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Underpayments of the State Pension

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Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5776; the Committee's email address is pubaccom@parliament.uk.

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The Department for Work & Pensions (the Department) estimates that it underpaid 134,000 pensioners over £1 billion, with some of the errors dating as far back as 1985. The errors happened because of the Department's use of outdated systems and heavily manual processing, coupled with complacency in monitoring errors and a quality assurance framework that is not fit for purpose. In January 2021, the Department started an official exercise to correct the errors, the ninth such exercise for the Department since 2018. Some of those affected have died since the Department made the underpayments, meaning that the Department owes the pensioners' estate.

It is difficult for pensioners potentially affected to know what to do. The Department has set little guidance for people who are concerned that they have been underpaid and has left people in the dark over their entitlement. It will only contact pensioners if it finds they have been underpaid and, as the Department is prioritising living pensioners, there is currently no formal plan for contacting the next of kin where the pensioner is now deceased. The Department also admits that many other pensioners are underclaiming their State Pension and need to contact the Department to receive an uplift to their payments. These pensioners need clearer information to act, or risk missing out on significant sums.

Fixing the Department's mistakes comes at great cost to the taxpayer and is expected to cost £24.3 million in staff costs by the end of 2023. It requires experienced specialised staff who must be moved away from business-as-usual activity and, as a result, the Department has already experienced backlogs in processing new State Pension applications. There remains a risk that the errors that led to underpayments in the first place will be repeated in the correction exercise.

Managing Public Money requires Departments who make mistakes to put them right and restore people as far as possible to the situation they would have been in had the error not occurred. However, the Department is seeking only to pay people their legal entitlement in arrears, in some cases many years after the event, and has treated people inconsistently in paying interest on their arrears. Apart from the tax treatment of a lump sum arrears payment, the Department has, until recently, had little understanding of or interest in finding out further about the financial consequences for pensioners, such as the impact on social care provision.

Introduction

The Department for Work & Pensions (the Department) estimates that it underpaid 134,000 pensioners various sums totalling over £1 billion in State Pension, with errors going back as far as 1985. Of these, 94,000 pensioners are estimated to be alive, which represents approximately 0.9% of those currently claiming the pre-2016 basic State Pension. These official errors affect pensioners who first claimed State Pension before April 2016 and who do not have a full National Insurance record or who should have inherited additional entitlement from their deceased partner. Around 90% of the pensioners underpaid are women because of the types of State Pension claim affected. The Department does not expect to trace over 15,000 of the affected pensioners or their next of kin where the pensioner is deceased. On average, the Department estimates that the approximately 118,000 pensioners it can trace could receive payments averaging around £8,900 by the time the payments are made. So far, the Department has found underpayments of between £0.01 and £128,448.37.

The errors were brought to the Department's attention by individual pensioners and third-party reporting. Most notably Sir Steve Webb, the former Pensions Minister, and Tanya Jefferies of ThisIsMoney.co.uk provided the Department with example cases of underpayment from January 2020. The Department published an estimate of the underpayments in May 2020. The Department started exploring the "potential for error" in basic State Pension from April 2020 and confirmed there was a significant issue in August 2020 when it ran a full scan of its system for people who might be affected.

Conclusions and recommendations

1. **For decades, the Department has been relying on a State Pension payment system that is not fit for purpose.** The lack of effective measures to mitigate against the system's intrinsic vulnerability to error constitutes a fundamental control failure in a critical part of the Department's responsibilities. The Department's administration of State Pension has limited automation and requires the use of multiple systems. It is not fit for purpose and with such an outdated system the department should have had a more rigorous risk assessment process. The underlying IT system that is it relies on to manage millions of pensioner records dates back to 1988 and is heavily manual. Despite the complexity of State Pension entitlements and the increased risk posed by manual processes, the Department's existing quality checks failed to identify the systematic underpayment of thousands of pensioners. The Department repeatedly missed opportunities to upgrade and instead added new functionality by introducing additional systems on top of the first, some of which are also increasingly out-of-date, increasing the complexity of its administration. The complexity and age of existing systems make it difficult for the Department to adequately monitor risks on the State Pension. The customer information contained in the legacy system is difficult to obtain, taking several weeks to scan, and demographic data—such as income distribution or ethnic background—are not available. This makes it impossible to identify whether particular groups are more vulnerable to administrative errors. But some events, such as birthdays. which trigger a change of entitlement are foreseeable.

   Recommendation: ***As a matter of urgency, the Department should consider whether there are cost-effective ways to upgrade its IT systems and enhance its administrative processes to ensure the quality and timeliness of management information and reduce the risk of repeated errors. In prioritising what IT infrastructure to upgrade, it should factor in the opportunity cost of not upgrading old systems, including the cost of errors and underpayments to the citizen.***

2. **The Department's complacency about the level of underpayments inherent in its approach to administering State Pension has led it to fail pensioners.** The Department's highly manual systems and complex State Pension rules has led to calculation errors and the underpayment of thousands of pensioners. The Department, however, argued that low annual error rates on State Pension led it to focus assurance attention elsewhere, despite the detrimental impact on those underpaid. In addition, its quality assurance arrangements were inadequate and missed opportunities to detect, correct or prevent these errors. The Department hopes that, over time, it will become better at identifying small-scale errors that may mask more systemic issues. However, errors continue to be made even when re-assessing pensions awards as part of the correction exercise, leaving thousands of pensioners still not receiving what they are due. And examples such as the absence of regular reporting on State Pension enquiries make us concerned that senior management is not focused on designing a data strategy that detects errors in a more systematic way.

Recommendation: ***The Department should start treating underpayments on State Pension as seriously as overpayments and set out to the Committee in its Treasury Minute response to this report what it is going to do both to prevent future errors and to strengthen its detection of systemic issues that lead to errors.***

3. **The Department has not given people who are worried they have been underpaid enough information to find out what they should do, with the risk that many may still miss out on money they should receive.** The Department's communications strategy is to only contact those who it finds have been underpaid under the State Pension regulations. Other groups of pensioners can receive arrears if they make a claim for additional entitlements to the Department, but the Department has provided very little information on which pensioners should do so. The Department maintains it cannot publish guidance for those who may have been underpaid, such as an online assessment of whether it is worth a pensioner contacting the Department about their pension, because it believes it cannot accurately cover all possible underpayment scenarios. Furthermore, the Department's priority so far has been to focus on living pensioners rather than the deceased, even though some of their next of kin may be financially vulnerable. The Department does not have a plan to trace the estates of the deceased where no up-to-date records of spouses or next of kin are held.

Recommendation: ***The Department should improve the clarity and availability of information on State Pension underpayments, and what people who are concerned that they have been underpaid should do. This should include information for groups the Department finds hard to reach such as the next of kin of deceased customers.***

4. **Correcting the State Pension underpayments comes at a great cost to the taxpayer and requires experienced specialist staff that are in short supply.** The correction exercise requires specialist staff and training and is expected to cost the Department £23.4 million, with over 500 staff recruited, by the time the exercise completes in late 2023. Moving experienced staff from business-as-usual into the correction exercise has created knock-on effects for new State Pension delivery and, in retrospect, the Department admits that staff were moved too quickly. One impact was that during 2021 there were serious delays in the processing of new pension claims from people who had just reached state pension age. The Department committed to clear the backlog of new State Pension claims by the end of October 2021 but over 3,000 cases remained outstanding as at 4 November 2021, where the Department asked for more information to be provided by claimants. There is also a risk that, as more pensioners are paid under the new State Pension system, the Department's focus will shift away from the more complex old State Pension system, potentially leading to more errors.

Recommendation: ***The Department needs, in the short term, to minimise the knock-on effect of moving experienced staff to work on the correction exercise on other service areas and, in the long term, to ensure that it retains expert staff on the old State Pension rules so long as they are needed to administer the benefit over the following decades.***

5. **The Department has not been sufficiently transparent to Parliament about the State Pension underpayments.** Until recently, the Department has been reluctant to provide details of the volume or value of State Pension underpayments or the backlog in processing new State Pension applications to the general public or Parliament. We note that the Department's routine position is that it does not have the information even when some details are available or may be obtained without excessive cost. Despite a campaign by the former pensions minister, Sir Steve Webb and ThisisMoney.co.uk, from January 2020, the Department did not consider underpayments to be a significant issue until August 2020, meaning that it missed opportunities to identify and resolve the problem sooner.

   Recommendation: ***The Department should provide periodic updates to this Committee and the Parliament on the progress of the State Pension LEAP exercise and the speed of processing the backlog in the new State Pension.***

6. **In paying pensioners, a lump sum of their arrears, the Department may not be fully restoring them to the position that they would be in had the Department paid them correctly in the first place.** The payment of a lump sum of arrears may affect the pensioner's current or future entitlement to other benefits such as Pension Credit, housing benefit or social care provided by local authorities. The Department has demonstrated little interest in accounting for financial consequences of receiving a lump sum in its pensions reassessment and considers it to be the pensioner's responsibility to advise the relevant authority should their circumstances and eligibility for benefits change. The Department added special payments of interest on top of arrears payments to those who contacted the Department about underpayments before January 2021 but chose to stop paying interest once the formal correction exercise began. The Department argued that it took this decision, jointly with ministers, for consistency with previous correction exercises and to comply with the principles of Managing Public Money. However, we do not think there is a convincing justification for treating those in scope of the exercise differently to those contacting the Department prior to it. With underpayments going as far back as 1985, the Department is unlikely to be restoring the pensioners to a position as if the issue never occurred, as would be expected according to the principles of Managing Public Money.

   Recommendation: ***The Department should establish the full extent of the impact on pensioners of receiving a lump sum of arrears of benefit, particularly for larger sums of arrears. It should seek assurance from local authorities that people are not treated prejudicially compared to how they would have been treated had they received the money over their proper period of entitlement. It should, as part of its Treasury Minute, set out how its payment of arrears without interest or further compensation is compatible with Managing Public Money's requirement of restoring the pensioner to the situation they would have been in had the errors not occurred.***

7. **Given the nature of the underpayments identified there must be a risk that similar, unidentified errors exist elsewhere in the State Pension caseload.** For example, the NAO report states that "the Department did not find any significant evidence that it had failed to properly process cases where a pensioner had notified it of their divorce". However, Sir Steve Webb has told us he believes the scope of the

correction exercise is too narrow. He believes that the exercise should be extended to included divorced women as he has identified several cases of underpayments to date where similar manual processing errors have occurred.

Recommendation: ***The Department should write to the Committee to explain how it has assessed the risk of systemic underpayments to divorced women. It should also explain how it will review other detected underpayments to assess whether there is a systemic cause and take steps to extend the correction exercise as required. The Department should provide this Committee with a detailed description of the lessons learnt from this episode, including how it responds to concerns and queries from the public.***

1 Administration of State Pension

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Work & Pensions on the issue of underpayments in State Pension[1]

2. State Pension is a non-means tested regular benefit paid by the Department for Work & Pensions (the Department) to around 12.4 million people, who meet the entitlement conditions after they reach State Pension age. A person's entitlement to State Pension is based mainly on the number of qualifying years they have 'earned' by making National Insurance contributions (NICs) but, under certain circumstances prior to 2016, those without a full National Insurance record could get top-ups to their State Pension amount. The rules around State Pension changed on 6 April 2016, with the post-2016 entitlement (the new State Pension) calculated based almost exclusively on the claimant's NICs.[2]

Errors in State Pension

3. The Department confirmed that there was a significant issue in August 2020 and now believes around 134,000 pensioners may have been underpaid a total of over £1 billion. Of these, 94,000 pensioners are estimated to be alive, which represents approximately 0.9% of those currently claiming the pre-2016 basic State Pension.[3] In January 2021, it started a Legal Entitlements and Administrative Practices (LEAP) process to review all cases at possible risk of being underpaid. The Department does not expect to trace over 15,000 of the affected pensioners or their next of kin where the pensioner is deceased. On average, the Department estimates that the approximately 118,000 pensioners it can trace could receive around £8,900 by the time the payments are made. So far, the Department has found underpayments ranging from £0.01 to £128,448.37.[4]

4. People most likely to have been underpaid include the following categories:

- 'Category BL' pensioners: pensioners who are receiving a low basic State Pension in their own right, but are entitled to increase it using their living spouse or civil partner's contributions once their partner becomes entitled to State Pension;
- 'Widowed pensioners': widows and widowers who are not entitled to a full basic State Pension based on their own contributions can inherit a basic State Pension from their spouse or civil partner up to the full basic State Pension rate; and
- 'Category D' pensioners: men and women previously receiving no or low amounts of basic State Pension, who may be able to increase their State Pension from age 80.[5]

5. The State Pension rules are complex, have changed significantly over time and are only fully understood by a small group of specialists.[6] As a result, processing an award requires a heavy degree of human management, leaving scope for human error. The

1 C&AG's Report, Investigation into the underpayment of State Pension, Session 2021–22, HC 665, 22 September 2021
2 C&AG's Report, para 1
3 C&AG's Report, paras 2, 6
4 C&AG's Report, paras 7, 1.10
5 Q 174; C&AG's Report, para 1.7
6 C&AG's Report, para 2.6, Figure 5

Department argued that the annual error rates on State Pension are very low in percentage terms (0.3%, or £310 million in 2020–21, out of a total budget of £101.2 billion). We are concerned at the apparent inability to see past the overall percentages and recognise that a significant number of elderly people have been underpaid by amounts that might have been material to their financial circumstances. Furthermore, some of these changes of circumstance are entirely foreseeable, such as someone turning 80, and the Department appears to have done little to introduce effective controls to make sure the required manual changes are done on time. The Department said that its 'understanding of best practice is that you focus your efforts on those parts of the benefit system where you have the biggest proportionate areas of fraud and error'. Nevertheless, it acknowledged 'an inability to pick up patterns of underpayment, which had been going on for many years', which caused detrimental impact on those underpaid.[7]

Complex and outdated IT systems

6. The Department's administration of State Pension has limited automation with caseworkers reliant on multiple IT systems to process each award. When working on a claim, staff must access information from different IT systems and manually copy across information from one system to another to calculate the award.[8] This process is intrinsically much more vulnerable to human error than a system in which data is transferred. We noted that the Department repeatedly missed opportunities to upgrade the existing legacy pension system. The Department chose instead to introduce new systems to run alongside the legacy system, which increased the overall complexity of State Pension administration. Administration of the State Pension relies primarily on the Pension Service Computer System (PSCS) to manage millions of pensioner records, a system that was built back in 1988, but case workers must then also access three other IT systems in order to access all relevant pensioner details.[9] The Department told us it is resistant to upgrading the State Pension 'workhorse' system because 'the process of doing that is incredibly complex and very risky from a business point of view'.[10]

7. The NAO concluded that the errors were almost inevitable given the manual review, complex rules and outdated IT.[11] The Department acknowledged that it was slow to learn to detect errors and needs to learn faster going forward.[12] But it said that the LEAP exercise helped it get better at 'scanning between different systems that it has, being able to pick up any discrepancy and being able to address that'.[13] It added that 60% of claims made under the post-2016 new State Pension rules are now fully automated. However, it will be decades until all pensioners become managed under the new system, leaving scope for further errors if no action is taken.[14]

8. In addition, the customer information contained in the legacy system is difficult to obtain, taking several weeks to scan, and demographic data—such as income distribution or ethnic background—are not available.[15] The Department told us that, while it was not

7 Q 30
8 C&AG's Report, para 2.3
9 Qq 39, 47, C&AG's Report, paras 10, 2.3
10 Qq 49, 52
11 C&AG's Report, para 11
12 Q 31
13 Qq 33, 39
14 Q 39
15 Q 123; C&AG's Report, paras 1.11, 3.9

sure of the impact on other types of demographic groups, it hopes that ethnic minorities should not be disproportionately affected 'because of the way the system works in practice'. The Department said that 90% of the underpayment cases it was seeing were women, because of the types of state pension claim that were affected.[16] Following our evidence session, the Department wrote to us explaining that it had amended its complaints process and introduced a new case management tool which allows more detailed information to be recorded about complaints.[17]

Quality assurance arrangements

9. We challenged the Department on the adequacy of its quality assurance mechanisms.[18] Despite the complexity of State Pension entitlements and the increased risk posed by manual processes of calculating an award, the Department's own internal analysis found that existing quality checks failed to identify the systematic underpayment of thousands of pensioners.[19] There are three levels of quality assurance in State Pension. The quality of a caseworker's work is assessed by team leaders (Tier 1) and by a central team (Tier 2). The rate of official error is assessed as part of estimating fraud and error across all benefits (Tier 3). However, as the NAO found, "since 2009, Tier 1 and Tier 2 processes focussed on checking changes to case details, such as a change of address or the death of a spouse, rather than the overall accuracy of the payments; and the small sample sizes of Tier 2 and Tier 3 relative to the basic State Pension caseload made it difficult to identify the errors". In addition, conversations with caseworkers as part of the NAO investigation showed they feel that the Department has too few staff trained on State Pension processes to manage the caseload and perform the expected quality assurance procedures.[20]It is a fundamental principle of financial control and assurance that more attention should be focussed on those areas where there is intrinsically a higher risk of failure due to human error. The Department failed to apply this principle here even though it was aware of the system's very high vulnerability to human error.

10. The Department told us it changed its quality assurance framework over the LEAP exercise and business-as-usual State Pension processing.[21] Following our evidence session the Department explained that, as part of its quality strategy review it reviewed its training products, amended the instructions used by front-line staff to ensure they are clearer and put in place a checking regime. It added that it is using the findings of checks to identify individual training needs and improve processes and instructions.[22]

11. When we asked the Department what positive assurance it obtained that the system was working and that it was paying people on time and the right amount, it set out the three quality assurance tiers and that said that its focus was on areas with higher error rates. The Department added that the Department responded to the issue significantly more quickly than previous correction exercises as a result of governance improvements. The Department said that, over time, it hoped to become better at identifying small-scale

16 Q 123
17 Q 3, Letter from Permanent Secretary of the Department for Work & Pensions to the Chair of the Committee of Public Accounts, dated 15 November 2021.
18 Qq 30–33, 35–39, 84–89
19 C&AG's Report; para 11
20 C&AG's Report; paras 2.10, 2.11
21 Q 40
22 Q 2; Letter from Permanent Secretary of the Department for Work & Pensions to the Chair of the Committee of Public Accounts, dated 15 November 2021.

errors that may mask more systemic issues and to use more innovative analytical methods coupled with human quality assessment to improve customer experience.[23] For instance, in its follow-up letter to us after the evidence session the Department said that it deployed automation of some processes to improve the processing of letters sent out to customers.[24] However, the management information is still lacking in areas such as reporting on State Pension enquiries and complaints and the Department acknowledged that it 'will not eliminate all official error anywhere across the Department' despite the exercise it is going through'.[25]

23 Qq 35, 41

24 Q 2; Letter from Permanent Secretary of the Department for Work & Pensions to the Chair of the Committee of Public Accounts, dated 15 November 2021.

25 Qq 100, 113–117

2 State Pension correction exercise

12. A Legal Entitlements and Administrative Practices (LEAP) exercise is a systematic review of cases at risk of being underpaid to help the Department ensure it has met its legal responsibilities. The Department for Work & Pensions (the Department) uses LEAP exercises to make key decisions in situations where a mistake has been made that affects a large volume of cases. The exercise weighs the individual impact on each claimant against the overall impact on the Department and tries to establish a proportionate response. The LEAP guidelines do not have any legal standing, but adherence to it can be used in future litigation to show that the Department has taken a rational approach to the decision.[26]

13. The Department began a LEAP exercise for State Pension underpayments in January 2021, which was originally expected to take more than six years to complete. Following a ministerial decision in March 2021 to recruit additional staff, the Department revised the completion date to the end of 2023.[27]

Cost to taxpayer

14. The Department currently has just over 200 people conducting the LEAP exercise. The State Pension correction exercise requires specialist staff and training and is expected to cost the Department £23.4 million, with over 500 staff employed, by the time the exercise completes. The Department redeployed its more experienced caseworkers from its Retirement Services division to the LEAP exercise and backfilled their posts from elsewhere in the Department or through new joiners. This placed additional strain on its normal State Pension operations, which already have backlogs as a result of COVID-19 and the prioritisation of new Universal Credit claims during the early part of the pandemic.[28] The Department acknowledged that it moved staff 'possibly too quickly' and committed to clear the backlog of new State Pension claims by the end of October 2021. It told us that it has seen an increased number of applications for new State Pension in recent months, likely because those who wanted to defer their pension were now claiming it sooner and because of age equalisation effects.[29] However, over 3,000 cases remained outstanding as at 4 November 2021 where the Department asked for more information to be provided by claimants.[30]

Accuracy of the LEAP exercise

15. We asked the Department about the findings of the NAO financial audit of the Department's 2020–21 accounts, which identified nearly 200 of 1,500 cases where the LEAP reviewers had incorrectly assessed arrears on married women's entitlement.[31] The NAO concluded that, given the complexity of the rules governing State Pension entitlement, it is likely that at least some errors will continue to be made in the correction exercise, particularly with more complex cases. The NAO also found that it is possible that some pensioners who have contacted the Department to find out if they have been

26 C&AG's Report, Figure 8
27 C&AG's Report, para 4.5
28 Qq 59, 65–67; C&AG's Report, para 4.5
29 Qq 62, 67
30 Q 2; Correspondence with the minister for Pensions and Financial Inclusion – delays to payments for state pensions
31 Q 79; C&AG's Report, para 4.7

underpaid were wrongly reassured that their payments are correct.[32] The Department told us that since the errors were discovered it has strengthened its quality assurance over the LEAP exercise.[33] It wrote to us following the evidence session setting out that the financial accuracy rate in the correction exercise improved over time from 87.4% in Q1 of 2020–21 to 96% as of October 2021, although it acknowledged that 'there is clearly room for continued improvement'.[34] The Department said its main focus has been on upgrading and improving its system for managing new State Pension, though it acknowledged that there will be a 'long period' where the old State Pension systems continue to be necessary.[35]

Clarity of communications

16. The Department decided to contact pensioners reviewed as part of the State Pension LEAP exercise only if a correction was made to their basic State Pension.[36] Other groups of pensioners can receive arrears if they make a claim to the Department, however, the Department has provided very little information to such pensioners on how to do so. There is no legal obligation on the Department to seek out these pensioners or pay them arrears. The Department will backdate any increased payments by 12 months from the date when a new claim is made. These groups include:

- married women, whose spouse or civil partner became entitled to State Pension prior to 17 March 2008;
- divorced pensioners who have not informed the Department of the divorce and whose pension could be increased using their ex-spouse or ex-partner's National Insurance record; and
- individuals more than 80 years old who are not already in receipt of basic State Pension, or who currently live abroad and have not yet claimed the uplift.[37]

17. When we asked if the Department is able to provide greater clarity to those who think they may have been affected, the Department said that it cannot publish guidance for those who may have been underpaid, such as an online questionnaire, because it believes it cannot accurately cover all possible underpayment scenarios. It said it did not want 'to miss customers who are eligible for a payment' and would be unwilling to provide misleading information. However, there remain 153,000 records for which the Department says that 'it is unable to trace' the information on the national insurance records of their partner, meaning these pensioners may miss out on an uplift.[38] It said it updated information on GOV.UK and on the phone system and promised 'to continue to explore whether it is feasible to broaden out the guidance'.[39]

18. Until recently, the Department did not keep records on pensioners for more than four years after the date they died due to its data retention policy.[40] However, it said it has now

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32 C&AG's Report, paras 18, 4.11
33 Qq 79, 80
34 Qq 1, 83; Letter from Permanent Secretary of the Department for Work & Pensions to the Chair of the Committee of Public Accounts, dated 15 November 2021.
35 Q 39
36 Q 77; C&AG's report, 4.17.
37 C&AG's Report, para 1.16
38 Q 97
39 Qq 151, 152, 154
40 C&AG's Report, para 4.14

started retaining such records for longer.[41] The Department's priority so far has been to focus on living pensioners rather than the deceased, even though some of their next of kin may be financially vulnerable.[42] In some cases, information on next of kin of the deceased is missing, and the Department still does not have a plan to trace them.[43]

19. The Department told us that it began exploring the potential for underpayments from April 2020, following a number of complaints by individual pensioners and a campaign by the former pensions minister Sir Steve Webb and Tanya Jefferies of Thisismoney.co.uk from January 2020, who provided the Department with example cases of underpayment.[44] The Department then published an estimate of the underpayments in May 2020. The Department said that it did not consider it to be a significant issue until August 2020, when a scan of its IT systems revealed that many more people could have been affected than it thought previously.[45] The Department first provided a detailed breakdown of State Pension underpayments to the public and Parliament in its 2020–21 Annual Report and Accounts, published in July 2021.[46] This was followed by a progress update in October 2021, published shortly before our evidence session.[47] When the Chair of the Work & Pensions Select Committee tabled a parliamentary question on 15 October 2021 concerning the breakdown of men and women in the backlog for new State Pension applications,[48] the Department responded that 'this information is only available at disproportionate cost' to the Department. During the course of our evidence session the Department clarified that some of the data requested was available at an aggregate level, though had only recently been available.[49]

Financial justice

20. Managing Public Money (A4.14) states that 'when public sector organisations have caused injustice or hardship because of maladministration or service failure, they should consider providing remedies so that, as far as reasonably possible, they restore the wronged party to the position that they would be in had things been done correctly'.[50] The payment of a lump sum of arrears may affect the pensioner's current or future entitlement to other benefits such as Pension Credit, housing benefit, or social care provided by local authorities. The Department told us that it remains the pensioner's responsibility to advise the relevant authority should their circumstances and eligibility for benefits change. HM Revenue & Customs states 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. Where arrears of State Pension are paid, income tax will only be due on any income that exceeds the personal allowance for the respective tax year.[51] However, the Department told us it does not have a clear understanding of all financial consequences of receiving a lump sum on social care provision.[52] After our

41 Q 158
42 Q 161
43 Qq 177, 178
44 Qq 108–110; C&AG's Report, 3.3, 3.5
45 Q 111
46 Department for Work & Pensions, *Annual Report and Accounts 2020–21*
47 GOV.UK, State Pension underpayments: progress on cases reviewed to 30 September 2021
48 Parliament.UK, State Retirement Pensions, question for Department for Work and Pensions, UIN 56659, tabled on 15 October 2021
49 Qq 68, 69
50 GOV.UK, Managing Public Money, A.4.14
51 C&AG's Report, para 1.15
52 Q 165–167

evidence session the Department wrote to us explaining how pensions arrears would affect adult social care provision, benefit entitlement and tax. Specifically, on social care, the Department confirmed that the responsibility to interpret the corresponding regulations sits with individual local authorities and, as such, they will make their own judgement on a person's financial circumstances when re-assessing their eligibility to social care.[53]

21. Some of those who contacted the Department prior to the LEAP exercise starting in January 2021 received special payments of interest on top of their underpayment.[54] The Department chose to stop paying interest on arrears, citing value-for-money considerations and comparability of treatment in other LEAP exercises.[55] When we challenged the Department on the fairness of this treatment, it stood by its decision not to pay blanket compensation under LEAP exercises and said that 'it was not seeing the pre-January cases in the context of the wider principle, because they had not begun a LEAP exercise'.[56] We asked the Department about whether it had considered the effects of inflation on underpayments, given some of the errors go back decades. The Department told us that it was seeking only to pay people 'what they are entitled to', which did not include an element of compensation.[57]

Potential for further errors

22. Since our evidence session Sir Steve Webb has also drawn our attention to a potential systemic error affecting divorced pensioners. The NAO report states that "the Department did not find any significant evidence that it had failed to properly process cases where a pensioner had notified it of their divorce".[58] However Sir Steve believes the scope of the correction exercise is too narrow and should be extended to included divorced people for the following reasons. He told us that in October 2021 the Department published figures which show that there are 720,000 divorced women on the old state pension system. Although a divorced woman could be entitled to up to a full basic pension of £137.60, 40,000 divorced women are on less than £82.45 per week, suggesting there could be many divorced women losing out. In his view the type of error which caused the underpayments occurs when there is a change of circumstances (husband retires, husband dies, pensioner turns 80) and no pension reassessment takes place; exactly the same issue can arise when someone phones up to report a divorce. He told us that in recent months he has identified several individual cases of divorced women who were being paid the wrong amount (or no pension at all) and in each case the Department has accepted that money is due and has paid substantial arrears.[59]

53 Q 4, Letter from Permanent Secretary of the Department for Work & Pensions to the Chair of the Committee of Public Accounts, dated 15 November 2021.
54 Q 132
55 Q 133; C&AG's Report, para 4.3
56 Q 139
57 Qq 144–148
58 C&AG's Report, para 3.7
59 Letter from Sir Steve Webb to the Chair of the Committee of Public Accounts, dated 7 Dec 2021

Formal minutes

Wednesday 12 January 2022

Members present:

Dame Meg Hillier, in the Chair

Dan Carden

Sir Geoffrey Clifton-Brown

Mr Mark Francois

Peter Grant

Mr Richard Holden

Underpayments of the State Pension

Draft Report (*Underpayments of the State Pension*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-third of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Monday 17 January at 3:30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 28 October 2021

Peter Schofield, Permanent Secretary, Department for Work & Pensions; **Amanda Reynolds**, Director General for Service Excellence, Department for Work & Pensions; **Cathy Payne**, Deputy Director for State Pensions and Service Excellence, Department for Work & Pensions Q1–182

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

USP numbers are generated by the evidence processing system and so may not be complete.

1 Wilkinson, Mrs Rebecca (USP0005)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179
21st	School Funding	HC 183
22nd	Improving the performance of major defence equipment contracts	HC 185
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184
25th	The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system	HC 633
26th	Lessons from Greensill Capital: accreditation to business support schemes	HC 169
27th	Green Homes Grant Voucher Scheme	HC 635

Number	Title	Reference
28th	Efficiency in government	HC 636
29th	The National Law Enforcement Data Programme	HC 638
30th	Challenges in implementing digital change	HC 637
31st	Environmental Land Management Scheme	HC 639
32nd	Delivering gigabitcapable broadband	HC 743
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

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1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651

Number	Title	Reference
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority’s management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges’ financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government’s long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941