Department for Work & Pensions

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Dame Meg Hillier MP
Chair of Public Accounts Committee
House of Commons
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Sent electronically

15 November 2021

Dear Meg

INQUIRY INTO UNDERPAYMENTS OF STATE PENSION

I wanted to thank you for the opportunity to share the progress the Department is making on the State Pensions LEAP exercise, and to provide further detail regarding the findings of the NAO investigation report. I would like to apologise, once again, to the many customers who have been let down over the years, and to reassure the Committee, and our customers, that we are working at pace to put right these historic underpayments.

I also wanted to correct my statement at the Committee on the cost of Kickstart in Q2, where I said each placement costs "…around £2,500", however, this was incorrect and this cost doesn't include the wages paid to the Kickstarters, and that this figure itself depends on the age group in question. The actual average cost of each Kickstart placement is around £7000. I would be happy to provide further information on the breakdown if you wish.

At the hearing on 28 October, my officials and I committed to provide further detail and assurance around four areas, which we were unable to do on the day.

We also committed to review specific customer cases, which I will respond separately regarding the two case studies you have kindly shared with the Department, as they contain sensitive customer information.

The four areas we agreed to provide further detail on are:

1. An update on the current error rate in relation to correctly identifying underpayment cases;
2. The steps already being taken to drive down the error rate, what additional action would be taken and over what time period;
3. Complaints data and the number which have been upheld; and
4. The impact of backdating pension payments would have on people's tax status and their entitlements- for example could back payments affect people undertaking a means-tested financial assessment for adult social care.

I shall address each of these in turn.

1. **The current error rate in correcting underpayment cases**

We have significantly improved our quality, as set out below. The financial accuracy has improved from 87.4% in Q1, to 93% in Q2. So far in Q3 (October data) the exercise is achieving 96% accuracy. There is clearly room for continued improvement, but we have made real progress since the sample referred to in the NAO investigation.

2. **Steps already being taken to drive down the error rate, what additional action would be taken and over what time period.**

We recognised early on that quality was a key issue for the exercise, given the complex nature of the work. We therefore developed a quality strategy, with input from the Government Internal Audit Agency, and implemented it from the start of July 2021.

Through this, we have reviewed our training products; amended the instructions used by front line staff, to ensure they are clearer; and put in place a robust checking regime, both for colleagues joining the exercise, and for more experienced staff.

We are using the findings of these checks to identify any training needs at individual level, as well as improve processes and instructions. The outcomes of all quality assurance activity are used to identify trends/patterns and improvement activities. These outcomes and any subsequent improvements will be deployed throughout the lifetime of the LEAP exercise.

In addition, we have deployed automation of some processes, especially in the transcription of data from our systems onto the letters that are issued to customers, to strip out re-keying errors, which were inherent in the existing process.

Finally, we are learning lessons from our quality assurance activity to strengthen the Retirement Services' business as usual (BaU) service delivery.

3. **Complaints data, the number which have been upheld, and demographics.**

You asked for further information regarding the numbers of complaints we received, and upheld about pension underpayments before April 2020. We do publish data on complaints on GOV.UK, and our published data for each operational year is available here: DWP complaints data - GOV.UK (www.gov.uk)

I can also confirm that for the operational year April 2019 to March 2020, Retirement Services received 1,176 Tier 1 complaints (Customer, MP and Third Party Complaints about the service provided which is not resolved by operational staff as normal business.). For the same period we closed 1,065 Tier 1 complaints, of which 210 were upheld. The most common recorded cause of complaint related to State Pension 'you haven't given me the information that suits my needs; you haven't answered my questions'. Unfortunately, some time has now passed, and we are no longer able to do any more detailed analysis on what exactly these complaints related to. This means that I am unable to tell you how many of these complaints may have related to underpayment of State Pension.

We have amended our complaints handling process and introduced a new case management tool, which allows more detailed information to be recorded about complaints, but this doesn't apply to historical data.

You also asked whether we retain certain aspects of demographic information related to complainants to help us to identify trends – such as gender, age, or geographical location. I can confirm that in respect of complaints, we do not routinely capture this information.

Whilst we don't currently use insight from demographic data in complaints to identify potential service issues, we do capture learning from the complaints we receive and use this information to improve our services. As I explained at the hearing, we are currently working to improve how we learn from complaints and other insight within the Department, in order to better identify and resolve potential service issues.

4. **The impact of backdating pension payments would have on people's tax status and their entitlements.**

I agreed to provide additional information on the implications of receiving backdated State Pension arrears in terms of how this may affect people undertaking a means-tested financial assessment for adult social care, other benefits, and taxation. It is a complex area and so my response is detailed and takes each area in turn.

Adult Social Care

Where a Local Authority charges a person for their care and support, regulations set limits below which a person's income and capital must not be reduced by charges.

Local Authorities may take most of the benefits people receive into account, unless it is specifically required to be disregarded by regulations. The responsibility for interpreting and applying the regulations and guidance rests with Local Authorities. It is for each Local Authority to consider the evidence presented and to make the appropriate decision taking into account all the available information and taking its own legal advice where appropriate.

The Department of Health and Social Care has confirmed that regulations do not provide any means for State Pension arrears payments to be excluded from an adult social care financial assessment. When an individual receives the arrears payment and makes their Local Authority aware of it, the Local Authority may review the financial assessment, and as result decide that this means that the individual is now required pay in full, or contribute to their care costs.

Benefit entitlement

On the question of how the arrears payments would be treated in other benefits, turning first to Pension Credit, as it is an income-related benefit intended to top up a pensioner's other income to a minimum level, the State Pension is taken fully into account in assessing entitlement to Pension Credit. Accordingly, if there is a current award of Pension Credit it will be adjusted to take account of the new, higher rate of State Pension. Where Pension Credit has been paid for a period for which arrears of State Pension are due, the arrears will be reduced to take account of the Pension Credit that would not have been paid if the State Pension had been paid on time. This abatement is to prevent duplicate provision from public funds.

Any remaining arrears of State Pension (after any abatement) would be treated as capital. If capital remains below £10,000 including the arrears, Pension Credit will be unaffected. Otherwise, an assumed income of £1 per week for every £500 above £10,000 will be taken into account.

In terms of Housing Benefit, if the underpaid customer or their partner is receiving Housing Benefit, and also receiving the Guarantee Credit element of Pension Credit, their Housing Benefit award is not affected unless the claimant ceases to be entitled to the Guarantee Credit element of Pension Credit.

Customers who are receiving the Guarantee Credit element of Pension Credit are passported to maximum eligible Housing Benefit - income and capital are disregarded for Housing Benefit purposes. If, following the payment of State Pension arrears, the customer is entitled only to Savings Credit element of Pension Credit, or ceases to qualify for Pension Credit, the Housing Benefit award will be affected.

Those who are receiving Housing Benefit only must inform their local authority administering their claim about the arrears payment as this may affect their Housing Benefit award. The State Pension arrears paid will be treated as capital. If capital remains below £10,000 including the arrears, Housing Benefit will be unaffected. Capital of between £10,000 and £16,000 will affect entitlement, the local authority takes into account £1 per week for each £500 or part £500 held over £10,000.

Where an abatement has been made to the State Pension arrears, information about this is included in the letters we send to those who have been underpaid. We also explain that where Housing Benefit only is in payment, they should contact their local authority.

Taxation

I outlined the position in terms of Income Tax when I provided evidence on 28 October. I thought it may be helpful if I further set out the position in this note.
HMRC have previously responded to a specific Parliamentary Question (65108 – answered 1 July 2020) about the taxation of arrears payments.

In summary, this set out that income tax is calculated on arrears of State Pension for the tax year in which the pensioner was entitled to receive it, and not in the year in which a lump sum is paid. Income tax will only be due on any income that exceeds the personal allowance for the respective tax year, and HMRC will only collect income tax for the current tax year and the four preceding tax years. Any arrears of State Pension relating to earlier years will not be subject to income tax.

The letters we send out explain this, and that the customer needs to take no action themselves as DWP will provide information about any State Pension arrears payment directly to HMRC.

I should also mention that we are in discussions with HMRC about the tax implications where an underpaid individual has died.

Yours sincerely
Peter Schofield

Peter Schofield CB
Permanent Secretary