



National Audit Office

# Review of errors in Guaranteed Minimum Pension payments

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 878 Session 2008-2009 | 16 July 2009

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National Audit Office

# Review of errors in Guaranteed Minimum Pension payments

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**10 July 2009**

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# SUMMARY

**1** On 16 December 2008 the Government announced that five public service pension schemes had identified payment errors arising from the incorrect indexation, in some cases over many years, of an element of the pension known as the Guaranteed Minimum Pension. The five schemes concerned were those for the armed forces, civil service, judiciary, NHS, and teachers.

**2** The Government also announced that the National Audit Office was to carry out a review of the payment errors, and this report presents the findings of our review. There are other public and private sector schemes which, because they are contracted out of the state second pension, should also take account of pensioners' Guaranteed Minimum Pension entitlements.

Our review is restricted to the five schemes specified in the Government's announcement in December 2008. The methods we used are set out in Appendix 1. The report sets out:

- the arrangements for uprating public service pensions and the Guaranteed Minimum Pension process (paragraphs 28 to 36);
- the extent of the payment errors and what went wrong with the Guaranteed Minimum Pension process to cause the errors (paragraphs 37 to 73); and
- why the payment errors were not prevented, the work done to identify and correct the errors, and the action taken to prevent errors recurring (paragraphs 74 to 109).



**3** Public service pension schemes are contracted out of the state second pension, which is the earnings related element of the state pension. Employees forego their entitlement to a state second pension, but for service between 1978 and 1997 earned a 'Guaranteed Minimum Pension'. After state pension age, the occupational pension provided by the pension scheme must equal or exceed a person's Guaranteed Minimum Pension, thereby ensuring that people are no worse off because their scheme is contracted out. HM Revenue and Customs is responsible for calculating Guaranteed Minimum Pension entitlements based on information provided by employers on contracted out earnings, and for informing pension schemes of the entitlements of their members. Married women who paid reduced rate National Insurance contributions will not have Guaranteed Minimum Pension entitlements.

**4** Prior to state pension age, public service pension schemes pay annual cost of living increases on the whole of a person's occupational pension. After state pension age, however, responsibility for paying increases on the Guaranteed Minimum Pension element is split between the pension scheme and the state. Overpayments occurred where pension schemes did not have Guaranteed Minimum Pension information recorded on their systems, and so continued to uprate the whole pension. The people affected therefore received part of the uprating in their Guaranteed Minimum Pension twice – once (correctly) from the state as part of their state pension, and once (incorrectly) from the pension scheme.

**5** At the time of our report, the five pension schemes had identified overpayments totalling some £90 million to 85,509 people, and also a much smaller number of underpayments (Figure 1). The total number of people affected so far represents six per cent of scheme members over state pension age. The schemes are working to resolve some 26,000 further cases, which are not included in these figures, and expect final data to be available by August 2009.

**6** The majority of people affected were overpaid and their corrected pensions for 2009-10 are lower than they would have expected. Despite the five per cent annual cost of living increase, 31,208 of the overpaid pensioners are receiving a lower pension in 2009-10 than they did in 2008-09. The smaller number who were underpaid are receiving, in 2009-10, money to which they were entitled in previous years.

**7** The figures relate to pensions currently in payment, and the number and value of payment errors is therefore understated because the figures do not include errors in pension payments made over the years to people who died before the errors were corrected.

**8** Where people opt not to claim state pension at state pension age, the pension scheme should suspend the usual Guaranteed Minimum Pension uprating rule, and continue to pay annual cost of living increases on the whole of a person's occupational pension. Our review of the Guaranteed Minimum Pension process also found a risk of underpayments to pensioners in this category (see recommendation (b)).

## 1 The number and value of the payment errors identified so far

Pension scheme	Overpayments		Underpayments		Total
	Number of cases	Value £	Number of cases	Value £	Number of cases
Armed forces	4,530	10,761,123	67	4,449	4,597
Civil service	18,833	19,483,376	3,922	146,251	22,755
Judiciary	191	265,275	71	4,937	262
NHS <sup>1</sup>	41,225	24,474,159	Data not available	Data not available	41,225
Teachers	20,730	35,190,708	857	35,518	21,587
<b>Total<sup>2</sup></b>	<b>85,509</b>	<b>£90,174,641</b>	<b>4,917</b>	<b>£191,155</b>	<b>90,426</b>

Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority and the Department for Children, Schools and Families

### NOTES

1 Underpayment data was not available from the NHS scheme at the time of our report.

2 Schemes are working to resolve some 26,000 further cases, which are not included in this table.

**9** The process for providing pension schemes with Guaranteed Minimum Pension information also depends on HM Revenue and Customs and the Pension, Disability and Carers Service, who in turn rely on information from employers. The end-to-end process is complex and can break down at a number of points. In simple terms, however, there are two scenarios which led to the pension schemes not having Guaranteed Minimum Pension information recorded for some of their members, leading to the payment errors (**Box 1**).

**10** The pension schemes are responsible for making payments to pensioners in accordance with the rules governing their schemes, and for obtaining the information necessary to calculate payments correctly. Although they can seek to recover money that is paid incorrectly, the schemes bear the financial risk of payment errors and need to manage this risk through having adequate checks and controls, including over the completeness and accuracy of data.

**11** Prior to the discovery of the payment errors, the schemes assumed that the Guaranteed Minimum Pension process was working as intended, and that the information they received from HM Revenue and Customs

was complete. No checks over the completeness of information were in place, despite the complexity of the process and previous concerns about how effectively it was working. For example, as far back as the mid 1990s the schemes had raised concerns about the process leading to overpayments, and an independent report to Government in 2002 had highlighted the complexity of arrangements surrounding Guaranteed Minimum Pensions. Not all parties directly involved in the process were familiar with the guidance note on administering Guaranteed Minimum Pensions which is, in any case, now out of date. The latest version of the guidance note was issued by HM Treasury in 2001, and was based on advice provided by the then Department of Social Security.

**12** The pension schemes, their payment contractors and HM Revenue and Customs have carried out extensive work to identify missing Guaranteed Minimum Pension information and deal with the payment errors. The schemes plan to write off the overpayments as it was considered that action to seek recovery was unlikely to be cost-effective, and the arrears resulting from the underpayments are to be paid to pensioners. From April 2009, most pensioners have been paid the correct pensions, with the remainder due to be corrected by August 2009.

## BOX 1

### Scenarios which led to the pension schemes not having Guaranteed Minimum Pension information recorded for some of their members

#### HM Revenue and Customs did not issue a Guaranteed Minimum Pension notification to the pension scheme

Where a person remains in contracted out employment up to state pension age, the issue of a Guaranteed Minimum Pension statement relies on the Pension, Disability and Carers Service feeding back to HM Revenue and Customs information received from employers as part of the process of finalising state pension claims. If claims are not finalised or not finalised properly, however, there is no trigger for HM Revenue and Customs' National Insurance Recording System to issue a Guaranteed Minimum Pension statement to the pension scheme.

A review by HM Revenue and Customs in April 2008 confirmed the correctness of the Guaranteed Minimum Pension notifications issued by the National Insurance Recording System. However, the review did not provide assurance that all Guaranteed Minimum Pension notifications that should have previously been issued had in fact been issued, as the System does not currently have the functionality to confirm the production of individual notifications for past periods.

#### The Guaranteed Minimum Pension notification was sent to the wrong pension scheme or was not matched to a record on the pension scheme's payment system

The main reason for pension schemes returning Guaranteed Minimum Pension notifications is that the person's record in the National Insurance Recording System includes an incorrect scheme reference number, and the notification is therefore sent to the wrong scheme. The reference number is provided to HM Revenue and Customs by the Pension, Disability and Carers Service, pension schemes, or employers.

In addition, pension scheme payment contractors may be unable to match notifications to a record on their system where they have no record of the person because the occupational pension award has not yet been processed by the scheme administrator.

Some notifications in 2002-03 were not matched to pension scheme records due to system formatting differences and, during recent work to identify and correct the errors, some of the same cases were still found to be missing Guaranteed Minimum Pension information.

Guaranteed Minimum Pension statements that are rejected should be returned to HM Revenue and Customs. However, neither the pension schemes nor HM Revenue and Customs have kept records to track rejected notifications and how they were dealt with. There is therefore no assurance that all notifications have ultimately reached the correct pension scheme.



**13** Work is now under way to develop proposals aimed at preventing the errors recurring, but this work remains at a very early stage and it is too soon to take any assurance that the underlying causes have been addressed. No one party will be able to prevent a recurrence of the errors, and changes will require the commitment of all those involved. The pension schemes recognise that they need to be more proactive in seeking to ensure that they hold all Guaranteed Minimum Pension information. In addition, HM Revenue and Customs and the Pension, Disability and Carers Service are working together to review their processes and communications to identify improvements that can be made.

## Concluding comments

**14** The process for notifying pension schemes of Guaranteed Minimum Pension entitlements is complex and fragmented, and therefore prone to error. There was a collective failure to recognise the interdependencies between the parties and the potential for the process to break down. The successful administration of the Guaranteed Minimum Pension process required effective joint working, but the parties failed to achieve it.

**15** The Guaranteed Minimum Pension process involves the pension schemes and their payment contractors, but also relies on HM Revenue and Customs and the Pension, Disability and Carers Service, who in turn rely on employers. No one party owns the process as a whole and no one took responsibility for checking it was working properly or for ensuring that problems were satisfactorily resolved when, for example, pension schemes could not match Guaranteed Minimum Pension notifications to their systems. There was no assurance therefore that the information passing between HM Revenue and Customs and the pension schemes, and between the Pension, Disability and Carers Service and HM Revenue and Customs, was complete. Despite the complexity and the known history of problems, the process lacked checks and controls, which meant that the missing Guaranteed Minimum Pension information and the resultant payment errors went undetected, in some cases for many years.

**16** The payment errors resulted from the Guaranteed Minimum Pension process breaking down in a number of ways, leading to the pension schemes not having Guaranteed Minimum Pension information recorded when they should have done. Responsibility for the errors is shared between:

- the pension schemes and their payment contractors, for neglecting to put in place checks that they had obtained the information necessary to calculate payments correctly. Specifically, they did not make sure that the Guaranteed Minimum

Pension information they held was complete and did not have adequate arrangements for tracking rejected notifications;

- HM Revenue and Customs, for failing to have adequate arrangements for tracking Guaranteed Minimum Pension notifications which were rejected and returned by the pension schemes, and for having no checks built into the National Insurance Recording System to reduce the risk of notifications being sent to the wrong pension scheme; and
- the Pension, Disability and Carers Service, for not always finalising state pension claims either at all or properly, meaning there was no trigger for HM Revenue and Customs to issue a Guaranteed Minimum Pension notification, and for supplying incorrect scheme contracted out numbers to HM Revenue and Customs, meaning that notifications were sent to the wrong pension scheme.

## Recommendations

**17** Without co-ordinated action by all parties to improve the Guaranteed Minimum Pension process, there will be duplication of effort and potentially inconsistent new standards and approaches adopted. Our detailed recommendations at (b) to (l) should therefore be addressed in the context of the urgent resolution of recommendation (a), which concerns responsibility for the process as a whole and leadership of actions necessary to improve.

- a **The Guaranteed Minimum Pension process involves several inter-dependent parties who failed to work together effectively. At present, none of the parties has a lead responsibility for the process as a whole.** HM Treasury, HM Revenue and Customs, the Pension, Disability and Carers Service and the five pension schemes should agree the one body which will be responsible for the Guaranteed Minimum Pension process as a whole, and for oversight and co-ordination of plans to address weaknesses in the process. The decision on where this responsibility falls is not an easy one but, in our view, it should be either the Pension, Disability and Carers Service or the Cabinet Office. The Pension, Disability and Carers Service is the body most directly connected to the pensioners who are affected by administrative failings concerning Guaranteed Minimum Pension, and to the overall quality of government services to pensioners. The Cabinet Office is the body which, amongst the departments responsible for paying public service pensions, is the one which has been most closely involved in co-ordinating actions to deal with the payment errors, and which also has the role of strengthening the civil service as a whole.

**18** We acknowledge the extensive work that has been carried out so far to identify and deal with the payment errors. Our review also identified two further risks which should be addressed by the parties as part of this work.

- b** **There is a risk that pension schemes may be underpaying members who left contracted out employment early but who have deferred claiming state pension. It is not clear how the pension schemes know whether these ‘early leavers’ have claimed state pension and, if not, that the scheme should therefore suspend the usual Guaranteed Minimum Pension rules and uprate the occupational pension in full.** Working with HM Revenue and Customs and the Pension, Disability and Carers Service, the pension schemes should confirm whether members in this category are in receipt of state pension, and take action to both correct any underpayments that have arisen and to address the risk of underpayments in the future.
- c** **There is a risk that payment errors will continue to occur after the correction exercise during 2008-09, but before actions to prevent errors recurring have been agreed and implemented.** Working with HM Revenue and Customs, the pension schemes should check whether there are any further overpayments or underpayments which were not captured by the correction exercise during 2008-09, and take any necessary corrective action.

**19** Going forward, we make the following recommendations to help strengthen the Guaranteed Minimum Pension process.

## On improving the overall management of the process

- d** **The lack of checks and controls over the Guaranteed Minimum Pension process as a whole fails to take account of the complexity of the process and the history of concerns and known problems.** The pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should review the checks and controls in place over the process, both within their organisations and over the exchanges of information between them.
- e** **There is little management information in respect of key aspects of the Guaranteed Minimum Pension process.** The pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should collect information to help them monitor key parts of the process, for example, on the finalisation of state pension claims, the accuracy of scheme contracted out numbers, and the clearance of rejected Guaranteed Minimum Pension statements.
- f** **Pension schemes remain concerned about the completeness of the Guaranteed Minimum Pension notifications generated by the National Insurance Recording System.** HM Revenue and Customs should identify how it can provide greater assurance about the completeness of the outputs from the National Insurance Recording System. The pension schemes should implement procedures to identify members who have reached, or are soon to reach, state pension age but for whom they do not have Guaranteed Minimum Pension information recorded on their systems.
- g** **The pension schemes’ payment contractors were required under the terms of their contracts to calculate and pay pensions correctly, and to do so the contractors need to obtain Guaranteed Minimum Pension statements. However, under the existing arrangements responsibility for the non-receipt of Guaranteed Minimum Pension statements was not always clear, and therefore the pension schemes agreed to pay them additional amounts to rectify the resulting payment errors.** At the earliest opportunity, pension schemes should amend contracts to make explicit the extent of their contractors’ obligations for securing complete details of Guaranteed Minimum Pension entitlements, and should subsequently monitor the performance of contractors in this regard.
- h** **The responsibilities of the different parts of government involved in the Guaranteed Minimum Pension process, and the levels of service they can expect from each other, have not been set out.** Pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should agree and document their specific responsibilities, including service standards for the provision of timely and complete Guaranteed Minimum Pension information, and responsibilities for checking that the process as a whole is working properly.

- i **The guidance on administering Guaranteed Minimum Pension entitlements is out of date, and not all the parties directly involved in the process were familiar with the guidance.** HM Treasury, the Pension, Disability and Carers Service, HM Revenue and Customs and the pension schemes should collectively develop and agree new guidance, promote it to staff, and then regularly review and update it as necessary.
- j **Action to prevent the payment errors recurring will require the commitment of all parties involved in the Guaranteed Minimum Pension process, but there is currently no forum which brings them together. Strengthening the process requires the pension schemes to be more proactive and all parties to work more closely together.** The pension schemes, their payment contractors, HM Revenue and Customs and the Pension, Disability and Carers Service should come together to agree detailed proposals for improvement, a timetable for their implementation, and arrangements for monitoring the effectiveness of the action that is taken.
- I **The complexity of the existing Guaranteed Minimum Pension system increases the risk of error and makes it costly to administer. A complicated administrative process has evolved over a number of years, in a context of changing legislation and organisational structures.** A fundamental review should therefore be commissioned to consider whether, within the existing legislation in respect of Guaranteed Minimum Pensions, there are opportunities to reform and simplify the administrative system designed to implement that legislation. We suggest the review should be commissioned by HM Treasury because of its responsibility for the financial and budgetary framework and for ensuring departmental efficiency, together with the Cabinet Office as the central co-ordinator of the response to these errors and with its wider responsibilities for the civil service.

### On simplifying the process as a whole

- k **Guaranteed Minimum Pensions were earned between 1978 and 1997 and are no longer accruing, meaning that the existence of entitlements is known and will not change.** While the base Guaranteed Minimum Pension is re-valued each year up to state pension age, pension schemes could annotate members' records with Guaranteed Minimum Pension information in advance of their reaching state pension age, rather than waiting for HM Revenue and Customs to provide notifications. Pension schemes and their administration and payment contractors should assess whether prior annotation offers a cost-effective way of reducing the risks associated with administering Guaranteed Minimum Pensions.

# MAIN REPORT

## The five pension schemes

**20** This report concerns payment errors by five public service pension schemes, covering the armed forces, the civil service, the judiciary, the NHS and teachers. **Figure 2** provides membership and pensions in payment information for each scheme.

**21** The pension schemes are managed by the relevant government department or, in the case of the NHS scheme, by the NHS Business Services Authority, a Special Health Authority established under the NHS Act 1977. Each scheme produces separate financial statements and has its own Accounting Officer. Some of the schemes employ private sector contractors to administer their pensions, and all five schemes have contracted out the payment of pensions. **Figure 3** provides details of the parties responsible for management, administration and payment for each scheme.

## What is a Guaranteed Minimum Pension?

**22** The state pension comprises two elements:

- the basic state pension – paid at standard rates, based on National Insurance contributions; and
- an additional pension – now known as the state second pension, which is earnings related and based on National Insurance contributions.

**23** Occupational pension schemes in both the public and private sectors are able to ‘contract out’ of the second state pension. Under contracting out arrangements, employees forgo their entitlement to a state second pension and in return the employer and employees pay reduced rate National Insurance contributions. Public service pension schemes have been contracted out since 1978.

## 2 The five pension schemes: membership data and pensions in payment

Pension scheme	Total number of members at 31 March 2009 <sup>1</sup>	Number of pensions in payment at 31 March 2009	Number of pensions in payment where member is above state pension age at 31 March 2009	Value of pensions paid in 2008-09 £ million
Armed forces	965,512	368,511	164,611	2,343
Civil service	1,477,000	597,987	435,487	3,786
Judiciary	3,676	1,533	999	61
NHS	2,467,078	610,248	512,016	4,173
Teachers	1,572,709	546,158	438,888	5,110
<b>Total</b>	<b>6,485,975</b>	<b>2,124,437</b>	<b>1,552,001</b>	<b>15,473</b>

Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority and the Department for Children, Schools and Families. Audited accounts for 2008-09 had not been produced at the time of compiling this report.

### NOTE

<sup>1</sup> The total number of members includes those currently employed, those who have left qualifying employment but are not yet in receipt of their occupational pension, and those currently receiving pensions.

**24** For periods of service between 1978 and 1997, pension schemes which had contracted out of the state second pension had to provide members with benefits that were at least as good as a statutory minimum, known as the ‘Guaranteed Minimum Pension’. HM Revenue and Customs calculates the level of a person’s Guaranteed Minimum Pension, based on information provided by employers on contracted out earnings between 1978 and 1997.

**25** The Guaranteed Minimum Pension is not a separate amount paid in addition to a person’s occupational pension, but the occupational pension provided by the pension scheme must equal or exceed the value of the Guaranteed Minimum Pension. The principle underlying this arrangement was that individuals should not be any worse off as a result of their pension scheme contracting out, and the Guaranteed Minimum Pension was broadly equivalent to the additional/state second pension that they would otherwise have received. Married women who paid reduced rate National Insurance contributions will not have accrued an additional pension and neither will they have earned a Guaranteed Minimum Pension.

**26** From 6 April 1997 the link between the additional pension and Guaranteed Minimum Pension for each individual pensioner was broken. Since then, in order to contract out of the state second pension, pension schemes have to meet an overall test of scheme quality, known as the ‘reference scheme test’. To pass the test, a scheme

must offer benefits, to at least 90 per cent of its members, that are equivalent to or better than a test standard, including that the occupational pension is equal to at least 1/80th of salary multiplied by the number of years service, and that half pensions are provided to surviving spouses.

**27** Although Guaranteed Minimum Pensions were earned only for service between 1978 and 1997, and are therefore no longer accruing, their effect will stretch into the future as members of contracted out schemes retain the right to any Guaranteed Minimum Pension already earned. For example, a civil servant who started work aged 21 in 1996 will have earned a Guaranteed Minimum Pension for service prior to 5 April 1997. However, the occupational pension scheme will not have to take account of the Guaranteed Minimum Pension until state pension is claimed, which in this example would most likely be in 2042 at age 67.<sup>1</sup>

## The uprating of public service pensions

**28** Legislation provides that public service pensions should be increased in line with the annual increase in the state second pension to take account of increases in the cost of living. The annual increase takes effect from the first Monday in the tax year, and is equal to the percentage rise in the Retail Prices Index in the 12 months to the preceding September.

### 3 The delivery arrangements for the five pension schemes

Pension scheme	Scheme managed by	Pensions administered by	Pensions paid by
Armed forces	Ministry of Defence	EDS	Xafinity Paymaster
Civil service	Cabinet Office <sup>1</sup>	One of nine authorised pension administrators	Capita
Judiciary	Ministry of Justice	Ministry of Justice	Xafinity Paymaster
NHS	NHS Business Services Authority	NHS Business Services Authority	Xafinity Paymaster
Teachers	Department for Children, Schools and Families	Capita	Capita

Source: National Audit Office

#### NOTE

<sup>1</sup> On the civil service scheme, the Cabinet Office has delegated responsibility for administration to employers, of which there are 232. Each employer appoints one of nine authorised administrators, of whom seven are public sector off-shoots of departments and two are private sector firms. The Cabinet Office retains overall responsibility for the scheme and contracts directly with Capita for the payment of civil service pensions.

<sup>1</sup> The state retirement age will be 65 for women as well as men by 2020, and will rise in stages for both to 68 by 2046.

**29** Prior to state pension age, public service pension schemes pay annual increases on the whole of a person's occupational pension. Once a person reaches state pension age, however, the Guaranteed Minimum Pension comes into force (except in certain circumstances – see paragraph 31), and different uprating arrangements apply. Legislation provides that, while the pension scheme continues to uprate the non-Guaranteed Minimum Pension element of a person's pension in full, responsibility for paying increases on the Guaranteed Minimum Pension is split between the pension scheme and the state.

- For Guaranteed Minimum Pension earned in respect of service up to 5 April 1988, all the increase is paid by the state via the Pension, Disability and Carers Service, an executive agency of the Department for Work and Pensions, as part of the state pension.
- For Guaranteed Minimum Pension earned in respect of service between 6 April 1988 and 5 April 1997, the pension scheme pays increases of up to three per cent. If the rate of increase is above three per cent, the balance is paid by the state via the Pension, Disability and Carers Service as part of the state pension.

**30** Figure 4 provides an illustration of how a person's pension should be uprated once their Guaranteed Minimum Pension has come into force. Although responsibility for paying the increase rests with two separate parties, the total increase (£500 in this example) received by the pensioner is the same as it would have been had it been paid, in full, solely by the pension scheme.

**31** There are certain circumstances where the pension scheme does not apply the Guaranteed Minimum Pension after a person has reached state pension age, but rather continues to uprate the whole of the occupational pension. These are circumstances where the person concerned will not receive increases on their Guaranteed Minimum Pension as part of their state pension because: (a) they are not receiving a state pension; (b) their state pension is not subject to annual increases; or (c) their additional/state second pension is lower than their Guaranteed Minimum Pension (Figure 5).

#### 4 Uprating a public service pension once the Guaranteed Minimum Pension is in force

Pension element	Pension amount	Example rate of annual increase	Increase paid by the pension scheme		Increase paid by the state	
	£		%	£	%	£
Pre-1988 Guaranteed Minimum Pension	1,000	5	–	–	5	50
Post-1988 Guaranteed Minimum Pension	3,000	5	3	90	2	60
Pension excluding Guaranteed Minimum Pension	6,000	5	5	300	–	–
<b>Total</b>	<b>10,000</b>			<b>390</b>		<b>110</b>

Source: National Audit Office

#### 5 Circumstances in which a person's Guaranteed Minimum Pension is not applied by public service pension schemes

- a The person is not receiving a state pension because they have deferred claiming state pension or they are in prison.
- b The person's state pension has been frozen and is not subject to annual increases because they have moved abroad to a 'frozen rate' country, such as Australia and Canada, with which the UK does not have reciprocal arrangements for uprating state pensions.
- c The person's additional/state second pension, is less than their Guaranteed Minimum Pension, so annual increases in the additional pension would not be sufficient to cover the increases in the Guaranteed Minimum Pension. This is unusual, but may occur if a person's earnings included significant overtime or bonuses, as Guaranteed Minimum Pension entitlement is based on all earnings, whereas the additional/state second pension is based on National Insurance contributions on basic pay.

Source: National Audit Office



## The process for administering Guaranteed Minimum Pension entitlements

**32** The responsibilities of the various parties involved in administering Guaranteed Minimum Pension entitlements are set out in **Figure 6**. As noted in paragraph 21, the public service pension schemes also use private sector contractors to varying degrees to administer and pay their pensions.

**33** In order to apply a person's Guaranteed Minimum Pension correctly, pension schemes need to know:

- details of the Guaranteed Minimum Pension, split between pre-1988 and post-1988 values; and
- whether there is any reason why the Guaranteed Minimum Pension should not be applied.

**34** The process by which pension schemes receive Guaranteed Minimum Pension information is set out in **Figure 7 overleaf**. Our work focused on how the process broke down, resulting in the pension schemes not holding Guaranteed Minimum Pension information and therefore making payment errors.

**35** The Guaranteed Minimum Pension should be taken into account only once people have claimed state pension. Most people claim as soon as they reach state pension age (currently 60 for women and 65 for men), and so their Guaranteed Minimum Pension is applied by the scheme and their occupational pension is not subsequently uprated in full. However, some people choose to defer state pension and take an increased pension or a lump sum at some point in the future. In these cases, the pension scheme should suspend the usual Guaranteed Minimum Pension rules and continue to uprate the occupational pension in full.

### 6 The parties involved in administering Guaranteed Minimum Pension entitlements

#### Organisation

#### Responsibilities

Public service pension schemes

- Pay public service pensions in accordance with the rules governing the scheme.
- Uprate public service pensions annually, including deciding, on the basis of information from HM Revenue and Customs, whether Guaranteed Minimum Pension should be applied.

HM Revenue and Customs  
(National Insurance Contributions Office)

- Maintains details of National Insurance records and contracted out earnings on its National Insurance Recording System.
- Provides information to pension schemes about Guaranteed Minimum Pension entitlements.

Department for Work and Pensions

- Develops policy and legislation on the uprating of state pensions and occupational pensions generally, including of Guaranteed Minimum Pensions.

The Pension, Disability and Carers Service  
(an executive agency of the Department for Work and Pensions)

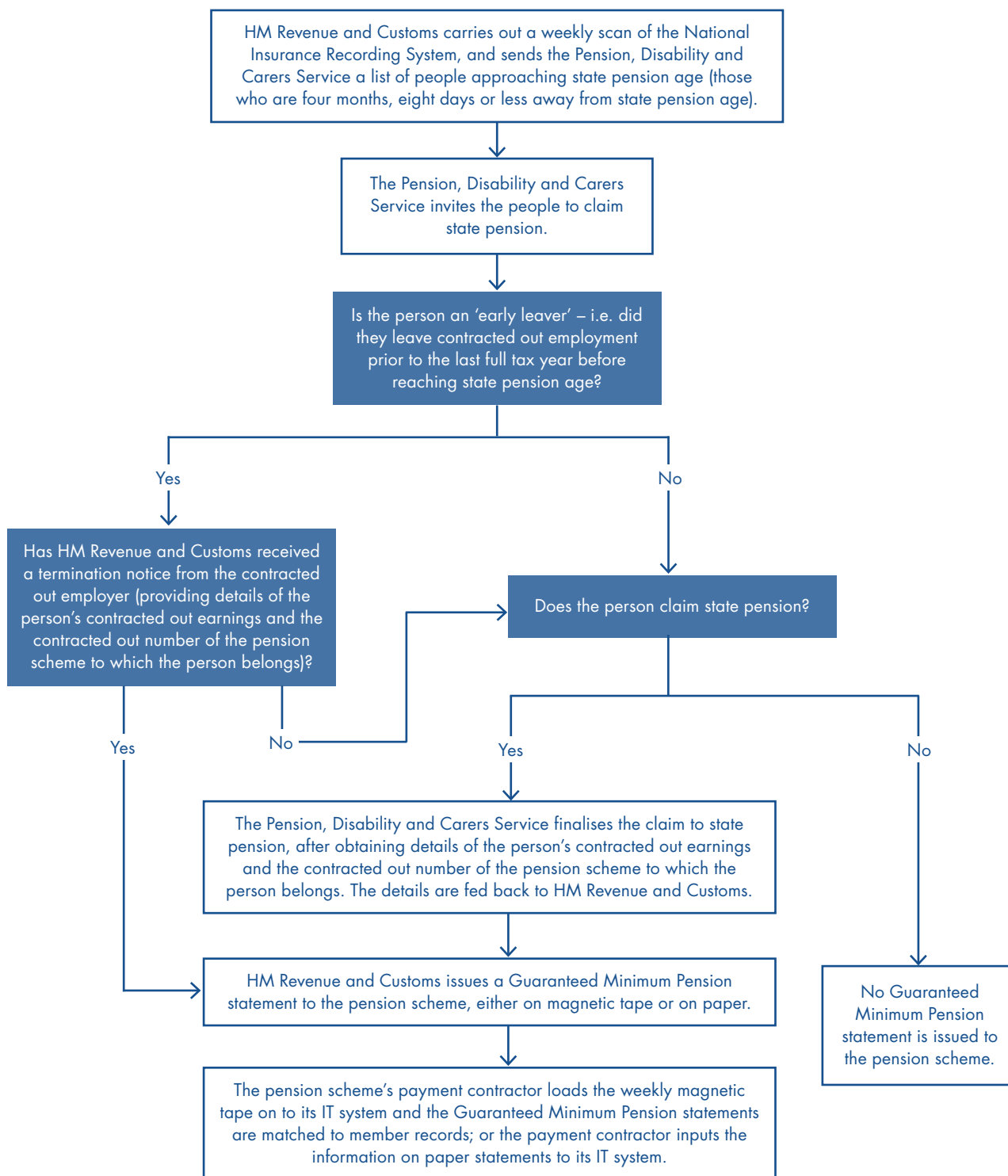
- Invites people to claim state pension.
- Processes state pension claims and enters data into the National Insurance Recording System, triggering the issue of Guaranteed Minimum Pension notifications to pension schemes.
- Pays state pensions, including applying the annual uprating.

HM Treasury

- Responsible for legislation on the annual uprating of public service pensions, consequential to, and the same as the annual uprating of state second pensions.
- Facilitates liaison between public service pension schemes and other departments, and co-ordinates and issues guidance on issues affecting public service pension schemes.

Source: National Audit Office

## 7 The Guaranteed Minimum Pension process



Source: National Audit Office

**36** During the course of our work we identified a weakness relating to the situation where pension schemes receive Guaranteed Minimum Pension statements for ‘early leavers’, i.e. people who have left contracted out employment prior to the last full tax year before reaching state pension age (shown on the left-hand side of the flowchart in Figure 7). It is not clear how the pension schemes know, in the case of these early leavers, whether people have claimed state pension or not. Without this information, there is a risk that early leavers who defer claiming state pension will be underpaid by their pension scheme. The Pension, Disability and Carers Service told us that customers are not obliged to tell the Service that they are deferring their state pension and the Service currently has no process for keeping a record of people who do choose to defer, but that these arrangements are currently under review.

## The scale of errors in Guaranteed Minimum Pension payments

**37** On 16 December 2008, the Minister for the Cabinet Office made a statement to notify the House of Commons of payment errors arising from the incorrect indexation of Guaranteed Minimum Pensions. At the time of the statement, an estimated 95,000 people were affected across the five public service pension schemes, and the total overpayments were estimated at £126 million.

**38** Since December 2008, as the pension schemes have done more work in conjunction with HM Revenue and Customs to identify the people affected and to correct individual payment errors, the number and value of the total errors have changed. At the time of our report the five schemes had confirmed that:

- 85,509 people were overpaid amounts worth a total of £90 million (**Figure 8**);
- there have also been a much smaller number of underpayments, with 4,917 people underpaid a total of just over £191,000 (**Figure 9 overleaf**). These figures do not include the NHS scheme, for which underpayment data was not available at the time of our report; and
- the total number of errors identified and corrected so far (90,426) represents six per cent of the number of pensioners over state pension age across the five schemes. Pensioners below state pension age cannot be affected by the errors as the Guaranteed Minimum Pension applies only after state pension age.

The schemes continue to work to resolve outstanding cases, which may add up to 26,000 cases, predominantly overpayments, to the numbers identified at the time of our report (see paragraph 102).

**39** Pensions in payment to people affected by the payment errors have, in most cases been incorrect since the person reached state pension age, at which time the Guaranteed Minimum Pension uprating rules usually come into effect. Individual overpayments and underpayments are therefore the accumulated total effect of the error since then. **Figure 10 overleaf** analyses the errors by date of reaching state pension age, for example, showing that 22 per cent of errors for the teachers’ pension scheme relate to people who reached state pension age in 2002-03. Around three per cent of the errors date back more than 20 years and are not shown in Figure 10.

### 8 Details of the overpayments as at May 2009

Pension scheme	Number of cases	Proportion of members over state pension age affected %	Value of cases £	Largest overpayment £	Average overpayment Mean £	Median £
Armed forces	4,530	2.8	10,761,123	38,881	2,376	1,586
Civil service	18,833	4.3	19,483,376	18,617	1,035	343
Judiciary	191	19.1	265,275	16,744	1,389	279
NHS	41,225	8.1	24,474,159	18,574	594	119
Teachers	20,730	4.7	35,190,708	18,736	1,698	1,189
<b>Total<sup>1</sup></b>	<b>85,509</b>		<b>£90,174,641</b>		<b>£1,055</b>	

Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority and the Department for Children, Schools and Families

#### NOTE

1 The schemes are working to resolve some 26,000 further cases, which are not included in this table (see paragraph 102).

## 9 Details of the underpayments as at May 2009

Pension scheme	Number of cases	Proportion of members over state pension age affected %	Value of cases £	Largest underpayment £	Average underpayment Mean £	Median £
Armed forces	67	0.04	4,449	1,342	66	0.03
Civil service	3,922	0.90	146,251	1,737	37	15
Judiciary	71	7.11	4,937	977	70	40
NHS <sup>1</sup>	Data not available					
Teachers	857	0.20	35,518	420	41	27
<b>Total<sup>1</sup></b>	<b>4,917</b>		<b>£191,155</b>		<b>£39</b>	

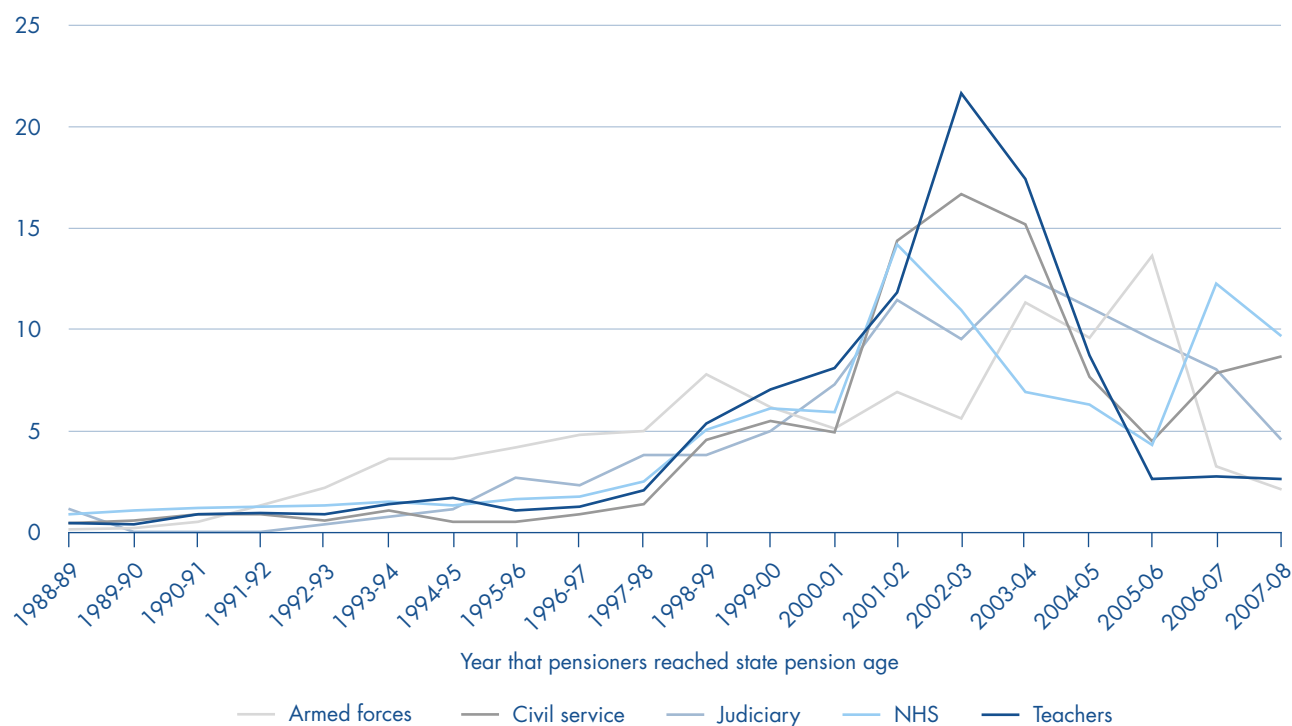
Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, and the Department for Children, Schools and Families

### NOTE

<sup>1</sup> The schemes are working to resolve some 26,000 further cases, which are not included in this table. Most of these cases are expected to be overpayments, but they also include all potential NHS underpayments (see paragraph 102).

## 10 Analysis of errors by date of reaching state pension age<sup>1</sup>

Percentage of errors within each scheme



Source: National Audit Office analysis of data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority and the Department for Children, Schools and Families

### NOTE

<sup>1</sup> Source data does not include overpayments to people who died before errors were identified and corrected (paragraph 40).

**40** The payment errors identified by the schemes relate only to pensions currently in payment to members or their widows, widowers or dependants. The available figures do not therefore include errors that may have been present in pension payments made over the years to people who died before the errors were corrected. Thus the number and value of overpayments and underpayments shown in Figures 8 and 9 do not represent the full extent of payment errors, and there would be a higher proportion of cases in the earlier years illustrated in Figure 10 were these errors also to be included. The pension schemes consider it would not be cost effective to try and quantify the number and scale of payment errors to people who have since died, bearing in mind the costs already incurred in correcting pensions in payment and the individual amounts involved.

### The position on other public service pension schemes

**41** In its statement, the Government highlighted that payment errors had also been identified by public service pension schemes in the devolved administrations. There are separate NHS and teachers schemes in Scotland and Northern Ireland, and a separate civil service scheme in Northern Ireland. At May 2009, the Scottish Public Pensions Agency, an executive agency of the Scottish Government, had identified 6,717 overpayment cases.

**42** Other public service pension schemes in England and Wales are administered at local level. The Department for Communities and Local Government, which regulates the local government and fire service pension schemes, asked a number of local administrators to consider whether they also had systemic problems with missing Guaranteed Minimum Pension information. The Department understands that the administrators have more proactive systems for monitoring the receipt of Guaranteed Minimum Pension information than those operated by the five public service schemes covered in this report, and so are not affected to the same extent.

The Home Office, which regulates the police pension scheme, asked the police authorities for the forces in England and Wales in December 2008 to check for overpayments in order to correct any in time for April 2009, but similarly understands that police scheme administrators in most forces have more proactive systems and so are also not affected to the same extent.

### What went wrong with the Guaranteed Minimum Pension process

**43** In order to uprate a public service pension correctly, the pension scheme needs to hold details of the person's Guaranteed Minimum Pension entitlement. Where the pension schemes did not have this information recorded, payment errors occurred.

**44** The Guaranteed Minimum Pension process is inherently complex, involves a variety of parties, and has the potential to break down at a number of points. We reviewed the process from end to end to identify what went wrong, including drawing on work by the pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service. Their focus to date, however, has been on identifying and correcting the payment errors, and no systematic analysis of a representative sample of individual cases has been carried out to establish the prevalence of particular causes.

### Overpayments

**45** The overpayments occurred because, without records of Guaranteed Minimum Pension entitlements, the pension schemes increased members' pensions in full, rather than deducting and treating separately the Guaranteed Minimum Pension element. This incorrect calculation is illustrated in **Figure 11**, and can be compared with the correct calculation in Figure 4 on page 12. In the incorrect example, the total increase received by the pensioner is £610, rather than the correct amount of £500, meaning an overpayment of £110.

#### **11** Incorrect uprating of a public service pension, leading to an overpayment

Public service pension, including Guaranteed Minimum Pension	Rate of increase	Increase paid by the pension scheme	Increase paid by the state	Total increase received by the pensioner
£	%	£	£	£
10,000	5	500	110	610
Correct increase had the pension scheme taken account of the Guaranteed Minimum Pension (see Figure 4)		390	110	500
Overpayment		110	0	110

Source: National Audit Office

**46** The people affected by the overpayments received part of the uprating in their Guaranteed Minimum Pension twice – once (correctly) from the state as part of their state pension, and once (incorrectly) from the public service pension scheme as part of their occupational pension. The overpayment sits with the pension scheme, rather than the state because it is the scheme which should not have uprated the Guaranteed Minimum Pension element of the pension.

**47** The payment error shown in Figure 11 illustrates one year's overpayment. The error would be compounded in subsequent years and would continue to grow until such time as it was detected and corrected by the pension scheme.

**48** In simple terms there are two scenarios which led to the pension schemes not holding Guaranteed Minimum Pension information for some of their members, and therefore making overpayments.

- HM Revenue and Customs did not issue a Guaranteed Minimum Pension notification to the pension scheme, for example, because the Pension, Disability and Carers Service had not finalised the award of state pension.
- HM Revenue and Customs did issue a Guaranteed Minimum Pension notification, but the notification was sent to the wrong pension scheme or was sent to the right scheme but not matched to a record on the pension scheme's payment system.

The following paragraphs set out the ways in which these two scenarios arose and the responsibilities of the pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service for the breakdown in the Guaranteed Minimum Pension process.

### **Overpayments caused by HM Revenue and Customs not issuing a Guaranteed Minimum Pension notification to the pension scheme**

#### **Finalising state pension claims**

**49** As set out in Figure 7, when a person is an early leaver (i.e. they left contracted out employment prior to the final full tax year before they reach state pension age) HM Revenue and Customs automatically issues a Guaranteed Minimum Pension statement when the person approaches state pension age, provided it has received a termination notice from the person's employer. The termination notice provides details of the person's contracted out earnings and the contracted out number of the pension scheme to which the person belongs.

**50** If, however, no termination notice has been received for an early leaver or the person works closer to state pension age, HM Revenue and Customs does not have full details of the person's contracted out earnings or the contracted out number of the pension scheme. In such cases, the issue of a Guaranteed Minimum Pension statement relies on the Pension, Disability and Carers Service obtaining this information from the person's employer as part of the process of finalising the state pension claim. Pension, Disability and Carers Service staff then record the information on the National Insurance Recording System.

**51** According to the Pension, Disability and Carers Service, fifty two per cent of state pension claims are straightforward and can be finalised by staff immediately. In the remaining cases, however, the Service is not able to finalise a state pension claim immediately if information is missing or there are queries, such as requiring evidence of dates of marriage or divorce. In such cases, the Pension, Disability and Carers Service will often make an initial state pension award so that the person does not have to wait for their state pension payments. The claim should be finalised, and the pension payments adjusted if necessary, once the outstanding queries have been resolved.

**52** If, however, an initial award of state pension is never finalised by the Pension, Disability and Carers Service, there is no trigger for HM Revenue and Customs to issue a Guaranteed Minimum Pension statement to the pension scheme. While no data is available on how many initial pension awards remain un-finalised and for how long, the Pension, Disability and Carers Service and HM Revenue and Customs consider that the problem of un-finalised awards has contributed to the payment errors.

**53** In order to finalise a state pension claim, among other information, the Pension, Disability and Carers Service requires details of a person's contracted out earnings in their final year of employment. If these details are missing, the Pension, Disability and Carers Service requests them, along with the contracted out number for the occupational pension scheme, from the person's last employer. If, however, the employer fails to provide the information required, the state pension claim will never be finalised. The Pension, Disability and Carers Service told us that, while it does chase employers for earnings information, it does not monitor the number of outstanding requests and there is no clear process for resolving cases where employers do not respond.



**54** In addition, for the issue of a Guaranteed Minimum Pension statement to be triggered, the state pension finalisation process needs to be executed correctly by Pension, Disability and Carers Service staff. The Pension, Disability and Carers Service told us that the process had apparently not always been correctly followed so claims were not fully finalised. Its staff had not always appreciated the importance of the finalisation process in avoiding overpayments of occupational pension.

**55** If the Pension, Disability and Carers Service makes an error when entering data on to the National Insurance Recording System as part of finalising a state pension claim, it should receive an automated prompt highlighting the error. Resolving the error will trigger the issue of the Guaranteed Minimum Pension statement to the pension scheme. The Pension, Disability and Carers Service told us, however, that there had been problems with prompts being sent to the wrong local offices and that in some cases prompts had been sent to offices that no longer existed. As the prompts are automated, the Service does not know how many prompts have been issued and cannot check whether they have all been received and dealt with.

#### **The issue of Guaranteed Minimum Pension statements by the National Insurance Recording System**

**56** Once a state pension claim has been finalised by the Pension, Disability and Carers Service, and relevant information is input to HM Revenue and Customs' National Insurance Recording System, HM Revenue and Customs issues a Guaranteed Minimum Pension statement to the pension scheme. If, however, there are outstanding queries on the person's National Insurance account, the statement may be held back and not sent to the pension scheme until the points have been resolved. The pension schemes raised concerns about the timeliness with which HM Revenue and Customs issues Guaranteed Minimum Pension statements and consider that statements being held up within HM Revenue and Customs is a cause of missing information. HM Revenue and Customs told us, however, that such cases are cleared every two weeks and so in its view the process for resolving queries would not lead to significant delays or missing information.

**57** Following the discovery of the payment errors, HM Revenue and Customs carried out an exercise in April 2008 to review the outputs from the National Insurance Recording System to gain assurance that the System was correctly producing Guaranteed Minimum Pension statements for all contracted out pension

schemes. The review confirmed the correctness of the Guaranteed Minimum Pension statements that had been issued during a 10-day period. However, the review did not provide assurance that all Guaranteed Minimum Pension notifications that should have previously been issued had in fact been issued, as the System does not currently have the functionality to confirm the production of individual notifications for past periods.

#### **Overpayments caused by Guaranteed Minimum Pension notifications being sent to the wrong pension scheme, or sent to the right scheme but not matched to a record on the pension scheme's payment system**

**58** The pension schemes match Guaranteed Minimum Pension notifications received from HM Revenue and Customs to their member records on the basis of name, date of birth and National Insurance number. If a match is made, details of Guaranteed Minimum Pension entitlements are stored on the pension payment system.

#### **Guaranteed Minimum Pension notifications sent to the wrong pension scheme**

**59** Most Guaranteed Minimum Pension notifications are matched successfully, but on occasion they may be rejected. In the first instance, the pension schemes carry out manual checks to seek to identify the reason for the rejection (for example, transposition errors) and to achieve a match, but a proportion of notifications remain unmatched.

**60** The main reason for pension schemes rejecting Guaranteed Minimum Pension notifications is that the person's record in the National Insurance Recording System includes an incorrect 'scheme contracted out number', and HM Revenue and Customs consequently sends the notification to the wrong pension scheme. Scheme contracted out numbers are allocated to pension schemes by HM Revenue and Customs. The civil service, NHS and teachers schemes each has just one contracted out number, but the armed forces scheme has 20 and the judicial scheme has 32, although the numbers for both schemes are being rationalised.

**61** In the light of work to identify the payment errors, the judicial pension scheme considers that nearly all of its overpayment cases were caused by the Guaranteed Minimum Pension statements having been sent to the civil service scheme. Capita also considers this to be a major cause of the payment errors on the civil service and teachers schemes.

**62** Details of the scheme contracted out number are supplied to HM Revenue and Customs by the person's employer, pension scheme, or by the Pension, Disability and Carers Service as part of the process of finalising a person's claim for state pension. An incorrect scheme contracted out number may be recorded on the National Insurance Recording System for a number of reasons.

- An incorrect scheme contracted out number may be written or input by mistake by employers, pension scheme administrators, the Pension, Disability and Carers Service or HM Revenue and Customs. The numbers are eight digits long, with little difference between them. For example, there is just one digit's difference between the number for the civil service scheme and that for the NHS scheme.
- Employers may inadvertently supply the incorrect scheme contracted out number, particularly where they have employees in several different pension schemes and they choose the wrong number for the employee in question.
- HM Revenue and Customs raised concerns that the Pension, Disability and Carers Service may input the incorrect scheme contracted out number because staff may make assumptions about what the number should be rather than checking with the employer. For example, staff might incorrectly use the NHS scheme contracted out number for a civil servant employed by the Department of Health.

**63** In the light of concerns about incorrect scheme contracted out numbers, HM Revenue and Customs and the Pension, Disability and Carers Service took action in October 2007 aimed at improving communications in general and specifically at reducing the number of incorrect numbers being input by Pension, Disability and Carers Service staff. In subsequent months, HM Revenue and Customs recorded that fewer Guaranteed Minimum Pension statements were being rejected because of incorrect scheme contracted out numbers, although the number rose in summer 2008 as attention was focused on the payment errors. HM Revenue and Customs and the Pension, Disability and Carers Service plan to return to this issue as part of their work to review joint processes and communications (see paragraph 109).

**64** The National Insurance Recording System performs only limited validation of scheme contracted out numbers, and does not check for consistency between the scheme contracted out number and the employer contracted out number. For example, if the employer contracted out number belonged to the Ministry of Defence, the System would accept the scheme contracted out number for an unrelated pension scheme.

### **Guaranteed Minimum Pension notifications sent to the right pension scheme but not matched to a record on the pension payment system**

**65** On occasion, a pension payment contractor may return a Guaranteed Minimum Pension notification to HM Revenue and Customs because it is unable to match the notification to records on its system, even though the person is a member of the scheme in question. These returns occur if the payment contractor does not have a record of the person because their occupational pension award has not yet been processed by the scheme administrator, and the payment contractor does not retain the notification to check against future awards as they are processed by the pensions administration contractor. This scenario is most likely to affect people who continue working up to state pension age, and is therefore more likely to affect women whose occupational pensions tend to start at the same time (age 60) as their state pensions.

**66** Pension awards are made by scheme administrators, and for four of the five pension schemes, the pension administration and payment functions are separated (see Figure 3). The exception is the teachers scheme where Capita carries out both the administration and payment. It therefore holds records of all members and will not reject Guaranteed Minimum Pension notifications, regardless of whether the occupational pension award has been made. Capita contrasted the position on the teachers scheme with that on the civil service scheme where it carries out the payment function only and where it has, on occasion, returned Guaranteed Minimum Pension notifications because it does not yet have a record of the person on its system. Xafinity Paymaster retains notifications received from HM Revenue and Customs, with a view to checking for future matches as pension awards are received from the administrator, and Capita now adopts a similar approach for the civil service scheme.

**67** HM Revenue and Customs also reported a particular problem in 2002-03 with Guaranteed Minimum Pension notifications for members of public service pension schemes not being matched to records held by payment contractors. This was because of system formatting differences that were linked to the notifications being provided on magnetic media. HM Revenue and Customs helped to analyse a sample of cases affected and provided supporting information to assist with the matching of Guaranteed Minimum Pension notifications to the payment contractor's system. However, during the pension schemes' recent work to identify and correct errors, some of the same cases were still found to be missing Guaranteed Minimum Pension information and this will have been a contributing factor to some of the errors identified under this exercise.

## Handling rejected Guaranteed Minimum Pension notifications

**68** Where it cannot achieve a match, the pension scheme returns the Guaranteed Minimum Pension notification in question to HM Revenue and Customs, which investigates to establish whether the notification was sent to the wrong pension scheme. Depending on the findings of the investigation, the notification may be issued to a different pension scheme or returned with additional information to help the original scheme match the notification to its records. However, neither the pension schemes nor HM Revenue and Customs have maintained records to track rejected Guaranteed Minimum Pension notifications and how they were dealt with. There is therefore no assurance that the notifications concerned ever reached the correct scheme.

**69** Since the discovery of the payment errors, Capita has introduced procedures to record details of those Guaranteed Minimum Pension statements, sent to the civil service and teachers schemes, which have been rejected and returned to HM Revenue and Customs. The records should provide an audit trail of the handling of rejected notifications within the schemes concerned.

## Underpayments

**70** As well as overpayments, the absence of Guaranteed Minimum Pension information also led to a much smaller number of underpayments. Underpayments were also found to have arisen where the pension scheme had applied a person's Guaranteed Minimum Pension when in fact it should not have done so.

### Underpayments caused by the pension scheme not holding details of the person's Guaranteed Minimum Pension entitlement

**71** There are two scenarios in which the absence of Guaranteed Minimum Pension information can give rise to underpayments.

- Although it is unusual, there are occasions where a person has earned a Guaranteed Minimum Pension which is greater than their public service occupational pension (Figure 5 (c)). In such circumstances the pension scheme should, from state pension age, increase its pension to the level of the Guaranteed Minimum Pension. Without Guaranteed Minimum Pension information, however, the person will receive a lower pension than he or she is entitled to and therefore be underpaid.

- Where a public service pension comes into payment partway through the tax year, the different elements of the pension should be treated differently when the next annual increase comes to be applied. While the increase on the non-Guaranteed Minimum Pension element is pro-rated to reflect the proportion of the preceding year for which the pension has been in payment, the Guaranteed Minimum Pension itself attracts the full increase regardless of when the pension started. Without Guaranteed Minimum Pension information, however, the increase on the whole pension will be pro-rated, meaning that the person will receive a lower increase than he or she is entitled to and therefore be underpaid. (In subsequent years, such underpayments will switch to being overpayments as, without Guaranteed Minimum Pension information, the pension scheme will uprate the whole pension rather than deducting the Guaranteed Minimum Pension element.)

**72** The circumstances which lead to pension schemes not holding Guaranteed Minimum Pension information are the same for underpayments as for overpayments, and are set out in paragraphs 48 to 67 of this report.

### Underpayments caused by the pension scheme taking account of the Guaranteed Minimum Pension when it should not have done so

**73** The work to investigate the payment errors also uncovered some underpayments resulting from the pension schemes taking account of the Guaranteed Minimum Pension when it should not have done. The underpayments arose in circumstances where the pension scheme was not aware that it should have uprated the whole of the occupational pension, despite the existence of a Guaranteed Minimum Pension. Details of such circumstances are set out in Figure 5 (a) and (b), and include cases where pensioners have moved abroad and their state pension has been frozen.

## Why the payment errors were not prevented

**74** The pension schemes are accountable for making pension payments and for ensuring that they have the necessary information to calculate the payments in accordance with the rules governing the scheme. From our interviews with the pension schemes and their payment contractors, it was clear that all had assumed that the Guaranteed Minimum Pension process was working as intended and that there was no need for any particular controls or checks to be put in place. All schemes worked on the basis that the information they received from HM Revenue and Customs was complete, whilst HM Revenue and Customs worked on the basis that the schemes would identify and pursue cases where Guaranteed Minimum Pension details were missing. As far as the schemes were concerned, however, if no notification had been received, the member in question had no Guaranteed Minimum Pension for the scheme to take account of because, for example, they had no service during the relevant period (1978 to 1997), or they had paid married women's reduced rate National Insurance contributions, or they had deferred claiming state pension.

**75** Nevertheless, the teachers scheme had been making efforts for some years to obtain Guaranteed Minimum Pension details for its members. Capita considered that its processes would be more efficient and effective if it held Guaranteed Minimum Pension information in advance of members reaching state pension age, rather than waiting for HM Revenue and Customs to provide notifications. As Capita is responsible for administering as well as paying pensions, it holds service records, allowing it to identify members who may have a Guaranteed Minimum Pension arising from service between 1978 and 1997. In the first instance, Capita planned to obtain Guaranteed Minimum Pension details for all members of the teachers scheme, but this exercise was overtaken by the discovery of the payment errors by the Cabinet Office (paragraphs 86 to 87).

**76** Leaving aside the action being taken by the teachers scheme, the general lack of checks fails to take account of both the complexity of the Guaranteed Minimum Pension process, which adds to the inherent risk of error, and the history of concerns and known problems.

## The complexity of the Guaranteed Minimum Pension process

**77** All the parties we interviewed referred to the inherent complexity and fragmentation of the Guaranteed Minimum Pension process, and an independent report for the Government<sup>2</sup> in 2002 concluded that the separate identification and different treatment given to contracted out rights compared to other scheme benefits added considerable complexity to pension schemes, and that the complexity of the arrangements surrounding Guaranteed Minimum Pensions placed a heavy administrative burden on some pension schemes.

**78** It was clear from our work that there was a collective failure to recognise the interdependencies between the parties involved in the process. As set out elsewhere in this report, the process can break down at various points, but it is unclear where responsibility for identifying and resolving problems lies. The pension schemes have contracts with their private sector pension administrators and payment providers, but no similar arrangements, such as memoranda of understanding or service standards, govern the relationships between different parts of government.

**79** The key guidance on administering Guaranteed Minimum Pension entitlements is included in a note issued by HM Treasury<sup>3</sup>, which was based on advice provided by the then Department of Social Security. However, we found not all the pension schemes were familiar with the guidance prior to the discovery of the payment errors. In any case, the guidance dates back to 2001 and does not reflect subsequent developments such as machinery of government changes or adjustments to procedures resulting from greater use of IT. More generally, the departmental staff managing the schemes are heavily reliant on the knowledge and experience of their payment contractors to handle any detailed points about the Guaranteed Minimum Pension process.

## Previous concerns about the Guaranteed Minimum Pension process

**80** During our interviews, the pension schemes referred to past problems with the receipt of Guaranteed Minimum Pension notifications. For example, in the mid 1990s the schemes raised concerns about timeliness, as late notifications (at that time from the Department for Social Security) were leading to overpayments of public service pensions and requiring the schemes to seek recovery from the pensioners affected.

<sup>2</sup> *A simpler way to better pensions*, report by Alan Pickering (July 2002).

<sup>3</sup> *A note on the operation of pensions increase legislation for public service pension schemes*, HM Treasury (May 2001).



**81** In addition, in a report<sup>4</sup> in April 1998, the Comptroller and Auditor General highlighted pension schemes' reliance on receiving prompt and accurate information about entitlements to, and levels of, Guaranteed Minimum Pension. Among other things, the report recommended that the bodies concerned should ensure that their notification procedures gave pension schemes clear, accurate and timely information on individual Guaranteed Minimum Pensions, thereby enabling schemes to uprate their members' pensions correctly.

**82** For an eight month period to February 1999, no Guaranteed Minimum Pension notifications at all were issued at around the time of the changeover to the replacement National Insurance Recording System (NIRS2). A catch-up exercise was carried out to deal with the backlog of notifications, although the pension schemes expressed concerns about whether they had received all the missing information and reported that problems with late notifications persisted for some years.

**83** Concerns about the arrangements for uprating the Guaranteed Minimum Pension element of public service pensions were also raised in a paper by the Department for Work and Pensions in 2005. Drawing on analysis of some 350 cases, the paper reported that 27 separate problems had been identified with the Guaranteed Minimum Pension notification arrangements, of which 15 could have resulted in public service pension schemes either overpaying or underpaying their pensions. The paper did not include details of the analysis, however, and the Department for Work and Pensions was unable to locate the relevant material to inform our work. It is unclear whether the findings in the paper were communicated at the time to the pension schemes, though it appears the work did involve HM Revenue and Customs.

**84** The Pension, Disability and Carers Service told us that the paper led to requests for four changes to be made to the National Insurance Recording System. One change was implemented but the other three were not taken forward after being withdrawn by the Pension, Disability and Carers Service. Reasons for withdrawal included that implementation would not be cost effective because the affected pensioner populations were relatively small, and that imminent changes would soon make the proposed changes unnecessary. Whilst implementation of these three change requests may have prevented a small number of the payment errors now being corrected, the changes were not designed to address the wider issues with the Guaranteed Minimum Pension process which we have outlined in paragraphs 43 to 73.

## Identifying where Guaranteed Minimum Pension information was missing and dealing with the payment errors

**85** This section of the report outlines the extensive work that the pension schemes, their payment contractors and HM Revenue and Customs have done to identify missing Guaranteed Minimum Pension information and deal with the payment errors. A more detailed chronology is set out in Appendix 2.

### The initial discovery of payment errors

**86** Concerns about the Guaranteed Minimum Pension process surfaced in summer 2006 when the Cabinet Office and Capita, the payment contractor for the civil service scheme, undertook a review following complaints about the recovery of an overpayment arising from the late notification of Guaranteed Minimum Pension information. Capita discovered that the issue was not an isolated one, and that a number of civil service pension records, which would have been expected to include Guaranteed Minimum Pension details, did not in fact do so.

**87** After records had been checked by HM Revenue and Customs, there were found to be potentially 28,500 cases where the civil service scheme did not hold Guaranteed Minimum Pension information but should have done. Capita then carried out further work to estimate the potential scale of the overpayments. In late 2007, the Cabinet Office reported the problems with missing Guaranteed Minimum Pension information and the resultant payment errors to HM Treasury, and to other public service pension schemes, who were asked to check their member records. The schemes for the armed forces, judiciary, NHS and teachers all found they had a similar problem. HM Revenue and Customs was made aware of the scale of the problem in April 2008.

### The work to identify where Guaranteed Minimum Pension information was missing

**88** A working group – co-ordinated by the Cabinet Office and involving public service pension schemes, HM Revenue and Customs, the Department for Work and Pensions and HM Treasury – agreed a common approach to assessing the extent of the problem and to dealing with the payment errors. In the first instance, the pension schemes used the 'Accrued Guaranteed Minimum Pension Liability Service', provided by HM Revenue and Customs, to identify which of their records should include

<sup>4</sup> *Underpayments to public service pensioners on Invalidity Benefit* (HC 681, Session 1997-98).

details of a Guaranteed Minimum Pension entitlement. The Service supplies occupational pension schemes with details of accrued Guaranteed Minimum Pension liability, which can be used to assist in the calculation of actuarial valuations of scheme liabilities.

**89** The five pension schemes adopted different approaches in submitting records to HM Revenue and Customs for checking via the Accrued Guaranteed Minimum Pension Liability Service. The teachers scheme submitted all members with service in the Guaranteed Minimum Pension qualifying period, while other schemes focused more narrowly on pensions in payment where they suspected that overpayments might have occurred. The judges scheme, however, was unable to use the Accrued Guaranteed Minimum Pension Liability Service as its data carries a security classification such that only staff with appropriate clearance can handle the records and all work has to be carried out in a secure room.

**90** Some records were initially rejected by the Accrued Guaranteed Minimum Pension Liability Service because of missing or incompatible data, such as the person's name and National Insurance number failing to match, and HM Revenue and Customs worked closely with the schemes concerned to resolve the queries. Once a record was accepted as valid, the Accrued Guaranteed Minimum Pension Liability Service identified whether it held details of a Guaranteed Minimum Pension and, if so, calculated the amount, providing the pension scheme with a total Guaranteed Minimum Pension figure and any pre-1988 element.

**91** The Accrued Guaranteed Minimum Pension Liability Service provides details of Guaranteed Minimum Pension entitlements only. To confirm whether the Guaranteed Minimum Pension should be in force, HM Revenue and Customs therefore had to undertake further manual checking using information held on the Pension, Disability and Carers Service's computer system. The checks included establishing whether the person concerned had claimed state pension, whether their state pension was frozen, and whether their Guaranteed Minimum Pension was greater than their additional/state second pension (see paragraph 31).

**92** The bulk of the checking was carried out during an eight month period from August 2008 to March 2009. In total, HM Revenue and Customs checked nearly 1.2 million records for the five pension schemes using the Accrued Guaranteed Minimum Pension Liability Service, and over 192,000 records using manual checking (**Figure 12**). At the same time, HM Revenue and Customs has also been checking records for other public service pension schemes.

**93** The process of checking was highly iterative, with records going between HM Revenue and Customs and the pension schemes at regular intervals to resolve queries and cleanse data. Different extracts of data tended to be exchanged each time, making it difficult to track cases and reconcile totals. In addition, at the outset of the checking process, the schemes found that some of the information generated by the Accrued Guaranteed Minimum Pension

## 12 The extent of the checking by HM Revenue and Customs and the number of pensioners ultimately affected by the payment errors

Pension scheme	Total number of members at 31 March 2009 <sup>1</sup>	Number of records checked via the Accrued Guaranteed Minimum Pension Liability Service	Number of records checked manually	Number of pensioners potentially affected <sup>2</sup>
Armed forces	965,512	115,942	12,849	5,601
Civil service	1,477,000	135,551	34,251	22,755
Judiciary	3,676	0	1,332	262
NHS	2,467,078	225,534	97,304	54,440
Teachers	1,572,709	707,419	46,848	33,287
<b>Total</b>	<b>6,485,975</b>	<b>1,184,446</b>	<b>192, 584</b>	<b>116,345</b>

Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority, the Department for Children, Schools and Families, and HM Revenue and Customs

### NOTES

1 The total number of members includes those currently employed, those who have left qualifying employment but are not yet in receipt of their occupational pension, and those currently receiving pensions. Audited accounts for 2008-09 had not been produced at the time of compiling this report.

2 Figures include the number of errors identified and corrected so far (90,426) plus outstanding cases (25,919).



Liability Service was clearly incorrect (for example, post-1988 amounts greater than total Guaranteed Minimum Pensions). On investigation, HM Revenue and Customs found a bug in the system, which it corrected. As a result of the bug, the armed forces, civil service and teachers schemes had to resubmit data for repeat testing.

## The correction of the payment errors

**94** On the basis of the data supplied by HM Revenue and Customs, the pension schemes identified which of their members had been paid incorrectly and quantified the extent of the overpayments and underpayments.

**95** In November 2008, the Ministerial Committee on Domestic Affairs considered a paper from the five pension schemes on how the overpayments should be treated. The Committee accepted the Accounting Officers' recommendation that past overpayments should be written off rather than recovery action attempted, and that pensions in payment should be corrected from April 2009.

**96** While *Managing Public Money*<sup>5</sup> advises departments in principle to pursue recovery of overpayments, it recognises that repayment may be waived in cases of hardship and that sometimes seeking repayment may not be cost-effective. In the view of the schemes' Accounting Officers, action to seek recovery of the overpayments was unlikely to be cost-effective. The sums involved were not large enough to justify court action, but without it recovery would depend on individuals volunteering repayments. The amounts likely to be recovered in this way were not considered to justify the administrative costs of recovery action. The complexity of the Guaranteed Minimum Pension process also meant that pensioners themselves could not have been expected to be aware of the errors.

**97** In December 2008, at the same time as the Government's statement, the pension schemes wrote to inform most of the people affected that their pensions had been overpaid, that recovery would not be sought, and that their pensions would be paid at the corrected rate from April 2009. The letters did not include details of the adjustment that would be made, but included a commitment to write again once details were available. At that stage, an estimated 95,000 people had been identified as affected. Further checks subsequently revealed that some people initially contacted were not in fact affected (for example, because they had deferred claiming state pension), while some new cases were also discovered.

**98** In January to March 2009, the pension schemes wrote again to the majority of people affected with details of their new pension rate, payable from April 2009. The schemes tailored their letters to reflect the extent of the change in people's pension, and those suffering the largest reductions were given information about sources of additional help, such as pension credits. The schemes also set up helplines to provide further information and respond to queries.

**99** **Figure 13 overleaf** shows the number of people overpaid broken down by the size of error in their pension for 2008-09, calculated by comparing the incorrect amount that was paid in 2008-09 with what should have been paid. The figure only includes those pensions which had been corrected at the time of compiling our report, and does not include any cases within those yet to be resolved (see paragraph 102).

**100** The pension schemes paid the correct amounts to the majority of people affected by overpayments from April 2009, meaning that the corrections were applied at the same time as the annual cost of living increase. The five per cent increase for 2009 masked the impact of the correction, and in 54,301 out of 85,509 overpayment cases (including all in the judicial pension scheme) the people affected saw no reduction in their pension for 2009-10 in absolute terms, though the increase they received was smaller than it would otherwise have been.

**101** The judges scheme has paid arrears of £4,937 due to those pensioners who were underpaid, and is paying interest on these arrears of £528 at the end of June 2009. The civil service scheme has calculated arrears of £146,251 and also expects to pay the arrears plus interest on arrears in June and July 2009. The remaining three schemes plan to make good the arrears along with any interest due as soon as possible in 2009-10.

**102** Three of the pension schemes continue to work with HM Revenue and Customs to resolve outstanding cases, most of which are expected to confirm that pensioners have been overpaid. The teachers scheme is dealing with a further 11,700 cases, the NHS scheme with a further 13,215 outstanding cases and the armed forces scheme with 1,004.

<sup>5</sup> *Managing Public Money*, HM Treasury (October 2007).

## Cost of the additional work

**103** Identifying and dealing with the payment errors meant considerable additional work for the pension schemes and their payment contractors, and also for HM Revenue and Customs. As a result, staff were diverted from their usual work and planned service development work was put on hold.

**104** The payment contractors were required under the terms of their contracts to calculate and pay pensions correctly, which should include obtaining Guaranteed Minimum Pension notifications from HM Revenue and Customs. However, the pension schemes were of the view that the contractors could not be held entirely responsible for the payment errors. Furthermore, the errors dated back beyond the start of the current contracts, to a time when payments were processed by the public sector or by alternative private contractors.

**105** The schemes made extra payments totalling £3.2 million to their payment contractors in recognition of the additional work they had performed (Figure 14). The amount paid by each scheme varied considerably. The amount shown for the teachers pension scheme includes reimbursements of service credits (imposed where the contractor fails to meet specified service standards), in recognition of the impact that dealing with the Guaranteed Minimum Pension issue had on Capita's performance.

## Action to prevent the payment errors recurring

**106** As the work to identify and correct the payment errors draws to a close, the pension schemes, their payment contractors, HM Revenue and Customs and the Pension, Disability and Carers Service have started to develop proposals aimed at preventing the errors recurring. Given the complexity and design of the end-to-end Guaranteed Minimum Pension process, no one party alone will be able to prevent a recurrence of the errors and changes are therefore likely to require the commitment of all those involved, although no forum has been set up to bring the parties together to discuss ideas and share good practice.

## Action by the pension schemes

**107** The pension schemes recognise that they need to be more proactive in seeking to ensure that they receive all Guaranteed Minimum Pension statements, in identifying where information is missing, and in pursuing such cases with HM Revenue and Customs. Preventing a recurrence of the payment errors is also likely to require closer working between pension scheme administrators, who hold service records and can therefore identify which members may have a Guaranteed Minimum Pension entitlement, and payment contractors, who hold and apply Guaranteed Minimum Pension information.

### 13 The scale of annual reductions from recalculating pensions for 2008-09<sup>1</sup>

Pension scheme	Number of people affected			
	Reduction less than £100	Reduction from £100 to £499	Reduction from £500 to £999	Reduction of £1,000 and over
Armed forces	Data not available <sup>2</sup>			
Civil service	8,141	7,326	2,827	539
Judiciary	81	72	26	12
NHS	Data not available <sup>2</sup>			
Teachers	3,494	9,296	7,159	781

Sources: Data supplied by the Cabinet Office, the Ministry of Justice and the Department for Children, Schools and Families

#### NOTES

<sup>1</sup> This Figure shows the monetary reduction in a person's annual pension, calculated by comparing the 2008-09 corrected rate with the 2008-09 incorrect rate that was paid at the time.

<sup>2</sup> The Armed forces and NHS pension payment systems are not configured to analyse data in this way.

**108** The key actions proposed by the pension schemes are as follows.

- On behalf of the civil service and teachers pensions schemes, Capita plans to undertake regular trawls of its records to identify members who have reached, or are soon to reach, state pension age but for whom it has not received a Guaranteed Minimum Pension statement. The cases will be pursued with HM Revenue and Customs, and records annotated accordingly where confirmation is received that the member has no Guaranteed Minimum Pension entitlement.
- The armed forces pension scheme plans to use the initial Guaranteed Minimum Pension statements which it receives from HM Revenue and Customs when a member leaves contracted out service to update its records and inform Xafinity Paymaster, its payment contractor, of the details.
- For the judicial pension scheme, every quarter the Ministry of Justice will request Guaranteed Minimum Pension information from HM Revenue and Customs for those members who have reached state pension age and who the scheme considers should have an entitlement on the basis of their dates of service. The information will be passed to Xafinity Paymaster, the payment contractor, which is also planning to check its records every quarter to identify where Guaranteed Minimum Pension information is missing.

- More fundamentally, the Cabinet Office and Capita also propose that scheme administrators should calculate or obtain Guaranteed Minimum Pension entitlements for all members who are yet to reach state pension age, and the civil service scheme is piloting the feasibility of this approach with one of its pensions administrators. Calculating Guaranteed Minimum Pension entitlements would reduce schemes' reliance on the receipt of notifications from HM Revenue and Customs, although the amounts would need to be reconciled to HM Revenue and Customs data in due course.

### Action by HM Revenue and Customs and the Pension, Disability and Carers Service

**109** HM Revenue and Customs and the Pension, Disability and Carers Service recognise that there is scope to improve their joint processes and communication. In May 2009 they launched work to review their part of the Guaranteed Minimum Pension process and identify how it might be strengthened. The work will:

- examine the underlying processes and test whether they are working;
- review the changes that were made to the National Insurance Recording System in the light of earlier concerns about the Guaranteed Minimum Pension process (see paragraphs 83 to 84), and assess whether the changes have been effective and what more needs to be done; and
- identify learning and development needs to support staff to understand and execute the Guaranteed Minimum Pension process correctly.

## 14 The additional payments to the payment contractors of the pension schemes

Pension scheme	Payment contractor	Number of pensioners potentially affected <sup>1</sup>	Additional payments £
Armed forces	Xafinity Paymaster	5,601	350,000
Civil service	Capita	22,755	476,016
Judiciary	Xafinity Paymaster	262	50,000
NHS <sup>2</sup>	Xafinity Paymaster	54,440	2,280,000
Teachers	Capita	33,287	86,264
<b>Total</b>		<b>116,345</b>	<b>£3,242,280</b>

Sources: Data supplied by the Ministry of Defence, the Cabinet Office, the Ministry of Justice, the NHS Business Services Authority and the Department for Children, Schools and Families.

#### NOTES

1 Figures include the number of errors identified and corrected so far (90,426) plus outstanding cases (25,919).

2 NHS also paid £70,000 to a separate contractor for mailing additional letters to pensioners and for operating a temporary call centre.

# APPENDIX ONE

## Review methods

### Scope of the review

**1** This report concerns payment errors by five public service pension schemes, covering the armed forces, the civil service, the judiciary, the NHS and teachers. On 16 December 2008, the Government announced that these five schemes had identified payment errors arising from the incorrect indexation of an element of the pension known as the Guaranteed Minimum Pension, and also that the National Audit Office was to carry out a review of the circumstances surrounding the errors.

**2** Following the Government's announcement, we developed terms of reference for our review in consultation with relevant government departments. The objectives of our review were to:

- map the processes for administering Guaranteed Minimum Pension entitlements and review whether the responsibilities and accountabilities of the various players were clear;
- establish the reasons for the incorrect payments; and
- review the actions being taken to prevent errors recurring.

### Fieldwork

**3** We carried out the fieldwork between March and May 2009, consisting of interviews with the organisations involved and review of documentation.

### Interviews

**4** We undertook a programme of interviews with representatives of each of the five schemes, including scheme managers and their payment contractors, and also with HM Revenue and Customs, HM Treasury, the Department for Work and Pensions, and the Pensions, Disability and Carers Service. Our interviews covered the following themes:

- Guaranteed Minimum Pension legislation and processes;

- organisational roles and responsibilities;
- controls in place at the time of the payment errors;
- what went wrong with the process;
- work done to identify missing information and to correct errors; and
- actions being taken to prevent errors recurring.

**5** We also consulted with the Department for Communities and Local Government, the Home Office and the Scottish Public Pensions Agency.

### Document Review

**6** Following our interviews we reviewed various supporting documentation supplied, or referred to, by our interviewees, including working papers and data relating to the number and scale of payment errors. Other documents reviewed included:

- extracts of contracts between pension scheme managers and their payment contractors;
- minutes of the working group set up to agree a common approach to assessing the extent of the problem and how to deal with the payment errors;
- papers relating to the Ministerial Committee on Domestic Affairs decision to write off past overpayments;
- *A note on the operation of pensions increase legislation by public sector pensions schemes*, HM Treasury, May 2001; and
- *A simpler way to better pensions*, report by Alan Pickering, July 2002.

**7** We also drew on previous reports by the Comptroller and Auditor General, including *Underpayments to public service pensioners on Invalidity Benefit* (HC 681, Session 1997-98) and *The Contract to Develop and Operate the Replacement National Insurance Recording System* (HC 12, Session 1997-98).

## APPENDIX TWO

### A summary of the work to identify and correct the payment errors

Date	Action
Summer 2006	The Cabinet Office and its payment contractor Capita discovered that some records for members of the civil service pension scheme did not include Guaranteed Minimum Pension information, which may have resulted in payment errors.
October to December 2006	<p>Capita approached HM Revenue and Customs with a view to obtaining missing Guaranteed Minimum Pension information.</p> <p>HM Revenue and Customs advised Capita that the records concerned should be submitted to HM Revenue and Customs' Accrued Guaranteed Minimum Pension Liability Service.</p>
January 2007	Capita sent details of the civil service pension scheme members concerned to the Accrued Guaranteed Minimum Pension Liability Service for checking.
April 2007	HM Revenue and Customs advised Capita to re-submit the data in a revised format to enable processing. Capita re-formatted and re-submitted the data.
July 2007	HM Revenue and Customs returned the data to Capita with Guaranteed Minimum Pension information where the members concerned had entitlements.
July to September 2007	Capita analysed the data, confirmed that there was a problem with missing Guaranteed Minimum Pension information, estimated the potential scale of the overpayments, and reported its findings to the Cabinet Office.
November 2007	The Cabinet Office reported the civil service pension scheme's problems with missing Guaranteed Minimum Pension information and the resultant payment errors to HM Treasury and the main public service schemes.
January 2008	The other public service pension schemes received further information about the problems that the civil service scheme had identified, in advance of a February meeting of the Major Pension Paying Departments Official Committee on Occupational Pensions.
February 2008	The pension schemes for the armed forces, judiciary, NHS and teachers checked their member records and found they had a similar problem.
March and April 2008	<p>HM Revenue and Customs was informed of potential overpayments to members of the civil service scheme.</p> <p>A working group, co-ordinated by the Cabinet Office and including the five pension schemes and HM Revenue and Customs, was set up to agree a common approach to assessing the extent of the problem and dealing with the payment errors.</p> <p>The working group agreed that in the first instance the pension schemes would use HM Revenue and Customs' Accrued Guaranteed Minimum Pension Liability Service to identify those member records which should include Guaranteed Minimum Pension details.</p>
April and May 2008	The five pension schemes submitted nearly 1.2 million records to the Accrued Guaranteed Minimum Pension Liability Service for checking.

Date	Action
July and August 2008	HM Revenue and Customs provided Guaranteed Minimum Pension information to the pension schemes after running the checks. However, a bug was found in the Accrued Guaranteed Minimum Pension Liability Service, and all scheme data had to be re-checked.
August 2008 to March 2009	<p>HM Revenue and Customs provided Guaranteed Minimum Pension information to the pension schemes after the data had been re-checked using the Accrued Guaranteed Minimum Pension Liability Service, with additional manual checking in respect of over 192,000 records.</p> <p>The pension schemes input the Guaranteed Minimum Pension information to their systems, and calculated the correct pension rates and the payment errors.</p>
November 2008	<p>The pension schemes submitted a paper to the Ministerial Committee on Domestic Affairs. The Committee decided that past overpayments should be written off rather than recovered, and that pensions in payment should be corrected with effect from April 2009.</p>
December 2008	<p>The Minister for the Cabinet Office made a statement, notifying the House of Commons of the payment errors and announcing that the National Audit Office was to carry out a review.</p> <p>The five schemes wrote to the 95,000 pensioners believed to be affected to inform them that they had been overpaid. The pensioners were told that the overpayments would not be recovered, but that their pensions would be corrected from April 2009.</p>
January to March 2009	<p>During the course of the checking exercise, the pension schemes found that some of the 95,000 people originally thought to be affected, had not in fact been overpaid. Some additional overpayments were also identified, along with a much smaller number of underpayments.</p> <p>The pension schemes wrote again to the affected pensioners with details of their new annual rates of pension, payable from April 2009.</p>
April 2009	The pension schemes started to pay the new pension rates, after correcting the Guaranteed Minimum Pension errors and applying the annual cost of living increase for 2009.