

Lessons learned

✓ The DWP has committed to rectifying issues around underpaid state pensions by 2023, Sophie Smith looks at the progress so far

The Department for Work and Pensions (DWP) has reassured the industry and savers that “lots of lessons” have been learned from the official underpayment of state pensions, confirming that the government is “absolutely determined” to rectify the issue by 2023.

Issues around the underpayment of state pensions were first highlighted in March 2020 by LCP partner, Steve Webb, after a freedom of information request revealed that “tens of thousands” of women were not receiving the correct state pension uplifts.

The problem affects those women who reached state pension age before 6 April 2016 and are covered by the ‘old’ state pension system, under which, married women could claim an enhanced rate of state pension when their husband reached 65 in cases where they only had a small individual state pension entitlement, with parallel rules for widows and divorced women.

A report from the National Audit Office (NAO) has also since found that years of human error had led the DWP to underpay over £1 billion in state pension payments to around 134,000 pensioners, stating that some level of human error had been inevitable due to the complex rules and high degree of manual review necessary when assessing claims.

In addition to this, the NAO warned that relevant IT systems were “outdated and unautomated”, noting that DWP caseworkers often failed to set or action manual IT system prompts on pensioners’ files to review the payments at a later date.

Commenting in response, a DWP

spokesperson said: “We are fully committed to ensuring the historical errors that have been made by successive governments are corrected, and as this report acknowledges, we’re dedicating significant resource to doing so.

“Anyone impacted will be contacted by us to ensure they receive all that they are owed.

“Since we became aware of this issue, we have introduced new quality control processes and improved training to help ensure this does not happen again.”

Indeed, the legal entitlements and administrative practice exercise being run to identify those individuals who had been underpaid their state pension commenced on 11 January 2021 and is expected to be completed by end of 2023.

A recent progress update from the DWP also confirmed the number of cases identified so far, revealing that a total of 9,491 underpayments of state pension were identified between 11 January and 30 September, with those affected owed a total of £60.8 million.

It showed that, of 25,990 cases reviewed involving married women, 2,681 underpayments totalling £20.8 million were found, with an average arrears payment of £7,772.

“Of the 6,467 cases involving widows, meanwhile, 2,381 underpayments totalling £20.2 million were identified, representing an average arrears payment of £8,628. A further 4,429 underpayments totalling £19.7 million were also identified amongst those over 80, out of 6,050 cases reviewed, with an average payment of £4,455.

Speaking at a Public Accounts Committee evidence session on 28

October, DWP permanent secretary, Peter Schofield, also reiterated the government’s commitment to remedy the issue by the end of 2023.

He said: “We want to assure you that we are absolutely doing what we can to take lessons on board, make changes and improve things.

“We are absolutely determined to pay this money to those who are entitled by the end of 2023.”

He also reassured the committee that the DWP was “learning and developing how to run scans on these very old systems that pick up these cases”, emphasising the need to “learn faster than we have been in the past”.

However, Schofield clarified that the proportion of underpayments due to official error in the state pension system is “very low”, estimating that it impacted around 0.3 per cent of individuals, which last year would have equated to £310 million out of a total budget of £101.2 billion.

Despite this, Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, warned that the DWP’s assertion that the issue has only hit 0.3 per cent will come “as no comfort to the estimated 134,000 pensioners who have been underpaid”.

“The situation was caused by a mixture of antiquated systems and human error and DWP have questions to answer on whether lessons have indeed been learned quickly enough given the time it has taken to address a problem that has rumbled on for many years,” she said.

✓ Written by Sophie Smith