

1 April 2021

Supplementary forecast information release

State pension underpayment correction: further details

- 1.1 The OBR is releasing this information following a request for further detail on the information presented in our *March 2021 Economic and fiscal outlook (EFO)* in respect of the ‘state pension underpayment correction’ measure. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 In the *EFO* we included and described the impact of a correction activity being undertaken by the Department for Work and Pensions in respect of past underpayments of state pensions. An administration error identified in March 2020 suggested that a small number of people had been underpaid in the ‘category BL’ element of the state pension. The underpayment affected married women whose husbands became eligible for state pension after 17 March 2008 and who were unknowingly entitled to ‘enhanced pension’ that would have boosted their payments by up to 60 per cent. DWP investigations between May and December 2020 uncovered a systematic underpayment of state pensions, meaning tens of thousands of married, over-80s and widowed people may have been underpaid. As well as the category BL underpayments, this includes some underpayments due to ‘missed conversions’ for people whose partner died and their state pension entitlement was not reviewed, and some underpayments for over-80s who should have automatically been entitled to a category D state pension when they turned 80 without having to make a separate claim but who were not awarded one.
- 1.3 The repayment programme began on 11 January 2021. Since the *EFO* we have received requests for further information on the breakdown between affected groups and the numbers of people in each affected group. Table 1.1 breaks down the expected cost of this correction by group across the forecast period. It includes both increased arrears spending to correct historical underpayments – these are one-off costs to each affected case as the case is cleared – and the continuing costs of higher future payments. It shows that the greatest costs relate to ‘category BL’, with these making up 53 per cent of the total. While most of the costs over the medium term relate to arrears payments, there will continue to be costs beyond the end of the forecast period, primarily relating to future payments.

Table 1.1: State pension underpayment correction costs

	£ million						Total
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
Category BL	65	334	344	354	301	197	1,595
Missed conversions	18	155	164	177	131	62	708
Over 80s	38	179	115	104	102	130	668
Total	121	668	624	636	534	389	2,971

- 1.4 The initial estimates provided by DWP to underpin our March 2021 forecast assume that the total affected caseload across all three groups will be almost 200,000 over the period to the end of 2025-26. Table 1.2 shows the affected caseload and two measures of the average cost of the correction exercise by each of the three affected groups. First, the average arrears payments, which cover several years of underpayments for each case and are therefore relatively high (these will include cases in respect of people who have since died); and, second, average future additional payments relative to the assumptions that were embodied in our forecasts prior to the correction exercise, which relate only to recipients that are still alive and to the year in which they are paid (and will continue into the future).
- 1.5 The caseload cleared follows a steadily declining path from 2021-22 onwards, reflecting initial assumptions about the speed with which cases can be cleared. These assumptions will be updated in future forecasts as DWP's resourcing for the exercise becomes clearer. The uneven path for the average arrears payments across different years reflects initial assumptions about the characteristics of the affected caseload that will need to be refined as DWP continues its investigation into the underpayments that have taken place. By contrast, the average continuing payment follows a steady upward path reflecting annual uprating.
- 1.6 The figures in Table 1.2 are the unrounded figures that featured in our March 2021 forecast. This should not be taken to mean they are considered to be known with great precision. As we outlined in the *EFO*, the costs associated with this correction exercise are highly uncertain. The full extent of the underpayment is not yet known and the profile of costs will depend on the pace at which DWP is able to complete the arrears payments.

Table 1.2: State pension underpayment correction caseload and average payments

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Category BL							
Caseload	3,492	16,236	16,533	16,499	16,014	5,355	74,129
Total arrears costs (£m)	65	330	319	308	234	124	1,380
Total continuing costs (£m)	0	4	25	46	67	73	215
Average arrears payment (£)	18,634	20,324	19,316	18,676	14,596	23,100	
Average cost of higher continuing payments (£)	0	1,248	1,323	1,387	1,447	1,508	
Missed conversions							
Caseload	1,303	10,359	9,454	8,565	12,546	4,319	46,545
Total arrears costs (£m)	18	153	149	153	100	34	608
Total continuing costs (£m)	0	2	16	24	31	28	100
Average arrears payment (£)	13,691	14,796	15,744	17,893	7,970	7,970	
Average cost of higher continuing payments (£)	0	1,714	1,759	1,780	1,811	1,846	
Over 80s							
Caseload	7,715	30,696	15,548	6,670	3,225	8,626	72,481
Total arrears costs (£m)	38	173	91	77	74	102	556
Total continuing costs (£m)	0	6	24	26	28	28	112
Average arrears payment (£)	4,937	5,635	5,866	11,596	23,078	11,807	
Average cost of higher continuing payments (£)	0	848	929	1,109	1,272	1,424	
Total							
Caseload	12,510	57,291	41,535	31,734	31,785	18,300	193,155
Total arrears costs (£m)	121	656	559	539	408	260	2,543
Total continuing costs (£m)	0	12	64	97	126	129	427
Average arrears payment (£)	9,672	11,454	13,468	16,976	12,841	14,206	
Average cost of higher continuing payments (£)	0	1,060	1,206	1,370	1,475	1,549	

Note: Average arrears payments are calculated top down as arrears payments divided by caseload in that year; average continuing payments are calculated as total continuing payments divided by cumulative live cases up to the end of the preceding year.