,813</b>	£81,964	88%
OF3	<b>£47,676</b>	£44,349	<b>£56,263</b>	£69,602	84%	£37,410	<b>£46,763</b>	£55,180	102%	£48,461	<b>£55,620</b>	£64,721	85%
OF2	<b>£38,407</b>	£30,857	<b>£38,571</b>	£47,289	99%	£32,717	<b>£37,202</b>	£42,410	103%	£32,182	<b>£36,406</b>	£42,015	105%
OF1	<b>£28,437</b>	£21,766	<b>£26,583</b>	£32,137	107%	£21,519	<b>£24,404</b>	£28,552	116%	£23,963	<b>£27,176</b>	£30,755	104%
OR9	<b>£40,565</b>	£31,884	<b>£40,313</b>	£49,842	100%	£32,717	<b>£37,202</b>	£42,410	109%	£34,942	<b>£39,705</b>	£46,132	102%
OR8	<b>£38,436</b>	£28,890	<b>£36,532</b>	£45,078	104%	£27,000	<b>£29,350</b>	£33,166	130%	£33,524	<b>£37,593</b>	£43,284	101%
OR7	<b>£36,313</b>	£25,697	<b>£32,121</b>	£39,516	112%	£24,189	<b>£26,877</b>	£30,908	134%	£31,290	<b>£35,349</b>	£39,848	102%
OR6	<b>£32,098</b>	£23,378	<b>£28,885</b>	£34,689	111%	£21,519	<b>£24,404</b>	£28,552	131%	£28,154	<b>£31,658</b>	£34,853	101%
OR4	<b>£28,709</b>	£19,569	<b>£23,893</b>	£28,785	117%	£17,600	<b>£19,523</b>	£21,429	143%	£24,371	<b>£27,287</b>	£31,001	103%
OR3	<b>£24,580</b>	£16,973	<b>£20,723</b>	£24,967	119%	£15,650	<b>£16,962</b>	£18,000	145%	£20,557	<b>£23,636</b>	£27,080	104%
OR2	<b>£20,477</b>	£15,575	<b>£18,171</b>	£20,853	113%	£14,516	<b>£15,453</b>	£16,846	133%	£17,679	<b>£20,116</b>	£22,550	102%

## 5. Impact of Armed Forces Pension on Annual Total Reward

### Comparing pensions benefits

The value of the pensions benefits for the Armed Forces was derived from the 2012 review of Armed Forces pensions\* by PwC. The review methodology set out eight career paths (four each at Officer and Other rank), defined by career length and rank on leaving.

It should be noted that the analysis has been developed with a number of caveats;

1. The 2012 pension scheme valuation was developed around a series of typical career paths rather than in relation to all ranks of the Armed Forces with assumptions on exit points. For those career paths where a second career after the Armed Forces is assumed, the value of pension arising from these second careers as well as the value of any immediate pension (IP) or early departure payments (EDP) benefits classed as pension must also be calculated. These are then combined with the value of Armed Forces pension to give an overall Armed Forces pension figure. We have extrapolated from the information on the assumption that this leaving rank will provide a reference point for these specific ranks and the job equivalence in other sectors as per our job matching approach.

Rank	Career path	Length of service	Example rank on leaving	Pension benefits as a percentage of salary*
Other Ranks	A	4	Private	10.6
	B	12	Corporal	13.2
	C	22	Sergeant	14.5
	D	22	WO1	15.6
Officers	E	8	Captain	14.5
	F	18	Major	16.3
	G	33	Lt Colonel	36.9
	H	33	Brigadier	38.4

Table 5.2 from PwC Pension Scheme Valuation (pg. 39 of AFPRB Forty-Second Report, March 2013)

\*Note: definition of salary here includes X-Factor of 14.5% of base salary, i.e. military salary

2. The value of the pension scheme shown in the pensions review relates to a specific length of service in the Armed Forces. However as the length of service in the Armed Forces is generally shorter than alternative careers in other sectors, it is important to bear in mind that this pension benefit may not be a whole career benefit. EDP and IP are intended to balance the requirement to find a second career after service with the Armed Forces but this may still lead to some shortfall in career earnings.

\* Report available at <https://www.gov.uk/government/publications/armed-forces-pension-scheme-valuation-2012>



## 5. Impact of Armed Forces Pension on Annual Total Reward continued

### Developing a view of market practice on pension benefits

We have reviewed our understanding of market practices on levels of pensions benefits, assuming average life expectancy. This draw on organisation practice, both defined benefit and defined contribution, and converted to a projected defined contribution value. This excludes the impact of employee contributions.

**Pension Benefits expressed as % of Base Salary**

Employee Group	Private Sector			Public Sector		
	LQ	Med	UQ	LQ	Med	UQ
Senior Management	11.6%	17.5%	24.5%	14.5%	22.0%	30.8%
Management	10.2%	15.5%	21.7%	13.9%	21.0%	29.4%
Professionals	6.1%	9.3%	13.0%	7.6%	11.5%	16.1%
Supervisory / Junior Professionals	5.1%	7.7%	10.8%	6.2%	9.4%	13.2%
Administrative/Technician	3.8%	5.8%	8.1%	4.3%	6.5%	9.1%
Manual	3.6%	5.5%	7.7%	4.0%	6.0%	8.4%

We have matched the Armed Forces ranks to the typical levels of pensions benefits in the Private and Public Sectors in our market comparison:

Rank	Armed Forces	Private Sector (median)	Public Sector (median)
OF 6	38.4%	17.0%	22.0%
OF 4	36.9%	11.0%	17.0%
OF 3	16.3%	9.0%	11.5%
OF 2	14.5%	6.0%	10.2%
OR 9	15.6%	9.5%	15.0%
OR 6	14.5%	6.5%	8.6%
OR 4	13.2%	5.0%	7.5%
OR 2	10.6%	4.0%	7.0%

It should however be noted that as jobs become more senior, the application of pension benefits does begin to alter, particularly where individuals start to reach salary levels that no longer have tax-efficiency benefits. This can then lead to alternative practices such as separate cash allowances, which are difficult to represent in market analysis due to lack of available data at this time.

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## ***5. Impact of Armed Forces Pension on Annual Total Reward continued***

### ***Analysis of Annual total reward***

#### **Results**

The results on the next page outline the comparative position of the representative Armed Forces ranks for annual total reward as compared to the Civilian Sector and also against the sub-sets of the Public and Private Sectors. We have included the Armed Forces pension benefits in the makeup of the Armed Forces total reward figures (see page 20 for more detail).

The results for the represented ranks would suggest that the Armed Forces salaries are competitive. The competitive position for salaries for the OR ranks is very positive. The pay position for the Armed Forces is typically above the market median across all markets but it should be noted that the comparison to the Private Sector may be affected by the fact that a smaller proportion of Private Sector OR-equivalent employees will have a pension scheme in comparison to Public Sector employees. Hence the analysis may be representing reward for the OR ranks as more generous than would be the case when they are compared with those in the private sector who have pensions.

The salaries for the OF population represented in the analysis are competitive but tend to be closer to the market median in all markets. The OF3 and OF6 positions are the least competitive in this analysis. These results may point to changes in organisation practice that either 1) neutralises the impact of the Armed Forces pension benefits or 2) are insufficient in pay terms to address the gap to the market median. This result suggests that while the Armed Forces pension benefits are competitive against market practice. This may be insufficient to compensate for these officers receiving lower pay or total cash than other competitors and therefore lower reward.

#### **Considerations**

Overall, this analysis points to the significant value that should be attached to the Armed Forces pension scheme. It should also be noted that while the pension benefits are very valuable, the deferred nature of this component may make it difficult to understand and appreciate the value of the Armed Forces pension scheme.

In this light, we also have to consider the part played by pension schemes in an organisation's approach to pay in terms of the communication to employees. For some organisations with a goal of longevity of service, this will be a valued component and hence any comparisons should be viewed in relation to those goals.

## 5. Impact of Armed Forces Pension on Annual Total Reward continued

### Annual total reward - findings

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	
	<b>Armed Forces</b>	<b>Civilian Sector</b>					<b>Public Sector</b>				<b>Private Sector</b>			
OF6	<b>£138,202</b>	£102,185	<b>£139,811</b>	£183,711	99%	£90,300	<b>£114,174</b>	£148,824	121%	£118,618	<b>£139,650</b>	£170,410	99%	
OF4	<b>£90,114</b>	£59,164	<b>£77,624</b>	£97,396	116%	£47,151	<b>£64,368</b>	£80,212	140%	£66,099	<b>£78,287</b>	£91,028	115%	
OF3	<b>£56,353</b>	£47,473	<b>£60,997</b>	£76,229	92%	£40,960	<b>£52,141</b>	£62,709	108%	£51,170	<b>£59,724</b>	£70,467	94%	
OF2	<b>£44,586</b>	£32,740	<b>£41,424</b>	£51,283	108%	£35,221	<b>£40,996</b>	£47,722	109%	£33,499	<b>£38,401</b>	£44,807	116%	
OR9	<b>£47,599</b>	£34,847	<b>£44,803</b>	£56,127	106%	£36,400	<b>£42,782</b>	£49,106	111%	£37,205	<b>£43,134</b>	£50,644	110%	
OR6	<b>£37,230</b>	£24,725	<b>£30,926</b>	£37,547	120%	£22,908	<b>£26,509</b>	£31,499	140%	£29,423	<b>£33,581</b>	£37,546	111%	
OR4	<b>£32,868</b>	£20,510	<b>£25,317</b>	£30,779	130%	£18,569	<b>£20,991</b>	£23,484	157%	£25,229	<b>£28,586</b>	£32,560	115%	
OR2	<b>£22,818</b>	£16,203	<b>£19,123</b>	£22,186	119%	£15,230	<b>£16,535</b>	£18,360	138%	£18,293	<b>£20,882</b>	£23,469	109%	

## 6. Implications of findings

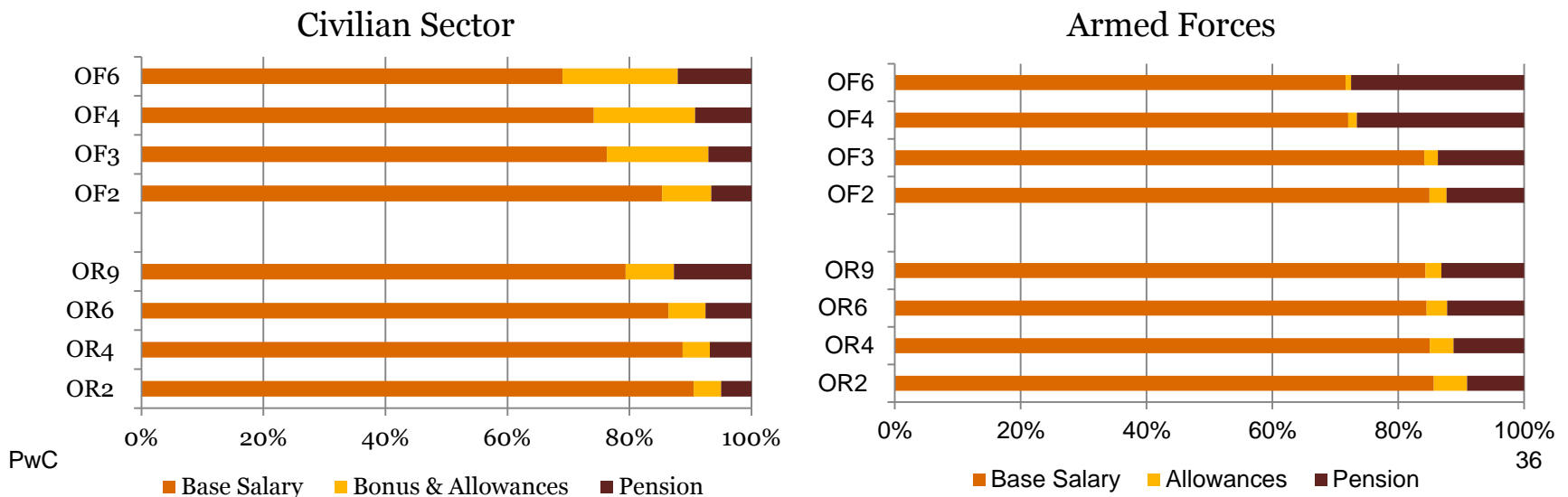
### Composition of reward packages

Our analysis indicates that the pay position of the Armed Forces is competitive when we consider the combined impact of each component of pay. This suggests that there are different approaches to pay between the Armed Forces and the Civilian Sector (as displayed in the charts below). We can see the impact of bonus payments in the Civilian Sector as compared to the impact of the pension benefits in the Armed Forces.

A theme to the analysis is that the competitive position does change depending on the combination of specific pay components. The inclusion or exclusion of certain allowances (e.g. overtime, shift pay) will have an impact on final results (e.g. the inclusion of overtime would compensate for some of the pay gaps in the OR-equivalent jobs). It is also worth considering that direct comparisons between the Armed Forces and Civilian jobs must also be viewed in the light of the different working practices (e.g. the longer hours worked by service personnel without access to overtime) and the resulting impact on annualised pay levels.

We have also noted that the OF population is not as competitive as the OR population. This may be due to the different use of pay components for the OF population but may also be partly due to a change in organisational preference, within the private sector in particular, for bonus awards and share awards over base salary increases. The positive position of the OR population may also be due in part to the recent economic conditions and the different pay approaches taken by different sectors in this period.

As noted in the executive summary, this analysis takes place against a prolonged period of economic austerity across all sectors and it may be that this economic downturn has depressed pay levels more across comparable jobs to the Armed Forces ranks, so resulting in a more positive pay position that may not be sustained in the long term.



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## ***6. Implications of findings continued***

### ***Caveats***

It might be tempting to conclude from these results that the Armed Forces are competitive with the external market and hence personnel should be satisfied with their current pay conditions. This conclusion should however only be made with the following caveats:

1. The Armed Forces pay will remain competitive if the current low pay increase (and low inflation) environment continues and the Armed Forces pension benefit value continues to be very competitive in its ongoing design and operation.
2. The value of the Armed Forces pension scheme needs to be appreciated and valued by Armed Forces personnel. It should be understood by all personnel that the scheme should deliver valuable benefits that will be worthwhile on retirement, even if the immediate value is less tangible. The value of the pension benefits will vary by individual and the perceived and real value will depend on the chosen career path and exit point.
3. If the Private Sector does not increase the usage and levels of incentive awards among the OF-equivalent population, this should lessen the likelihood of more visible pressure on the Armed Forces levels of comparable pay, particularly for the large majority of personnel not in receipt of RRP. The same might be said for comparison to the Public Sector if there is a shift to using incentive awards to a greater degree than is current practice.
4. Current pay conditions among the OR-equivalent population in the Civilian Sector appear to favour the Armed Forces. This may not last if the Civilian Sector pay approaches are changed with perhaps more emphasis on bonus payments.

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## ***6. Implications of findings continued***

### ***Conclusions***

The key conclusions to be drawn from the pay comparisons are that:

- i. Job evaluation contributes to developing an understanding of how Armed Forces jobs compare to the Civilian Sector by comparing broad groups of employees operating at similar levels. It should be noted that it does not follow that direct pay comparison is always straightforward (the pay progression for comparable careers may not be that similar to those for Armed Forces personnel due to differences in career potential, supply and demand of candidates, use of budgets and performance management);
- ii. The pay position for the OR population is competitive compared to current market pay levels. This population is generally well positioned against all pay comparisons, with a particularly positive position with the addition of the pension benefit. This may be due in part to the fact that we have seen little or no movement in pay levels in the Civilian Sector for the equivalent jobs and so the Armed Forces, while not receiving sizable increases in recent years, have seen greater salary increases than has been the norm in other sectors;
- iii. Pay for the OF population is not as competitive, particularly in terms of annual total cash (i.e. annual base salary, allowances and incentives). This situation would appear to point to a divergence in the approach to pay, particularly among Private Sector organisations where there has been a shift to differentiate performance assessment and more selective pay and bonus payments. The pay gap does appear to disappear with the addition of the pension scheme; and
- iv. It should also be noted that this analysis is a snapshot in time and comes after an unprecedented period of economic slowdown that has resulted in a long period of pay restraint across the economy. It remains to be seen if this situation will continue into the future.

# *Appendices*

## Appendix 1: PwC Job Evaluation System

Criteria used / factor	Description of factor
Knowledge	Knowledge is the information that the jobholder is required to use in carrying out work. It can be acquired through experience as well as formal education and training and refers to both the breadth and the depth of knowledge that is required to do the job. It is necessary to consider the breadth of the knowledge, as well as the deep specialist knowledge that is required. For example, an Environmental Health Officer may require deep specialist knowledge in a narrow field of public protection, for example, noise pollution, whereas a senior manager role in the same service is likely to require a less specialist knowledge of a wider range of environmental health issues. However, each of these could score at a similar level under this factor.
Specialist skills	Specialist skills are acquired through natural ability, training, experience or practice. They include basic skills, such as driving a car, and more advanced skills such as those of a Business Analyst, or a professional Accountant as well as the physical skills that might be needed for some jobs. Specialist skills are distinct from knowledge, although they involve the use of knowledge to produce outcomes. For example, the job of a General Manager may require broad knowledge but few specialist skills. In contrast the job of a professional Social Worker or Engineer requires considerable specialist skill but the breadth of knowledge required will not be as great.
People skills	People skills are required to get things done with and through people. These skills are used when working within organisations, for example, in line management, team working and communicating with colleagues. They are also used in working with suppliers, customers, other partners as well as the media and the general public. People skills include the skills required in selecting individuals to fill jobs or to join project teams, and for the management of performance, as well as the 'influencing' skills found in sales roles.
Customer service / external impact	This is the extent to which the jobholder has an impact on external customers or suppliers or others outside the organisation, distinguishing between jobholders who have a direct and an indirect external impact. This factor will distinguish between 'line' and 'functional' jobs. For example, a sales role will always have a greater level of external impact than an HR role.
Decision making	Decision making refers to the complexity of decision making, including the range of factors to be taken into account and the extent to which information is likely to be ambiguous or conflicting, as well as the authority to make decisions and the time horizons of the decisions. The seniority of a job is significant; senior posts will typically have a higher level of responsibility for decision making than subordinates because they will be responsible for the decisions of their subordinate.
Creative thinking	Innovation refers to the degree to which a job requires thinking ahead, seeing the big picture and developing and implementing new ideas. This factor measures the extent to which the jobholder is required to be creative, rather than making choices within existing customs, rules and procedures. Research & Development, and other specialised 'knowledge' roles, will tend to score highly in this factor.
Physical environment / emotional demands	The ability to work in difficult and unpleasant surroundings and/or dealing with particularly emotional or stressful situations.



## Appendix 2: Armed Forces Job Evaluation System

Criteria used / factor	Description of factor
Knowledge, skills and experience	<p>This factor measures the level of knowledge, skills and experience necessary to undertake the duties of the post. This factor is divided into two parts:</p> <p><b>A - Knowledge, skills and experience:</b> To carry out any job, jobholders will bring a variety of skills and experience, which they have developed through formal education and training, or work experience, or both. It is important to consider both in deciding the appropriate level for this factor.</p> <p><b>B - Range of application of that level of knowledge:</b> Measures the requirement for the jobholder to apply their level of knowledge and skills. This is measured by looking at the extent to which the job requires the jobholder to apply their knowledge across the organisation.</p>
Complexity and mental challenge	<p>This factor is divided into two parts:</p> <p><b>A - Complexity:</b> Measures the complexity of the tasks which the job holder has to undertake. In essence it examines the intellectual demands of a job. It is important to remember that we are not seeking to measure the unusual problems or dilemmas face by a jobholder, but rather the nature of those problems which they face regularly.</p> <p><b>B - Mental challenge:</b> A measure of the extent to which the postholders have to think for themselves. It is relevant to consider how readily available advice is to the postholder in this context.</p>
Judgement and decision making	<p>This factor is divided into two parts:</p> <p><b>A - Level of Judgement and decision:</b> Measures the requirement in the job to make decisions, carry them through and offer advice which may be dangerous to ignore.</p> <p><b>B - Impact upon success:</b> Examines the impact of the decisions and advice made by the jobholder on UK defence output. It may help to think in terms of the ripple effect of the job – how many other parts of the organisation(s) are affected by it.</p>
Use of resources	<p>This factor is divided into two parts:</p> <p><b>A - Use of resources:</b> Measures the functional responsibility for resources of all kinds. The definition of resources is flexible and can include:</p> <ul style="list-style-type: none"> <li>• Sensitive or confidential information</li> <li>• Intellectual resources</li> <li>• Budgets –control; expenditure; spending decisions</li> <li>• Equipment, property, assets, plant, sites i.e. equipment can be a single item or system</li> <li>• Personnel, supervision and management i.e. command and control</li> </ul> <p><b>B - Influence:</b> This sub-factor is concerned with the level of authority that the jobholder has, whether it be line management, advisory or supportive, and hence the degree of influence that is involved.</p>

## Appendix 2: Armed Forces Job Evaluation System continued

Criteria used / factor	Description of factor
<b>Communications</b>	<p>This factor is about the level at which communication occurs, the amount of external communication and its significance. In most cases it is the internal level at which communication occurs “mostly” that is recorded. There are some posts in any organisation which are very externally focussed. These must be accommodated by looking at the level of external contact, and be carefully recorded. This factor is divided into three parts:</p> <p><b>A - Level of Internal Communication:</b> Emphasis is placed upon “mostly”.</p> <p><b>B - External Communication:</b> Taken to be dealings, and in particular negotiation, with those who do not share the same aims, objectives and priorities as the organisation in which the Job Holder works.</p> <p><b>C - Significance of Communication:</b> It is important to consider the significance of the communication in the context of the whole organisation.</p>
<b>Working conditions</b>	<p>Working conditions is a significant factor for many lower level jobs in any organisation. This factor is divided into three parts:</p> <p><b>A - Health and safety:</b> Considers how exposed the jobholder is to health and safety risks.</p> <p><b>B - Bodily Constraints:</b> This examines how far the jobholder in carrying out their duties is expected to adopt uncomfortable postures or wear cumbersome protective apparel, which causes discomfort, or impedes movement.</p> <p><b>C - Physical Environment:</b> This examines the physical environment in which the jobholder has to work.</p>

## Appendix 3: Formulaic translation

The tables in this appendix, show how the translation of the Armed Forces JES levels were mapped across to the PwC JES levels which was used to verify the evaluations conducted using the PwC JES:

Armed Forces JES	Map to PwC JES						
	Factor 1: Knowledge	Factor 2: Specialist Skills	Factor 3: People Skills	Factor 4: Customer Service / External Impact	Factor 5: Decision Making	Factor 6: Creative Thinking	Factor 7: Physical Environment / Emotional Demands
<b>Factor 1 Knowledge, Skills &amp; Experience</b>							
Level 1	1 to 3	1 to 3					
Level 2	4 to 6	3 to 5					
Level 3	5 to 7	4 to 6					
Level 4	6 to 8	6 to 7					
Level 5	7 to 9	6 to 7					
Level 6	8 to 10	6 to 8					
Level 7	9 to 11	7 to 9					
Level 8	10 to 12	8 to 9					
Level 9	11 to 13	9 to 11					
Level 10	12 to 14	10 to 12					
Level 11	13 to 15	12 to 13					
Level 12	14 to 16	12 to 14					
Level 13	15 to 17	14 to 15					
Level 14	17 to 19	15 to 18					
Level 15	20 to 22	18 to 20					
Level 16	23	18 to 20					
Level 17	24	18 to 20					
Level 18	25	21					
<b>Factor 2 Complexity and Mental Challenge</b>							
1 to 10						1	
11 to 18						2	
19 to 29						3	
30 to 45						4	
46 to 59						5	
60 to 74						6	
75 to 90						7	
91 to 120						8	
120 to 135						9	
140 to 199						10	
200 plus						11	

## Appendix 3: PwC Formulaic translation continued

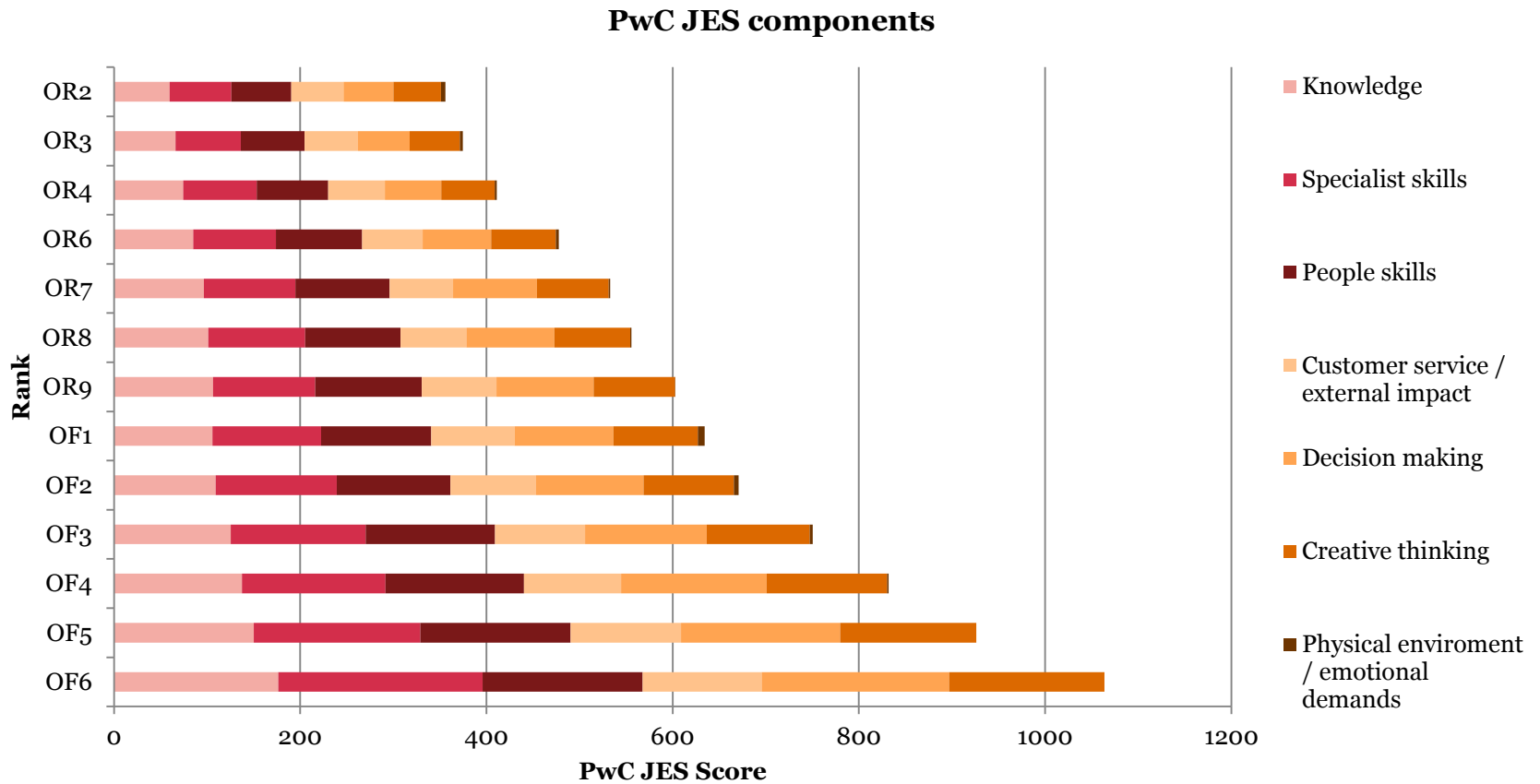
	Map to PwC JES						
	Factor 1: Knowledge	Factor 2: Specialist Skills	Factor 3: People Skills	Factor 4: Customer Service / External Impact	Factor 5: Decision Making	Factor 6: Creative Thinking	Factor 7: Physical Environment / Emotional Demands
<b>Armed Forces JES</b>							
<b>Factor 3 Judgement and Decision Making</b>							
Under 9					1		
10 to 19					2		
20 to 29					3		
30 to 39					4		
40 to 49					5		
50 to 59					6		
60 to 69					7		
70 to 80					8		
81 to 100					9		
101 to 110					10		
111 to 124					11		
125 to 145					12		
145 to 155					13		
155 to 185					14		
185 to 209					15		
210 to 250					16		
Above 251					17 to 18		
<b>Factor 4 Use of Resources</b>							
Level 1				1 to 2			
Level 2				2 to 3			
Level 3 to 4				3 to 5			
Level 5 to 6				4 to 7			
Level 7 to 9				7 to 8			
Level 10 to 11				9 to 10			
Level 11 to 13				11			
Level 14 to 16				12			
Level 17				13			

## Appendix 3: Formulaic translation continued

	Map to PwC JES						
	Factor 1: Knowledge	Factor 2 Specialist Skills	Factor 3: People Skills	Factor 4: Customer Service / External Impact	Factor 5: Decision Making	Factor 6: Creative Thinking	Factor 7: Physical Environment / Emotional Demands
<b>Armed Forces JES</b>							
<b>Factor 5 Communication</b>							
30			2				
32			3				
34 - 38			4				
40 - 46			5				
48- 52			6 to 7				
54 - 57			7 to 8				
59 - 62			8 to 9				
64 -68			9 to 10				
69 - 77			10 to 11				
78 to 82			11 to 12				
83 to 94			12 to 13				
95 to 115			13 to 14				
116 to 124			14 to 15				
L				1 to 4			
M				5 to 8			
H				9 to 13			
<b>Factor 6 Working Conditions</b>							
Level 1, L, a							1
Level 2, L+, b							2
Level 3, M, C							3
Level 4, M+, d							4
Level 5, H, e							5

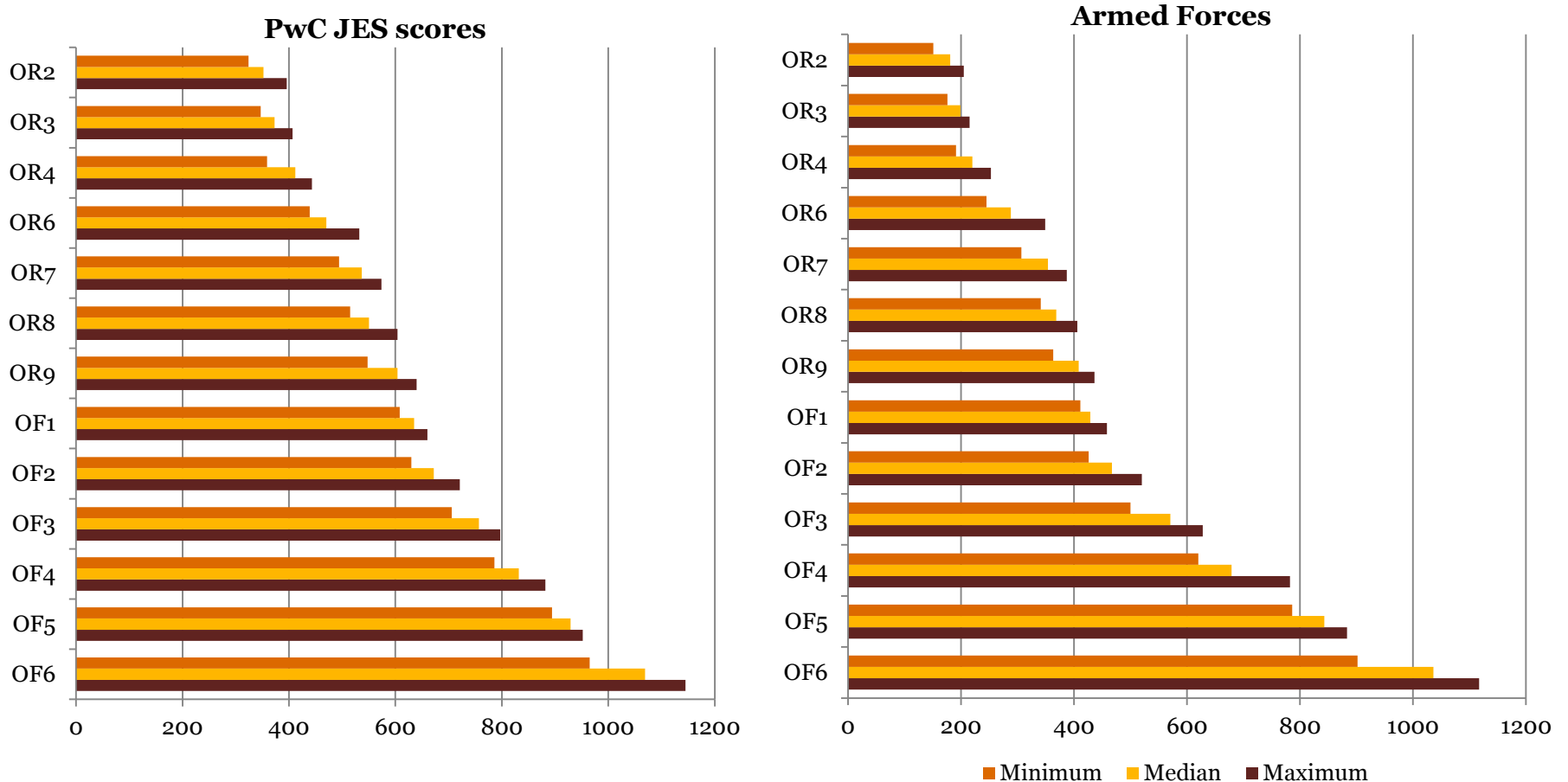
## Appendix 4: PwC JES results

The graph below shows the average results for each of the ranks covered by this study showing how the scoring system breaks down by each of the seven factors in the PwC JES:



## Appendix 5: PwC JES – range of scores

The graphs below shows the minimum, median and maximum PwC JES and the Armed Forces JES scores for each rank to demonstrate the range of scores obtained.



## Appendix 6: Detailed job evaluation scores

A summary of the job evaluation scores are shown in the table below:

Rank	Armed Forces Job Evaluation Scores								PwC Job Evaluation Scores					
	Full population					Armed Forces sample			Armed Forces sample			Civilian sample		
	Min	LQ	Med	UQ	Max	Min	Med	Max	Min	Med	Max	Min	Med	Max
OF-6	751	1008	1046	1082	1373	902	1036	1117	965	1069	1145	968	999	1151
OF-5	753	822	834	854	1154	786	843	883	894	929	952	881	921	945
OF-4	551	644	671	696	836	620	679	782	786	832	882	790	841	889
OF-3	475	531	557	589	668	500	571	628	706	757	797	694	754	796
OF-2	384	441	462	477	557	426	467	520	630	672	721	632	675	713
OF-1	363	418	427	445	458	411	429	458	608	635	660	603	614	669
OR-9	246	385	401	417	513	363	408	436	548	604	640	557	603	652
OR-8	294	363	377	391	506	341	369	406	515	551	604	520	586	620
OR-7	231	328	343	359	490	307	354	387	494	537	574	482	539	576
OR-6	172	274	288	302	479	245	288	349	439	470	532	405	473	522
OR-4	168	212	224	238	366	191	220	253	359	412	443	373	416	454
OR-3	164	187	195	205	254	176	199	215	347	373	407	353	384	411
OR-2	126	169	179	190	284	151	181	205	324	352	396	330	357	384



## Appendix 7: Armed Forces rank and title matching

Rank	Officer Titles	RANK	Other Ranks Titles
OF6	Commodore (Royal Navy) Brigadier (Royal Marines) Brigadier (Army) Air Commodore (Royal Air Force)	OR9	Warrant Officer I (Royal Navy) Warrant Officer I (Royal Marines) Warrant Officer I (Army) Warrant Officer (Royal Air Force)
OF5	Captain (RN) Colonel (RM) Colonel (Army) Group Captain (RAF)	OR7 – OR8	Warrant Officer II, Chief Petty Officer (RN) Warrant Officer II, Colour Sergeant (RM) Warrant Officer II, Staff Sergeant (Army) Flight Sergeant, Chief Technician (RAF)
OF4	Commander (RN) Lieutenant Colonel (RM) Lieutenant Colonel (Army) Wing Commander (RAF)	OR6	Petty Officer (RN) Sergeant (RM) Sergeant (Army) Sergeant (RAF)
OF3	Lieutenant Commander (RN) Major (RM) Major (Army) Squadron Leader (RAF)	OR4	Leading Rate (RN) Corporal (RM) Corporal (Army) Corporal (RAF)
OF2	Lieutenant (RN) Captain (RM) Captain (Army) Flight Lieutenant (RAF)	OR2 – OR3	Able Rating (RN) Lance Corporal, Marine (RM) Lance Corporal, Private (Army) Junior Technician, Leading Aircraftman, Senior Aircraftman, Aircraftman (RAF)
OF1	Sub-Lieutenant (RN) Lieutenant, 2nd Lieutenant (RM) Lieutenant, 2nd Lieutenant (Army) Flying Officer, Pilot Officer (RAF)		

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