

---

# **Fraud and Error in State Pension**

## **The Results of the National Benefit Review Pilot**

---

**DWP** Department for  
Work and Pensions

**INFORMATION DIRECTORATE**

© Crown copyright 2006

---

Contact point for enquiries:

Charlotte Cheung

Fraud and Error Measurement  
Information Directorate  
Adelphi, 1-11 John Adam Street  
London  
WC2N 6HT

Telephone: 020 7962 8640

Email: [charlotte.cheung@dwp.gsi.gov.uk](mailto:charlotte.cheung@dwp.gsi.gov.uk)

# Table of Contents

<b>Chapter 1</b>	<b>Introduction .....</b>	<b>6</b>
<b>Chapter 2</b>	<b>Review Methodology .....</b>	<b>7</b>
	Background .....	7
	Exclusions .....	8
	Checking Methodology .....	8
<b>Chapter 3</b>	<b>Calculation Methodology .....</b>	<b>11</b>
	Customer Fraud and Error in the national SP liveload .....	11
	Official Error .....	13
	Fraud and Error for customers known to be living abroad .....	14
	Total Fraud and Error in State Retirement pension .....	14
	Confidence Intervals .....	15
<b>Chapter 4</b>	<b>Classification of outcomes .....</b>	<b>16</b>
	Benefit Correct .....	16
	Official Error .....	16
	Fraud .....	16
	Customer Error .....	16
	Undetermined .....	16
<b>Chapter 5</b>	<b>Summary of Results .....</b>	<b>17</b>
	Table 1: National estimates of monetary amount of error in SP .....	1
<b>Chapter 6</b>	<b>Details of Results .....</b>	<b>2</b>
	MIDAS Data Matching .....	2
	Data matching routines .....	2
	Data matching results .....	2
	Customer Fraud and Error .....	5
	Background .....	5
	Methodology and Results .....	5
	Table 3: Estimated Customer Fraud and Error MVE on the basic (non-ADI/CDI) component of SP .....	8
	Table 4: Estimated Customer Error MVE results on the ADI/CDI component of SP .....	9
	Official Error .....	9
	Background .....	9
	Methodology and Results .....	10
	Table 5: Estimated SP Official Error MVE results from stage 1 of the 2005-06 RAD (PM) exercise .....	10
	Customers known to be living abroad .....	11
	Background information .....	11
	Methodology .....	12
	Results – Non/Late notification of death .....	13
	Table 6: Estimated annual MVE, as a proportion of expenditure, for International Pension Centre caused by non-notification of death/non-reactivated dormant accounts in 2005/06 .....	13
	Inclusion of other types of fraud and error .....	14
<b>Chapter 7</b>	<b>Limitations of the pilot NBR .....</b>	<b>15</b>
	Sensitivity of pilot results .....	15
	Potential bias in the national estimates .....	15

Potential problems with the review process .....	16
<b>Chapter 8 Comparison with the 1996 pilot.....</b>	<b>18</b>
<b>Chapter 9 Global Fraud and Error Estimates.....</b>	<b>19</b>
<b>Chapter 10 Discussion on performing a main review .....</b>	<b>20</b>
<b>Annex A: Overview of the benefit.....</b>	<b>22</b>
<b>Annex B: Pension Centre ID numbers sampled from in the Pilot.....</b>	<b>23</b>

## Summary

This report contains estimates from the pilot study of the monetary amounts overpaid and underpaid as a result of fraud, customer error and official error in state pension. It also contains recommendations about conducting a main national benefit review of state pension.

The monetary estimates are based on the pilot exercise undertaken in the Autumn of 2005. This exercise combines results and analysis from stage 1 of the existing Risk Assurance official error exercise, the International Pension Centre (IPC) Life Certification exercise and includes results from the pilot sample of cases drawn randomly from five pension centres.

Because the five pension centres were chosen for operational ease rather than randomly selected from all pension centres, the customer fraud and error results are only nationally representative if we make the assumption that the pilot pension centres are nationally representative.

Making this assumption we estimate that in the year 2005/06 some £68 million was overpaid on State Pension, corresponding to around 0.1% of total SP expenditure.

The equivalent estimate for underpayments is £73 million, representing around 0.1% of expenditure.

The customer fraud and error estimates are sufficient to update the Department's Global Fraud and Error Monetary Value of Fraud and Error (MVFE) estimates without impacting significantly on the confidence intervals surrounding the Global estimate.

Conducting a main review in SP would refine the SP MVFE estimate, however, to improve our information on the level of fraud and error across the benefit system as a whole, we recommend that resources would be better spent on updating MVFE estimates for other benefits.

## Chapter 1 Introduction

- 1.1 This report presents the results of the pilot review of State Pension (SP) carried out in the autumn of 2005. The aim of the pilot was to test the methodology for a main review and provide an indication of the amount of fraud and error present in SP.
- 1.2 To complement the continuous measurement exercises already in place for Income Support, Jobseeker's Allowance and Housing Benefit and improve our information on the level of fraud and error across the benefit system the Department conducts individual 'snapshot' reviews of particular benefits (known as National Benefit Reviews) from time to time.
- 1.3 The position in SP was last reviewed in 1996 in the form of a pilot exercise. The 1996 pilot was set up to establish the level of identity or suppression of death fraud in SP and concluded that these were both negligible. At the time of the 1996 review, and at the beginning of the current pilot review, it was still believed that the extent of customer fraud and error in the bulk of SP cases is extremely limited. Because SP expenditure in 2005/06 is forecast to be around £51.2bn<sup>1</sup>, however, it was deemed necessary to check whether or not fraud and error in State Pension is indeed very low. This is because even a relatively small increase in the fraud and error rate could lead to a large amount being overpaid.
- 1.4 The report contains details of the pilot methodology, contains recommendations about conducting a main review and contains estimates of the amount of money over- and underpaid due to incorrectness in SP entitlement in 2005/06. It also contains estimates of the percentage of the caseload containing incorrectness.

---

<sup>1</sup> Latest in-year forecast for 2005/6 from the December IMBE report, rounded to the nearest £100m (Source: DWP Pensioner Benefits Forecasting team)

## Chapter 2      Review Methodology

### *Background*

- 2.1 The pilot review was designed to establish a reasonable methodology for the main review and to give a broad estimate of the monetary amount of error (MVE) present in state pension.
- 2.2 To investigate whether the number of outdoor officer (OO) visits could be limited in a main review the pilot has investigated whether data-matching and clerical checking might be used as an alternative means of identifying customer fraud and error. This has been tested by subjecting a small sample of cases to data-matching, clerical checking and OO visits (originally 500 cases were sampled).
- 2.3 It was hoped at the time of design that OO visits would not uncover any errors in SP that were not also flagged up by the data-matching and clerical checking routines. If this was to be the case we could have confidence that these alternative methods were effective at identifying customer fraud and error or that other types of fraud and error in SP are relatively rare (i.e. if no additional types of fraud and error were found in the visiting sample it would be very unlikely that the actual proportion missed was 0.6% or more as this is the upper 95% confidence limit consistent with finding zero cases out of 500).
- 2.4 In this case an additional sample of 2354 cases was originally drawn for data-matching and clerical checking which would not be subject to an OO visit. This would then create the potential to boost the SP sample size from 500 to 2854 if the hypothesis that the OO visits would find no or little additional error turned out to be true. This was for two reasons – to pilot the use of data-matching and clerical checking for a full NBR, and to take advantage of a larger sample to reduce the confidence intervals surrounding the pilot estimate.
- 2.5 The total sample was drawn randomly from 5 pre-selected pension centre areas: Cwmbran & Wrexham; Dearne Valley; Motherwell; Walsall and Wolverhampton; and Warrington. In addition cases dealt with by National Pension Centre with postcodes falling within the pre-selected pension centre areas were also selected. These pension centres were selected for operational ease to coincide with part of the 2005/06 Risk Assurance Division Performance Measurement (RAD (PM)) official error visiting programme for SP.

- 2.6 In order to restrict the amount of resources needed in the pilot, official error MVE has not been measured separately for this exercise. Instead the full Stage 1 results from the RAD (PM) 2005/06 exercise have been used to provide the official error MVE estimate. In order to take into account any overlap between official error and customer fraud and error, all RAD (PM) visit 4 cases (originally 234 cases) falling in the 5 pension centres were also subject to the full pilot review process, including data-matching, clerical checking and an OO visit.
- 2.7 To restrict resources further, cases dealt with by International Pension Centre (IPC) were not selected for review. Instead results from the Life Certification exercise conducted by IPC were modified to give an annual estimate of the amount of fraud and error in State pension paid to customers living abroad.

### ***Exclusions***

- 2.8 There was one major systematic exclusion of cases from the customer sampling frame in the pilot. This being any case which did not come from one of the 5 pre-selected national geographical areas. This exclusion includes cases known to be abroad and dealt with International Pension Centre (IPC).
- 2.9 However, although these cases were excluded from the sampling frame they are allowed for in the calculations using the assumption that they have the same fraud and error rate as the rest of the population, i.e. the national estimates produced in this report rely on assumption the 5 geographical areas are nationally representative. In addition an MVFE estimate is produced for IPC cases using information from existing reviews conducted by IPC.
- 2.10 The overall MVFE estimate in this report therefore covers the whole RP liveload by firstly assuming the geographical regions selected for review are nationally representative and then secondly combining the SP pilot sample results with results from existing reviews.

### ***Checking Methodology***

- 2.11 The cases in this sample were subject to either data-matching and clerical checking alone or the full process of data matching, clerical checking and an outdoor officer (OO) visit to the customer. 234 of the cases which were visited were drawn from the RAD (PM) official error sample and so also had a full official error check.

- 2.12 The data-matching involved matching the sample by NINO to the following data sources: The Royal Mail re-direct database; The Prisoner Notification System; The weekly deads database; the PSCS database; the JSAPS database; the Carer's Allowance database; the CHIB database; The NTC database; and the PC database.
- 2.13 Any positive matches were followed up with further checking to see whether or not a positive match did indeed indicate an error in the customer's benefit.
- 2.14 Because, at the time of sampling, scans were not available to check HMRC earnings records clerical checking was additionally performed on all cases. This was primarily to identify whether ADI/CDI was in payment and if so the earnings of the ADI were obtained to ensure that these were not over the earnings limit.
- 2.15 The final check on a subset of customers was the full customer review by a visiting outdoor officer.
- 2.16 All visits were conducted by experienced NBR outdoor officers. The OOs were further given technical training on SP, prior to the visits in order to follow the specially designed questionnaire to collect the necessary information on each case.
- 2.17 After the visit was completed, OOs provided a team of Decision Makers with the completed questionnaire. The Decision makers then scrutinised these along with the results from the data matching and clerical checks to look for any information which suggested that there were unreported circumstances which may affect the customer's SP entitlement. In some instances, to gain further information, cases not subject to an OO check were visited to resolve the case. If any case was suspected of fraud it was passed to the Counter Fraud Investigation Service (C-FIS) to investigate further.

- 2.18 It should be noted that for this review, there were a number of cases which although they were sampled as part of the visiting sample the OO visit was not possible within the visiting period (due, for example, to the customer being away from the UK for the whole of the fieldwork period). Rather than drop these cases, contact with these customers was made via telephone by NPC. Firstly NPC ensured that they established the customer's identity and then secondly the questionnaire was completed. For this report the results of these cases are incorporated as if they had been subject to the full NBR review process. This relies on the assumption that any fraud and error that is missed in relation to this small part of the sample because of the use of the more limited telephone interviews rather than interviews in the claimants' homes is sufficiently small to not affect the overall estimates.
- 2.19 All cases were then passed to the central team at Internal Assurance Services Performance Measurement (IAS-PM) to classify the outcome based on the DM decision and further information obtained by DMs or C-FIS.

## Chapter 3      Calculation Methodology

### *Customer Fraud and Error in the national SP liveload*

- 3.1 To obtain an estimate of **customer fraud and error** in the national SP liveload, a sample of SP customers was randomly drawn from a pre-chosen sub-section of the national SP liveload. In total 500 cases were originally selected for an OO visit, data matching and clerical checking. A further 2354 cases were originally selected from the same areas and subjected to clerical checking and data matching.
- 3.2 As not all cases were subject to the full visiting programme in the first instance the MVE in SP was calculated from the visiting sample only. This ensures that the all cases contributing to the MVE have been through the rigorous NBR process which seeks to identify all types of customer fraud and error. This is standard with other NBRs. For this pilot NBR, however, we also investigated whether or not clerical checking and data matching could be used as an alternative to OO visits.
- 3.3 If clerical checking or data matching flagged a potential error on a case and no further errors were identified during the OO visit on the case the results from the additional sample could then be included in the final calculation. If the visits uncovered additional fraud and errors which were not flagged up during the clerical check or data matching stages, however, the additional sample would need to be adjusted to include an additional amount for non-identified fraud and error if it was to be included in the final calculation.
- 3.4 As the belief was that incorrectness in SP was likely to be very low unless the customer was in receipt of an adult or child dependency increase (ADI or CDI) the whole sample was stratified to ensure that enough ADI/CDI cases were sampled to ensure that an MVE could be estimated for this subset of customers.

3.5 The view that fraud and error in SP would be very low was formed by the National Benefit Review (NBR) working group for State Pension. This is because the scope for customer fraud and error was believed to be extremely limited for customers not in receipt of ADI/CDI, and, further from anecdotal evidence that these types of error were likely to be rare<sup>2</sup>. However because the ADI/CDI component of benefit is means tested and depends on the status or earnings of the dependent (e.g. whether the child dependent is in education, or whether the adult dependent has earnings above the earnings threshold) it was thought that there was much more scope for customer fraud and error amongst these customers<sup>3</sup>.

3.6 The customer fraud and error sample was therefore stratified into two strata: Those in receipt of ADI or CDI in addition to their state pension (“high risk” cases) and those not in receipt of ADI or CDI (“low risk cases”). For the purpose of estimating fraud and error, however, it is assumed that the basic state pension part of a customer’s benefit who is in receipt of ADI / CDI is subject to the same risks as the basic state pension of customers not in receipt of a dependency increase. A brief discussion of the effect of this assumption is given in the results section.

3.7 Incorporating the ADI/CDI stratification and to build on the existing RAD (PM) official error exercise, the sample was originally drawn to be reviewed as follows:

A total of 2854 cases were originally drawn by MIDAS comprising of 3 parts: -

- Part A consisted of all 810 SP accuracy sample cases from stage 1 visit 4 of the RAD (PM) schedule. These cover the Regional Pension Centre and National Pension Centre ID numbers listed at appendix A. All 234 cases selected for a RAD (PM) official error check were also selected for the full SP pilot review.
- Part B consisted of 347 ADI/CDI cases. These were again sampled from the Regional Pension Centre and National Pension Centre ID numbers listed in Annex B. Cases were then further limited to certain postcode stubs within these ID numbers for operational ease. RPC & NPC cases were drawn

---

<sup>2</sup> For the basic pension component of State Retirement Pension the types of error which might exist are Identity fraud; non-notification of the death of the customer; non-notification of the hospitalisation of the customer; non-notification of the imprisonment of the customer; being in receipt of an overlapping benefit; and non-notification of change of residency to a frozen-rate country.

<sup>3</sup> The view that customers in receipt of ADI may have fraud and error in their claims was supported by the results of the working wives exercise conducted by IPC.

randomly so that the ratio of NPC cases to RPC cases in the sample was representative of the national ratio of NPC cases to RPC cases. 200 ADI/CDI cases were originally selected for a full SP pilot review, including an OO visit.

- Part C consisted of 1697 randomly selected cases where ADI/CDI cases were excluded. As with the other samples, part C was lifted from the Regional Pension Centre and National Pension Centre ID numbers listed at annex B. Again, cases were limited to certain postcode stubs operational ease. 66 of these cases were originally selected for the full SP pilot review.

3.8 To produce an MVE figure for SP we assume the MVE on the whole of the basic state pension part of the liveload can be calculated from the full sample. The MVE on the ADI/CDI liveload expenditure is then estimated from the ADI/CDI sample only.

### ***Official Error***

3.9 **Official error** in SP has been estimated using results from a sub-section of the existing RAD (PM) official error exercise.

3.10 The full RAD (PM) exercise examines a random sample of cases selected from all pension centres over a number of separate visiting periods. The visiting programme is designed to cover all pension centres 3 times a year, where at each pension centre visit each case in the sample has a full accuracy check by a technical indoor officer (IO (T)). This is to ensure that all appropriate action has been taken on a case, that all aspects of the award have been considered and that the various components that make up the award are correct.

3.11 To provide supplementary information to the RAD (PM) results, each case in stage 1, visit 4 of the RAD (PM) sample was subject to the full SP review process, including data-matching, clerical checking and an OO visit. This was to check the overlap between official error identified during the SP review process and the RAD (PM) process.

3.12 The results used in this report, however, are the full results from stage 1 of the 2005-06 RAD (PM) visiting programme.

### ***Fraud and Error for customers known to be living abroad***

3.13 A fraud and error estimate for **customers living abroad** and paid by International Pension Centre has been produced by using data from the International Pension Centre life certificate exercise. This is discussed in more detail in Chapter 6 but basically the exercise gives an MVE estimate caused by the suppression or non-notification of death of the customer.

### ***Total Fraud and Error in State Retirement pension***

3.14 The estimates from the sample, the official error exercise and the International Pension Centre life certification exercise have been combined to give an estimate of fraud and error in the whole of SP expenditure.

3.15 The MVE calculated for the SP pilot is therefore calculated as follows:

Total MVE	=	Official Error MVE (GB)
	+	Customer Fraud and Error MVE from Basic Retirement Pension (calculated from errors in <i>Basic pension</i> from ADI/CDI sample and non ADI/CDI sample) (GB)
	+	Customer Fraud and Error MVE in ADI/CDI component of Retirement Pension (calculated from errors in ADI/CDI part of pension from ADI/CDI sample) (GB)
	+	IPC MVE (non-GB)
	-	Overlap between Official Error MVE and Customer MVE

3.16 Note that individual components are grossed up according to the liveload in each section. In particular the national MVE from Basic State Pension is calculated from the sample with and without ADI/CDI and grossed up by the National liveload. The national MVE from the ADI/CDI component will be grossed up by the national liveload for those in receipt of ADI/CDI only.

## ***Confidence Intervals***

- 3.17 The sample has been taken as being representative of all SP cases to produce a national central MVE estimate. Because the results are derived from a sample of claims, rather than of all claims, however, they are subject to statistical uncertainties. These uncertainties have been quantified and are presented in the results as 95% confidence limits. These define the range within which we can be 95% certain that the true value of the statistic in question lies.
- 3.18 The confidence intervals have been calculated in a way that reflects the fact that there is additional uncertainty arising because the sample is treated as if it was selected from a sample of, rather than all, Pension Centres. (In statistical terms, the sample is therefore assumed to be a '2 stage cluster sample'.)

## **Chapter 4 Classification of outcomes**

- 4.1 A central team classified each case into one of four categories based on the evidence provided by the OOs and further evidence obtained by Decision Makers or C-FIS.

### ***Benefit Correct***

- 4.2 This category comprises all cases where the existing award is correct and there are no unreported relevant changes of circumstances or official error.

### ***Official Error***

- 4.3 Cases where benefit was found to be incorrect as a result of action or inaction by officials, as determined by the RAD (PM) official error exercise are classified as official error.

### ***Fraud***

- 4.4 These are cases where the Decision Maker's decision results in an overpayment and there is a probability of intent to defraud on the customer's part.
- 4.5 If cases meet these criteria they are included in that category irrespective of whether any subsequent action leads to prosecution.

### ***Customer Error***

- 4.6 Cases in this category had their SP award changed at the time of the review for one of the following reasons:
- A) Incorrect information has been identified at the review which was accidentally supplied at some point during the claim.
  - B) A change in the customer's circumstances occurred which they neglected to report to the Department, but there was not a probability of intent to defraud on the customer's part.

### ***Undetermined***

- 4.7 Cases in this category could not be resolved fully at the time of reporting. There were two cases awaiting categorisation as of 16<sup>th</sup> February 2006. Both of these cases were partially categorised as basic state pension: correct, ADI/CDI component: awaiting decision.

## Chapter 5 Summary of Results

- 5.1 A summary of the estimates for the monetary amount of error, split by error type, is given in table 1. Central estimates are not given for categories where only a handful or no cases were found in error, these are denoted by £---
- 5.2 The corresponding estimates for proportions of forecast 2005-06 expenditure for each component are given in brackets.
- 5.3 The results in the bulk of the table assume that fraud and error types other than the non-notification of death in basic SP are relatively rare. The upper 95% confidence limit for the proportion of SP expenditure overpaid consistent with finding zero cases of additional error out of the 507 visited is 0.6%. This means that, whilst it is possible that this proportion is 0.6% (or more), the chance that it is *and* zero cases of error are found out of 507 is very low.. Multiplying this proportion by basic state pension expenditure gives an upper 95% confidence interval of £289m.
- 5.4 Estimated fraud and error in International Pension Centre has not been split into customer fraud and customer error. This is because we do not have enough information to ascertain whether the non-notification of death was fraudulently suppressed or not.
- 5.5 The confidence intervals surrounding the totals have been estimated by combining estimates of standard errors for each component.

**Table 1: National estimates of monetary amount of error in SP**

	<b>Overpayment</b>	<b>95% Confidence Intervals</b>	<b>Underpayment</b>	<b>95% Confidence Intervals</b>
<b>Customer Error (GB)</b>				
On basic state pension	£--- [---%]	£0m - £40m [0.0% - 0.1%]	£--- [---%]	£0m - £51m* [0.0% - 0.1%]
On ADI/CDI component	£8m [3.7%]	£6m- £14m [2.9% - 6.5%]	£--- [---%]	£0m - £4m [0.0% - 2.2%]
<b>Customer Fraud (GB)</b>				
On basic state pension	£--- [---%]	£0m- £51m* [0.0% -0.1%]	N/A	N/A
On ADI/CDI component	£--- [---%]	£0m - £8m [0.0% - 3.8%]	N/A	N/A
<b>Official Error (GB)</b>				
Official Error (all)	£24 m** [0.0%]	£6m - £47m [0.0% - 0.1%]	£ 70 m [0.1%]	£34m - £114m [0.1% - 0.2%]
<b>International Pension Centre cases</b>				
Non-notification of death	£28m [1.4%]	£27m - £30m [1.3% - 1.5%]	N/A	N/A
Estimated Additional Official error /Customer Error	£1m [0.1%]	£1m - £2m [0.0% - 0.1%]	£3m [0.1%]	£2m - £4m [0.1% - 0.2%]
<b>Total</b>				
<b>All</b>	<b>£68m****</b> [0.1%]	<b>£0m - £135m</b> [0.0%-0.3%]	<b>£73m</b> [0.1%]	<b>£23m - £123m</b> [0.0%-0.2%]

\* No cases were identified. Confidence intervals are calculated by multiplying total expenditure by the upper confidence interval consistent with finding zero cases of error in the whole sample

\*\* Including an adjustment to incorporate pilot review findings with RAD (PM) results.

\*\*\* See paragraph 5.2

\*\*\*\* Some component overpayment figures are marked £--. This is where the number of cases with overpayments recorded was too small to be able to state an overpayment estimate on its own. The total MVE overpayment estimate includes all fraud and error MVE estimates, including those given as £---

# Chapter 6      Details of Results

## *MIDAS Data Matching*

### **Data matching routines**

6.1 All cases drawn in the SP pilot sample were subjected to data matching. The databases which were used for the data match were:

- The Royal Mail Re-direct database – to check for customer, partner, child change of address. This might indicate the separation of and ADI where maintenance would need to be checked or the emigration of the customer to a frozen rate country.
- The Prisoner Notification System – to check for imprisonment of customer, partner, child in England and Wales (N.B. the scan does not include not Scottish prisoners).
- The Weekly deads database – to check for previously unknown death of a customer, partner or child.
- The PSCS database– to identify customers who may have been in hospital for over 52 weeks.
- The PSCS database – to identify if partner receiving overlapping benefits of IB, MA, SDA or to identify if child dependent is in receipt of SDA.
- The JSAPS database – to identify if partner receiving JSA and if either partner or child dependent are receiving any training allowances via JSAPS.
- The Carer’s Allowance database - to identify either partner or dependant receiving Carer’s Allowance which might overlap with and ADI payment.
- The CHIB database – to identify CDI cases where neither the SP customer nor their partner is receiving CHIB.
- The NTC database – to identify any cases where both CTC & CDI are in payment for the same child at the same time in error
- The PC database – to identify duplicate payment of SP via PSCS & PC system.

### **Data matching results**

- 6.2 In order to test whether data matching was as effective as outdoor officer visits in identifying fraud and error the data match requirements were kept reasonably moderate (e.g. For some scans Surname and Forename stubs were matched, rather than matching on the full surname, forename and date of birth).
- 6.3 Because of this requirement, a lot of data matches were produced which turned out to be redundant in identifying customer fraud and error. In total 141 matches from the MIDAS scans were generated for further checking.
- 6.4 Of the 141 cases generated with potential data inconsistencies, 12 cases turned out to have any customer fraud or error associated with the case. These were all errors on the ADI/CDI part of the customer's benefit, which were identified by the CHB or CA matches.
- 6.5 Only four of the thirty four cases identified during the pilot as having an official error (payment error) were identified by the data match routines. This indicates that data matching is not an effective way of identifying official error in SP.
- 6.6 At the time of writing there were 24 customer fraud and error cases. Of these 12 were picked up by the MIDAS scans leaving 12 cases which were not identified using data matching alone. The two cases outstanding at the time of writing were not picked up by the MIDAS scans for further investigation.
- 6.7 To establish whether or not using data matching would be sufficient to conduct a fuller review, we have looked at the potential reasons why the cases were missed:
- One case related to a customer who had died subsequently to the MIDAS scan being run. This was identified by a clerical check prior to the visit taking place.
  - The remaining cases had ADI/CDI errors related to the spouse's earnings. At the time of the scans Inland Revenue scans were not fully available for data matching by MIDAS and so these errors could not be picked up by the routines.
- 6.8 To ascertain whether or not the "Weekly Deads" scan would have picked up the customer who died subsequently to the MIDAS scan being run the scan has been rerun. The rerun scan did indeed pick up the date of death of the customer and no further customer deaths.

- 6.9 Because the later run “Weekly Deads” scan did pick up the customer error case and there were no further customer fraud or error cases on the non ADI/CDI part of the state pension then data matching is deemed to be effective at identifying the non-notification of death of a customer.
- 6.10 Because of this and because no further customer fraud and error was identified on the basic state pension part of the benefit (i.e. excluding errors on the ADI/CDI part of the benefit) during the OO visits, for the sake of the MVE calculation in basic state pension we will state that fraud and error types, excluding the death of the customer, are likely to be rare.

### **Summary of Data Matching in the MVE calculation**

- 6.11 The data match routines used in the pilot should be sufficient for identifying fraud and error, caused by non-notification of death in the basic state pension part of the benefit. Because other types of fraud and error are deemed to be rare in the non-ADI/CDI part of the benefit, the full sample has been used to estimate the proportion of fraud and error Basic SP expenditure.
- 6.12 Data-matching, however, cannot be used on the ADI/CDI part of the sample to effectively identify customer fraud and error. Because clerical checking also did not identify all ADI/CDI errors the sample of 200 cases undergoing an OO visit have been used to produce a first estimate of MVE in SP ADI/CDI expenditure. The additional results of the 147 cases undergoing clerical checks and data matching only have then been adjusted before being included in the calculation of the confidence intervals.

## ***Customer Fraud and Error***

### **Background**

- 6.13 The sample to estimate customer fraud and error in SP has been stratified into by receipt or non-receipt of an adult or child dependency increase. This is because it was assumed that customers in receipt of an ADI or CDI component had more potential for fraud and error in their claims and it was envisaged that fraud and error in the basic state pension part of SP would be negligible.
- 6.14 The pilot was therefore originally designed to have an absolute minimum sample size (500 cases) with a review methodology similar to other NBRs (i.e. cases were subject to pre-visit checks, data matching, clerical checking and a review by an OO). This was in order to provide a reliable central estimate of fraud and error in SP.
- 6.15 As the visiting sample size was small, however, and it was assumed that fraud and error would be negligible in this sample an additional sample was drawn which would be subject to data matching and clerical checks as a means to identifying fraud and error.
- 6.16 It was then envisaged that if the OO visits did not unearth any fraud and error that data-matching and clerical checking did not flag up for further investigation then the results from the additional sample could be included in the calculation in order to reduce the confidence intervals around the central estimate and restrict the need for a full scale SP NBR.

### **Methodology and Results**

#### **Abandoned cases**

- 6.17 Originally 500 cases were randomly selected from the pilot areas for a full SP review. If a review visit in this original sample proved to be ineffective the case was replaced for a visit and either kept in the sample to be investigated further by alternative means or abandoned completely. In total 53 of these cases were dropped from the OO visit.
- 6.18 Twelve of these cases were abandoned because SP was no longer in payment at the time of the review (usually because the customer had died). These cases have been fully excluded from the calculation, although all were examined to ensure no overpayments had occurred due to late notification of death outside the review period.

6.19 The remaining 41 cases (14 from the ADI/CDI sample) were dropped for one the following of reasons:

- a) Now living abroad (1 case)
- b) On holiday during fieldwork period (4 cases)
- c) Unable to locate customer/appointee (7 cases)
- d) Refused to be interviewed (1 case)
- e) Customer absconded (1 case)
- f) Visit superseded by fraud referral (6 cases)
- g) Had letters sent erroneously telling them that their claims were being reviewed (3 cases)
- h) No ADI in payment or ADI ceased before visit (11 cases)
- i) Local service visit within 6 weeks of end of fieldwork period (1 case)
- j) CDI ceased before visit (1 case)
- k) In hospital and then died during review period (1 case)
- l) In hospital (1 case)
- m) Died during the review period (2 cases)
- n) Terminally ill in hospital (1 case)

6.20 Although these 41 dropped cases did not have the full customer review (i.e. were not seen by the visiting officer) they were not dropped from the sample as conclusions about the correctness of the customers benefit were be drawn by other means.

6.21 In particular, those falling into categories (a)-(e) above were resolved by locating the customer to conduct the review by telephone or a local service visit. This involved NPC verifying the customer's identity and then completing the review questionnaire with the customer. Other cases were resolved either by contacting the customer and performing end to end checks, by contacting a third party to confirm the customer's identity (e.g. via a nursing home), or by conducting the OO visit when the customer got in contact after the case was dropped.

6.22 It should be noted that although these cases have been kept in the sample they have been subject to a different review process. In this case there is a risk that additional fraud and error might exist which could be missed. In particular there is a risk that customers who are abroad have moved to a frozen rate country permanently, rather than being there on holiday during the visiting period<sup>4</sup>.

---

<sup>4</sup> These customers are being tracked by NPC to ensure that they return to the UK.

## Raw results

- 6.23 In total 507 cases were actually subject to an OO visit, 201 of these were ADI/CDI cases. In total 2854 cases were subject to the clerical checks and data matching routines.
- 6.24 Just one case was identified as having an error on their basic state pension. This was an overpayment caused by a late notification of death and was identified during the pre-visit checks. Although the MIDAS scans did not pick this case up at the time of the scans this was due to the customer becoming deceased after the scans were run. Upon re-running the scans after the date of the customer's death we found that the scans would have picked up this case. We will therefore make the assumption that data-matching and clerical checking are sufficient in identifying fraud and error in the non-ADI/CDI component of SP or that other types of fraud and error, other than late-notification of death, are relatively rare.
- 6.25 Twenty four cases were identified as having fraud or error on the ADI or CDI part of their benefit, two of these were classified as being fraudulent.
- 6.26 Of the ADI/CDI fraud and error cases, ten were subject to a visit. The error on one case was not picked up either on the data-match routines or during the clerical checks. In two further cases, although a data match was flagged up, the data match was not deemed to be relevant to the error. Additionally these two cases were not flagged up during the clerical check. This implies that data-matching and clerical checking alone are not sufficient in identifying all ADI or CDI errors and that the visiting sample for ADI/CDI should be used to produce the central MVE estimate.
- 6.27 Two cases were outstanding at the time of writing. In both of these cases only questions surrounding potential errors on the ADI/CDI component were outstanding. One of these cases was originally selected for an OO visit.
- 6.28 Just one case was found to have an official error and a customer error. These were treated as independent as one error was an official error underpayment on the CDI component of the customer's state pension and the other error was a customer error overpayment affecting the ADI component of the customer's pension. In this case, no capping was needed in the calculations to take into account any overlap between official error and customer fraud and error.

## Grossed up results

6.29 All pilot sample results have been grossed up to give national estimate. It should be remembered, however that the pilot areas were originally chosen for operational ease and so the national estimates are based on the assumption that the pilot areas are nationally representative.

***Customer Fraud and Error on the Basic (non-ADI/CDI component) of State Pension***

6.30 The basic state pension results have been calculated using the full sample of cases, including those subject to only data matching and clerical checking. They have then been grossed up to give a national estimate.

6.31 Because there was only one case of basic state pension error in the sample only the 95% confidence intervals, rather than central estimates are given for both over and underpayments in table 2 below. It is likely that the true MVE would be much less than the upper limit.

6.32 The estimated proportion of annual basic state pension expenditure<sup>5</sup> that these monetary amounts represent are given in brackets.

**Table 2: Estimated Customer Fraud and Error MVE on the basic (non-ADI/CDI) component of SP**

	<b>Overpayment</b>	<b>95% Confidence Intervals</b>	<b>Underpayment</b>	<b>95% Confidence Intervals</b>
<b>Customer Error</b>	£ --- [ --- %]	£0m -£40m [0.0% - 0.1%]	£--- [ --- %]	£0m - £51m* [0.0% - 0.1%]
<b>Customer Fraud</b>	£--- [ --- %]	£0m - £51m* [0.0% -0.1%]	N/A	N/A

\* No cases were identified. Confidence intervals are calculated as the upper proportion of finding zero cases of fraud or error in the sample multiplied by total expenditure.

<sup>5</sup> Expenditure is the forecast 2005-06 expenditure for GB.

6.33 It should be noted that these estimates assume that the basic state pension part of SP is subject to the rate of fraud and error, whether or not ADI/CDI is in payment. If this assumption turned out to be untrue the central estimate, although not given, would be slightly lower as the one case in error was also in receipt of ADI/CDI.

### ***Customer Fraud and Error on the ADI/CDI component of State Pension***

6.34 The ADI/CDI central estimate has been calculated using the visiting sample only as the clerical checks and data matching routines are not sufficient to identify all types of ADI/CDI fraud and error. For the calculation all cases originally selected for a visit were used (215 cases in total, including those abandoned from the visit)

6.35 Table 3 below give the monetary amounts of fraud and error in the ADI/CDI component of SP. The proportions of the estimate annual ADI/CDI<sup>6</sup> expenditure these represent are given in brackets.

**Table 3: Estimated Customer Error MVE results on the ADI/CDI component of SP**

	<b>Overpayment</b>	<b>95% Confidence Intervals</b>	<b>Underpayment</b>	<b>95% Confidence Intervals</b>
<b>Customer Error MVE</b>	£8m [ 3.7%]	£6m -£13m [2.9% - 6.5%]	£--- [ --- %]	£0m - £5m [0.0% - 2.2%]
<b>Customer Fraud MVE</b>	£--- [ --- %]	£0m - £8m [0.0% - 3.8%]	N/A	N/A

## ***Official Error***

### **Background**

6.36 RAD (PM) was formed in 1994<sup>7</sup> as part of the Department's ongoing review of the accuracy of benefit payments. Retirement pension is one of the benefits reviewed annually with an official error MVE calculated.

<sup>6</sup> Excluding the basic state pension annual expenditure for customers in receipt of ADI/CDI.

- 6.37 Rather than produce a separate estimate of official error the RAD (PM) results have been incorporated into the pilot review of state pension.
- 6.38 At the time of writing stage 1 of the 2005-06 RAD (PM) checks have been fully finalised and so the official error MVE is calculated using results from this stage only.
- 6.39 To take into account potential overlap between official error and customer fraud and error all RAD (PM) checks from stage 1, visit 4, of the 2005/06 visiting programme were also subject to the full customer fraud and error checks and visit. The purpose of this being that any necessary capping could be applied if more than one type of error existed on a case.
- 6.40 In addition, cases in the SP pilot sample not in the RAD (PM) sample, which were identified as having official error were passed to RAD (PM) to examine. The purpose of this was to check whether official errors identified during the customer review process would have been identified by a RAD (PM) check so that any overlap can be accounted for.

## Methodology and Results

- 6.41 The results from stages 1 have been analysed using the same methodology as will be used for the final full data set. This involves grossing up the sample results by national liveload to obtain the final estimate.
- 6.42 As the final liveload figures for April 2005-Mar 06 are not available at the time of analysis September 2005 liveload figures have been used to gross up the results.
- 6.43 Because the MVE central estimates are grossed-up from a sample of cases they are subject to sampling error. The uncertainty in the central estimates is expressed in the form of 95% confidence intervals (CIs), which represent the range within which we are 95% certain the true MVE lies. The CIs were calculated using a bootstrap technique.
- 6.44 The grossed up official error results for state retirement pension calculated using stage 1 official error exercise results can be seen in the table below:

**Table 4: Estimated SP Official Error MVE results from stage 1 of the 2005-06 RAD (PM) exercise**

	Overpayment	95% Confidence Intervals	Underpayment*	95% Confidence Intervals
<b>Official Error MVE</b>	£23m [ 0.0%]	£6m - £47m [0.0% - 0.1%]	£71m [ 0.1%]	£34m - £114m [0.1% - 0.2%]

<sup>7</sup> Previously called Quality Support (QS)

--	--	--	--	--

\*Figures have been rounded to the nearest million

6.45 It should be noted that because this estimate was calculated from one stage of the RAD (PM) exercise, it is likely to differ from the final RAD (PM) result, to be reported in the Autumn of 2006.

#### Examining official error found in the visiting sample of the SP review

6.46 For the cases not in RAD (PM) sample any potential official errors identified during the review process were passed to RAD (PM) to check and categorise.

6.47 For all of the additional official errors RAD (PM) ascertained whether or not the official error would have been identified if it formed part of the RAD (PM) sample. One case was identified as having an official error relating to the ADI component of SP which would not have been identified during a normal RAD (PM) official error check. This error only came to light during the OO visit.

6.48 This means that the RAD (PM) official error checks could be underestimating how much official error would have been found if the full NBR process was followed.

6.49 Because the full stage 1 RAD (PM) sample has the benefit of being nationally representative (as all pension centres are visited in a stage, rather than just the 6 pension centres in the pilot), however, we have decided to use this sample, and the results in the table above, to provide the official error MVE in SP and quantify the amount of MVE which might be missed.

6.50 We estimate that the RAD (PM) official error overpayment MVE could potentially be underestimated by around £1m. This is reflected in the central estimate presented in Table 1. The additional element of sampling uncertainty associated with the potential underestimate, however, isn't captured by confidence intervals in Table 1.

### ***Customers known to be living abroad***

#### **Background information**

6.51 Customer's living abroad are not disqualified from receiving their state retirement pension and will continue to receive their pension from abroad<sup>8</sup>.

---

<sup>8</sup> The benefit rules for receiving state pension abroad are similar to those for customers living in Great Britain one difference is that the rate of that pension cannot be increased if they are not ordinarily resident in GB immediately before the date an Up-rating Order comes into force, unless under EC legislation or a Reciprocal Agreement removes this restriction.

- 6.52 According to the latest National Statistical Enquiry, as of May 2005, there were some, 995,700 State Retirement Pensions being paid to customers known to be resident abroad. These customers make up around 9% of the State Pension caseload, although account for just 4% of RP expenditure.
- 6.53 Because it is not practical to review customers living abroad we have estimated an amount of state pension overpaid using data from the existing January 2004 life certification exercise conducted by International Pension Centre (IPC). The purpose of the life certification exercise is to establish that the customer is still alive and entitled to their State Pension.
- 6.54 The estimate given in this report for IPC customers is made up two parts:
- (i) an overpayment estimate caused by the non notification of death of the customer from the life certification exercise
  - (ii) an additional overpayment estimate incorporating official error and ADI/CDI error estimates from the national SP pilot data.

## **Methodology**

- 6.55 The January 2004 the life certification exercise was drawn by selecting a sample of customers using the last number of their NINO as follows:
- Those living in 17 high-risk countries<sup>9</sup> are selected if their NINO ends 5-9 for the July exercise and for the January exercise if their NINO ends 0-4.
  - All other customers<sup>10</sup> are selected by individual numbers for each exercise (for the first exercise any NINO ending in 0 was selected, for the next exercise any NINO ending in 1 was selected, etc). This means that all existing customers will have been sent a life certificate within a five year period.
  - Effectively because the last digit of the NINO can be treated as being allocated randomly, the sample can also be regarded as having been selected randomly.

---

<sup>9</sup> The 17 High Risk countries are: Bangladesh, Congo, Ethiopia, Gambia, Ghana, India, Jamaica, Lebanon, Liberia, Nigeria, Pakistan, Rwanda, Senegal, Sierra Leone, Somalia, Togo and Zaire. Yemen is also considered to be a high risk country but is excluded from the life certificate exercise.

<sup>10</sup> Note that from 1997 onwards, no life certificates were issued to customers residing in the Yemen. The reason being that all customer identities are verified by the IPSO on a yearly basis, either by postal validation or face-to-face interview.

- 6.56 Because we want the IPC estimate to be representative for a whole year we treated the life certification exercise as a “snapshot” for the week that the life certificates were sent out and then grossed up the results to obtain an annual MVE estimate.
- 6.57 All cases where SP had either been stopped because the customer had died prior to the life certificate exercise or where SP had been suspended (and continues to be suspended<sup>11</sup>) were grossed up by the IPC liveload.
- 6.58 The results are then presented as the proportion of expenditure overpaid using expenditure figures for 2003/04 (containing January 04). Because the SP pilot results are reported for the year 05/06 we have then applied this proportion to an estimated 2005/06 SP expenditure for customers living abroad to obtain a monetary amount.
- 6.59 The liveloads were calculated by taking the average case load by country code across the Department’s four quarterly statistical reports for retirement pension in 2003-04<sup>12</sup>.
- 6.60 The expenditure data used for 2003/04 is from past years PACS data. For 2005-06 expenditure the latest in-year forecast for 2005/6 from the December IMBE report has been used. This is split by GMS country code based on the average proportion of weekly expenditure from the latest RP GMS scan and one year previously. The Yemen has been excluded.

## Results – Non/Late notification of death

- 6.61 The annual savings figure associated with *conducting the life certification exercise* was estimated to be £3.4m - with 95% confidence intervals of £3.2m to £3.6m.
- 6.62 These results have been grossed up and adjusted to give an estimate of MVFE in IPC for 2005-06. The MVFE estimate is given in table 5 below along with the 95% confidence intervals.

**Table 5: Estimated annual MVE, as a proportion of expenditure, for International Pension Centre caused by non-notification of death/non-reactivated dormant accounts in 2005/06**

	Overpayment	95% Confidence Intervals	Underpayment*	95% Confidence Intervals
IPC High Risk	£2m	£2m - £2m	N/A	N/A

<sup>11</sup> In the case of suspension of benefit we assume that the customer will not reactivate their account. It should be noted that technically until the customer’s account is terminated they will be entitled to reclaim their backdated pension upon contacting the Department. In this case, the MVE estimate could be slightly overestimated.

<sup>12</sup> Reports for May 2003, August 2003, November 2003 and February 2004 were obtained by taking the total caseload figures by country code using the tabulation tool: <http://www.dwp.gov.uk/asd/tabtool.asp>

<b>Countries</b>	[ 2.0%]	[1.8% - 2.2%]		
<b>IPC Low Risk Countries</b>	£26m [1.4%]	£25m - £28m [1.3%-1.5%]	N/A	N/A
<b>Total</b>	£28m [1.4%]	£27m - £30m [1.3% - 1.5%]	N/A	N/A

\*Figures have been rounded to the nearest million

6.63 These may, however, be over-estimates for two main reasons:

- i) The estimate includes cases where the account has been made dormant but not suspended and some cases may be reactivated at a later date if the customer is alive.
- ii) The January 2004 exercise has been grossed up to give a figure for IPC as a whole. Cases in the January 2004 exercise, however, are unlikely to have ever been issued with a life certificate whereas other cases in the liveload will have been issued with a life certificate between 6 months and 9 ½ years ago. This is because life certificate exercises have been carried out twice yearly on 1/10<sup>th</sup> of the liveload at a time. We estimate that if previous life certificate exercises have successfully “cleaned up” the liveload the MVE estimate presented here could be overestimated by around 8%.

### **Inclusion of other types of fraud and error**

6.64 To obtain an estimate of the amount of fraud and error in IPC state pension claims as a whole, the results of the pilot review, including official error, have been incorporated into the IPC results.

6.65 To do this, we have applied the proportion of expenditure over or underpaid (excluding the basic state pension part of SP as this was caused by a non-notification of death) to IPC expenditure.

6.66 The additional amount of MVFE overpaid in IPC caused by errors other than the non-notification of death comes is estimated to be around £1m. The additional amount of MVFE underpaid in IPC is estimated to be around £3m.

## **Chapter 7            Limitations of the pilot NBR**

### **Sensitivity of pilot results**

- 7.1 Because of the small visiting sample size, the estimates of fraud and error are highly sensitive to the results of individual cases.
- 7.2 Although the pilot provided some confirmation that data-matching could identify basic state pension errors it should be noted that this confirmation is based on just one case.
- 7.3 If one of the cases in the sample of cases visited had turned out to be incorrect, and this error was not flagged up by the clerical checks or data matching routines, the central estimate could be much higher than given in table 1.
- 7.4 We have attempted to quantify an upper limit to the amount of MVFE which could exist if an alternative random sample was drawn, i.e. we have calculated the upper 95% confidence interval consistent with finding zero additional cases in the visiting sample of 507 cases.
- 7.5 This upper 95% confidence interval is 0.6%, which when multiplied by SP expenditure equates to £289m.

### **Potential bias in the national estimates**

- 7.6 There is an assumption in the calculation methodology that the pilot areas were selected randomly from all pension centres, although they were pre-selected for administrative ease.
- 7.7 Although we have assumed that the sample was drawn as a 2-stage cluster sample to calculate the confidence intervals surrounding the central estimates one further needs to assume that these pilot areas are representative of all pension centres to produce a national MVE estimate
- 7.8 We have therefore examined certain characteristics of the pilot areas to determine how representative they might be.
- 7.9 Looking at past official error data we found that there was no evidence to suggest that pilot and non-pilot areas are significantly different, although official error does not indicate that customer fraud and error would follow the same geographical pattern.

- 7.10 We have also examined the Department's 100% administrative datasets which provide a detailed picture of the makeup of the SP population to assess the similarities or dissimilarities between pilot and non-pilot areas.
- 7.11 This analysis found that SP amounts and ages of customers are reasonably similar in pilot and non-pilot areas however the proportion of ADI/CDI cases in the pilot caseload was significantly smaller than in the non pilot caseload.
- 7.12 The difference in the ADI/CDI proportions in the pilot and non-pilot areas, however, was controlled for in the national estimate as the sample was stratified by ADI/CDI. Additionally upon examining the pilot data we found that the relative proportions of ADI/CDI customers was not correlated to Customer Fraud and Error.
- 7.13 In summary, the production of a national estimate from the pilot results necessarily makes the assumption that the pilot areas are nationally representative. We have found no reason to suggest that this is not the case, except for make up of ADI/CDI customers which is controlled for in the estimates.

### **Potential problems with the review process**

- 7.14 There were a number of cases abandoned from the outdoor officer visit because the customer was abroad during the visiting programme. Although all cases have be followed up by NPC using alternative means, these cases were subject to a different review process to the rest of the sample.
- 7.15 Although there is no effect on the customer's state pension if they move abroad to a reciprocal agreement country, there is a risk of fraud or error occurring if the customer has permanently moved to a non-reciprocal agreement county, or that a third party has concealed the customer's death.
- 7.16 As we cannot fully review customers abroad by an OO visit, there is therefore a possibility that the amount of fraud in state pension could be underestimated.

7.17 This could be partially overcome if the pilot review had waited for customers to return to the UK as they could then be subject to the full NBR process including a visit by an outdoor officer. However, this option would delay the results indefinitely and so has been impractical to do in this review. Additionally, this problem would exist if a main review was to be conducted unless all cases were visited, either by waiting for the customer to return or by visiting the customer abroad.

## **Chapter 8      Comparison with the 1996 pilot**

- 8.1 The last review of State Pension was conducted in 1996 and was designed to look solely for identity fraud and suppression of death fraud by data matching. No cases of ID or suppression of death fraud were identified and an upper limit of fraud consistent with these findings was given to be £40m.
  
- 8.2 The current pilot NBR was designed to provide an estimate of fraud and error in SP caused by all types of possible fraud and error by incorporating a robust visiting regime with clerical checking and data matching. For example the estimates in this report include official error MVE estimates and MVFE related to fraud and error in the ADI/CDI component of SP, neither of which were examined in 1996.
  
- 8.3 Because of these differences in methodology, along with the relatively large confidence intervals surrounding the estimates the results cannot be used to make inference about changes in the rate of fraud and error over time, although both reviews confirm that fraud and customer error is relatively low in SP.

## **Chapter 9            Global Fraud and Error Estimates**

- 9.1 The Department annually produces a global fraud and error estimate which aims to estimate the amount of expenditure overpaid due to fraud and error across the whole of the benefit system.
  
- 9.2 The last global estimate incorporated the 1996 SP review figures in the overall estimate.
  
- 9.3 As the 2005-06 pilot review sought to uncover a much wider range of fraud and error, other than ID and suppression of death fraud, we consider the results from this pilot to be more suitable for inclusion in the global estimate even though the confidence intervals surrounding the latest estimate are slightly wider than the 1996 review.
  
- 9.4 Replacing the 1996 SP estimates with the SP estimates from the pilot review will have a slight impact on the central global estimate, although the effect is concealed because the global estimates are rounded to £100m. The effect on the confidence intervals surrounding the overall global fraud and error estimate also appears to be negligible in relation to the rounding when replacing the 1996 SP estimates with the pilot NBR estimates.

## **Chapter 10 Discussion on performing a main review**

- 10.1 This pilot NBR provides a national estimate of fraud and error in SP which confirms previous findings that fraud and error is low in SP claims without an ADI/CDI component.
- 10.2 There are two main limitations to the validity of this pilot estimate which need to be considered in the context of decision about conducting a main review.
- 10.3 The first of these is that the pilot estimate may be biased. This is because the pension centres sampled in the pilot were chosen for administrative ease, rather than randomly selected. We have analysed certain characteristics of the SP caseloads in the pilot areas to ascertain whether they are significantly different to the non-pilot areas. Through this analysis we have identified one significant difference between the pilot and non-pilot areas: The relatively low proportion of ADI/CDI customers in the pilot areas compared with the non-pilot areas. Although this difference has been controlled for by the stratification and over-sampling of ADI/CDI cases, there may be other characteristics which are correlated to MVFE which we have not been able to identify.
- 10.4 The second limitation is the fact that the results are sensitive to the assumption that data-matching could identify all types of fraud and error in the non ADI/CDI component of SP. The pilot data does suggest that these other types are rare (i.e. they contribute £0m to the MVFE total as no additional cases were found in the sample), however because of sampling error we can only state at the 95% confidence level that other types of fraud and error, should they exist, would contribute less than £289m to the central estimate.
- 10.5 Although this is a large monetary amount, however, it does not necessarily mean that these “other” types of fraud and error would exist. Simply that we are 95% certain if data-matching and clerical checking were not sufficient at identifying customer fraud and error on the basic state pension part of SP, we would be missing at most £289m.
- 10.6 Conducting a main review could overcome the pilot limitations.
- 10.7 Firstly, conducting a main review, where every SP case has a chance of being selected in the sample would overcome the potential bias of the pilot estimate. Secondly conducting a main review with a much larger visiting sample would refine the upper limit associated with the clerical checking and data matching assumption.

- 10.8 In the context of Departmental resource we should, however, consider whether conducting a main review would offer value for money.
- 10.9 Firstly we have not identified any significant differences in the pilot and non-pilot areas which are likely to be correlated to MVFE; and secondly, given this, as we have ascertained that customer fraud and error is low we would be therefore only seeking to refine the estimate and to reduce the confidence intervals surrounding the estimate.
- 10.10 Because we have ascertained that the rate of fraud and error in SP is relatively low, and the results from the pilot do not significantly affect the Department's global fraud and error estimates, we would therefore recommend that resources would be better spent updating MVFE estimates for other benefits.

## Annex A: Overview of the benefit

1. The State Retirement Pension was first introduced on 1 January 1909. The foundation of a universal contribution-related basic Retirement Pension was laid in the 1940s.
2. The two categories of contributory retirement pension are:
  - Category A - based on a person's own National Insurance contributions, and
  - Category B - dependent on the contributions paid by a spouse.
3. The two main conditions for payment are that:
  - the person has reached State pension age (presently 65 for men, 60 for women),
  - and the contribution conditions are satisfied.
4. People who meet the contribution conditions get a flat rate basic pension at the standard rate. If the conditions are only partly met, the basic pension is paid pro rata.
5. To get the minimum basic pension payable (25 per cent) a person normally needs 10 or 11 qualifying years. From April 1978, a person's contribution record can be protected, if their opportunities to work are limited because of responsibilities at home, such as bringing up a family or looking after a sick or disabled person.
6. Extra money for dependent children can be paid with Category A or B pensions. Extra money can also be added to a Category A pension for a dependent spouse or someone who looks after the children.
7. The categories of non-contributory retirement pension are:
  - Category C - payable to people over State pension age on 5 July 1948. The widow of a man who was over 65 in July 1948 can also get a category C pension.
  - Category D is awarded to people who reach the age of 80 who satisfy certain residency conditions, and failed to qualify for a category A or B pension, or receive less than the non-contributory rate.
8. If a person does not take their retirement pension until after State pension age, or cancels their claim, they can earn increments. The amount of the increment is approximately 7.5% per year of deferred retirement on the basic rate.

## **Annex B: Pension Centre ID numbers sampled from in the Pilot**

### RPCs & ID numbers:

Cwmbran & Wrexham 101757, 101857, 101957, 102257, 102557;  
Dearne Valley 101752, 101852, 101952, 102052;  
Motherwell 102159, 102259, 102359, 102459, 102559;  
Warrington 101955, 102155, 102550, 102650, 102750, 102850;  
Walsall 102254, 102354, 102454, 102554, 102754, 103154.

### NPC ID numbers:

56121, 36124, 36125, 56122, 36126, 36127, 36128, 56123, 36129, 56127,  
56124, 56128, 56129, 56125, 76126, 76127, 76121, 76128, 76129, 96121,  
76122, 96122, 96123, 76123, 96124, 76124, 96125

