CABINET

POSSIBILITY OF ADVANCING DATE OF PAYMENT
OF NATIONAL INSURANCE PENSIONS

Memorandum by the Minister of Pensions and National Insurance

Introduction

For the reasons of which my colleagues are aware it is not possible to advance the date (29th March) from which the order books in the possession of pensioners can be amended so as to incorporate in them the new rates of pension. Equally it is not possible for Post Offices to deduce from the amounts on existing orders the exact sum due at the new rates.

Double payments by the Post Office on existing order foils

2. The only feasible method of making payments before 29th March is for the Post Offices to make payment of a multiple of the amount printed on the order foils, the total of the extra sum payable being, however roughly, related to the amount that the pensioner would have been paid had it been practicable to give earlier effect to the provisions of the legislation.

Classes of pensioners who should be covered

3. If such advance payments were to be given to National Insurance retirement pensioners, there would certainly be strong pressure from widows of all classes and from war and industrial disablement pensioners who were also having to wait until the end of March for their increases. But we must recognise that the overwhelming majority of disablement pensioners are either in ordinary employment (as are many widows) or are receiving retirement pensions, and that those who retired but have not retirement pensions (because their pensioned disablement has prevented them from qualifying) are receiving the Unemployment Supplement, which is being increased in any event from 25th January, in addition to their disablement pension. Together with retirement pensioners these groups number some 7½ million.

Amount and cost of the advance payment

4. Payment of double the amount on the face of all pension orders in one week would cost from £20-£25 million according to the categories included (see Appendix A). Payment of double the amount three times could be said, very roughly, to compensate for "loss" of pension increases back to 7th December. But some 1.3 million of the old who
are in receipt of National Assistance will already have had an extra £3 from the Board. A two-fold increase would compensate for pension "lost" back to 11th January.

5. Payment of the double amount twice, instead of three times, on the basis that the most needy of the pensioners had already had the extra Assistance payment, would of course reduce the cost to £40-£50 million as compared with £60-£75 million if there were three payments. It would also protect us from pressure to give similar treatment to the sick and unemployed whose benefits are being increased from the week beginning 25th January. This would not in any event be practicable, since many of them on benefit in December/January will have received it for only a few days and would no longer be on benefit when the double payments were made.

Practical implications of advance payments by the Post Offices

6. An outline of the scheme proposed by the Post Office to meet the requirement stated above is given in Appendix B.

7. The amount to be multiplied in the specified week or weeks would depend on other factors besides the pensioner's basic pension rate. It would not be feasible for post offices to work on anything other than the total amount payable in each case for the week concerned, as shown on the order for that week. This amount would often include elements which are not being increased, e.g. increments for postponed retirement or graduated pension. If widows were included the war widow's and industrial injuries widow's pension payable to under 40 childless widows and to separated widows is not being increased at all - and it is impossible to identify them for this operation. Many pensioners would therefore receive considerably more than they would have "lost". On the other hand, a substantial number of pensioners have their pensions reduced or extinguished on account of earnings, the reduction in any week being calculated according to the earnings in the previous week. In effect, they would be penalised twice for a single week's earnings. Many, not realising how arbitrarily the scheme would have to work, would complain bitterly about their treatment.

8. Some sizeable groups of pensioners are not paid by order book, or would not be so paid at the material time. They would include in particular:

(a) Some people in hospitals or other public institutions.

(b) People whose new order book had been delayed or lost, or whose order for the particular week had had to be replaced by a postal draft (e.g. because of multiple adjustment of the amount, changes of circumstances and provisional entitlement - over 12,000 cases a week).

(c) People paid quarterly, (over 100,000).

It has not been possible in the time available to decide what arrangements could be made for making similar payments to the pensioners in the above groups but clearly such payments would have to be made considerably in arrear and it is not possible to be sure that everyone in category (b) could be identified.
9. If disablement pensioners were included, a particularly awkward problem would be that of Industrial Injuries cases involving the "Colliery Workers' Supplement", the cost of which is met from funds maintained by the National Coal Board. In about 21,000 cases the supplement is included in the amount of the Industrial Injuries pension orders (and so would be included in the advance calculation); in about 7,000 it is paid by a special order book; in the remaining 48,000 it is paid direct by the National Coal Board. Probably in the second, and certainly in the last, of these categories, it would have to be excluded from the calculation of the advance payment. The anomaly in comparison with the first category would seem indefensible. A similar position would arise on the war pensions side, where some 15,000 order books include both war disablement pensions and ordinary service pensions (not covered by the up-rating).

10. These are but some examples of difficult points which will arise. To a large extent difficulties of this sort are inevitable in a scheme with such a rough and ready basis of entitlement. This strongly suggests that legislation providing for the payments (see paragraph 17) would not be able to set out all the conditions for entitlement and the other matters arising (for instance, the status of overpayments, and the circumstances in which they can be recovered). It seems inevitable that legislation would have to give the Minister wide discretion in matters of this sort and it follows from this that claims and questions arising under the scheme would be quite unsuitable for determination by the National Insurance Statutory Authorities, but would have to be on a discretionary basis.

11. From the Post Office's point of view the main practical - but certainly not insuperable - problems for the 25,000 or so post offices involved - of which some 23,000 are run by sub-postmasters, usually with other kinds of business - may be summarised as -

(a) a general slowing down of service while the extra payments are being made, with some queueing and congestion at the busier post office counters;

(b) the identification of pension orders which are presented in weeks subsequent to that in which the payment is due, as well as the need to distinguish between books on which there is an entitlement to the payment and those on which there is not.

12. It should be emphasised that neither post offices nor the local offices of the Ministry would be in a position to deal with the inevitably very large number of complaints of unfairness or error. It is not easy to see how these could be satisfactorily dealt with. Certainly there could be no pretence that payments were necessarily fair as between one pensioner and another, and there would be no effective answer to the resulting multitude of complaints (which would be swelled by the non-contributory pensioners and other groups who are paid by order book but would not be entitled to the advance). Many people would no doubt wish to lodge a formal appeal against the treatment of their case but would have to be denied.
National Assistance

13. If the proposed insurance increases did not come into effect until 29th March but arrangements were made for advance payments, it would be necessary to consider what action should be taken by the National Assistance Board.

14. If the Board followed its normal practice it would take into account, for the week or weeks in question, any advance payment received by the recipient of assistance. But the effect of this would be to deprive the recipient of his assistance or to reduce it substantially in the week in question; and of course it would nullify the effect of the additional payments for pensioners on national assistance.

15. This difficulty could be overcome by statutory authority being given to enable the Board to disregard for assistance purposes any national insurance or war pension advance payments: but this would benefit only national assistance recipients who were supplemented pensioners. There are about half a million recipients on national assistance who are in receipt of national insurance benefits: and the Board would feel it to be quite wrong to deny to them advance payments which were being made to retirement or war pensioners, for the most part better off, and having no need of assistance, especially at a time when increases in the assistance scale rates were due to take place in any event because of increases in the cost of living.

16. In these circumstances it would seem to the Board that the right course would clearly be to advance the formal date for the coming into operation of the improved assistance scales to the date when it is proposed that the increases in short-term insurance benefits should come into effect, that is 25th January. This could be done, in conjunction with advance payments of national insurance, without the necessity to increase national assistance allowances and then reduce them again shortly afterwards when the normal insurance increases take place on 29th March. What the Board would do would be to treat any advance insurance payments as though they were weekly additional insurance payments of 12s. 6d. or 21s., so that the actual assistance in payment would be unaffected. The actual assistance allowances of most of the short-term beneficiaries would, of course, be unaffected, and the unsupplemented recipients of assistance would receive their (actual) increase at the same time. For practical purposes, all recipients of assistance would receive an increase at the same time in their income (some from national insurance payments and some from national assistance payments). This is obviously very desirable in the context of national assistance, where the over-riding objective is to meeting the needs of national assistance recipients in a way equitable to all.

Financial and legislative provision

17. The two possible ways of financing any such advance payments are (a) to meet the whole cost from the Exchequer, and (b) to make the advance payments of insurance benefits, which are the bulk of the cost, out of the Insurance Funds. However the payments were financed, their nature and scale would be such that, since there is time, Parliament
would expect them to be authorised by specific legislation in advance, and not merely through a Supplementary Estimate and the Appropriation Act. Some legislative provision might also be needed in order to make a consequential provision about national assistance. If the advance payments of insurance benefit were to be made out of the Funds, it is likely that the essential legislative provision could be made by amendment of the National Insurance Bill in the House. Payments to war pensioners could be authorised by Royal Warrant. To authorise payments out of the Exchequer to national insurance pensioners would require a separate Bill; and a very large Supplementary Estimate would be needed which might make it necessary to reconsider the programme for the Consolidated Fund Bill. On balance, it would seem easier to meet the cost from the Insurance Funds. Some part of it could then be met by bringing forward the date for raising contributions; the earliest possible date for this would be 8th March and this would produce £15 million in revenue from insured persons and employers with £4 million extra from the Exchequer.

18. To pay the higher short-term benefits from the end of January instead of from 29th March would cost the National Insurance Fund an extra £5 million; and to provide double payments of National Insurance retirement pensions and widow's benefits would cost £22 million on each occasion. It follows that provision of double payments on two occasions would bring the total extra cost to £53 million. Towards meeting this extra expenditure, some £19 million (including £4 million from the Exchequer) could be secured by advancing the payment of the new contributions to 8th March. However, I have put further enquiries in hand to see if this date can be advanced. If 8th March stands the extra expenditure would exceed the extra income by £34 million, which would mean running a significant deficit on the working of the Fund this year. If double payments were provided on three occasions, the excess of extra expenditure over extra income would be £56 million. And although the Government Actuary's Report on the Bill shows that the Fund should have small surpluses on average up to 1970, it also shows large deficits during the following ten years. The post office and other administrative costs of paying double on pension orders might be of the order of £150,000 on each occasion. As to the extra National Assistance costs, these would amount to some £4 million on the proposals in paragraph 21.

Conclusion

19. The conclusion must be that a scheme of the sort described is possible only if it is accepted -

(a) that its administration would necessarily appear to be (and indeed be) somewhat chaotic, inequitable and haphazard, with some inconvenience to Post Office customers at large;

(b) that it would give rise to much complaint in response to which the inequities and haphazard effects would have to be admitted and justified solely on the grounds that they were administratively unavoidable;
(c) that normal accounting standards were relaxed and that there would be an increased risk of erroneous payments and fraud;

(d) that (if the cost was to fall on the Fund) there is risk of delay in the passage of the National Insurance Bill (delay in Royal Assent until after Christmas would delay early payment of sickness and unemployment benefit).

M. H.


23rd November, 1964
PART I
EXTRA COST PER WEEK OF DOUBLE PAYMENTS AT EXISTING RATES

£ million

National Insurance

Retirement Pensions 20
Widow's Benefits (other than 10s. widows) 2
10s. widows 0.05

Industrial Injuries

Widow's Benefits 0.1
Disablement Pension and special hardship allowance 0.7

War Pensions

Widow's Benefits 0.65
Disablement Pension 1.4

PART II
SUMMARY OF COSTS

1. Cost of 2 double payments to retirement pensioners alone 40
2. Cost of 3 double payments to retirement pensioners alone 60
3. Extra contribution income from bringing date for higher contributions forward from 29th March to 8th March 15
4. Extra Exchequer contribution resulting from 3. 4
5. Cost to Exchequer of extra "fuel" allowances for people on national assistance 6
6. Extra cost to Exchequer of advancing date for higher scale of national assistance to 25th January if advance payments of retirement pensions are also made 4
IMPLICATIONS FOR THE POST OFFICE

This paper presents a possible scheme under which the Post Office could undertake the work of making advance payments to pensioners.

2. For the purpose of this exercise it is assumed -
   (i) that each payment would be made by doubling the pension due in one or more weeks before 9th March;
   (ii) that the number of order books on which additional payments would have to be made would be of the order of 7 million;
   (iii) that an announcement of the payment would be made as soon as possible.

3. The Post Office has examined various ways in which the payments might be made. The only one which is thought to be practicable and to provide reasonable safeguards against fraud is -
   (i) an adhesive label in the form of a receipt for the total pension would be attached to the appropriate pension order by the Post Office counter clerk at the time of payment;
   (ii) the counter clerk would calculate the sum due (viz. twice the sum as shown on the order), enter it on the gummed label and on the counterfoil, date-stamp the label and the counterfoil, obtain the pensioner's signature on the label, and pay over the cash;
   (iii) the Post Office would claim the enhanced amounts disbursed through normal accounting machinery.

(If absolutely necessary the Post Office could at additional expense and inconvenience, and with some possibility of error, segregate those orders bearing up-rating labels before returning them to the issuing authorities.)

4. This scheme could only be operated by the Post Office under the following conditions -
   (i) Supplies of the adhesive label would have to be made available to the Post Office three weeks before the date on which the first pension payment fell due. At least 25 million adhesive labels would be required of which roughly 10-12 million would be needed in time for the first payment.
(ii) The Post Office could not undertake to deal with disputes about the entitlement of pensioners to the advance payments, or to answer enquiries (e.g. about the amount paid) other than those of a purely routine character which could be dealt with across the counter.

(iii) The Post Office could undertake no financial responsibility whatever for losses incurred or frauds perpetrated in connection with the scheme.

(iv) Adequate publicity would be given to the scheme, including the matter of eligibility, and leaflets (some 15 million) made available for handing out to pensioners in post offices.

(v) At the appropriate time the Post Office would be put in funds to meet the extra payments.

(vi) The Post Office would be reimbursed in full for all additional costs incurred in operating the scheme. (It is estimated that some 15 million of the 21 million advance payments would fall to be paid by Sub-Postmasters. It is highly probable that an extra payment would be demanded for this work and this would have to be negotiated with the Federation of Sub-Postmasters.

5. The operation of a scheme on the foregoing lines would be feasible although it would not unnaturally present a number of problems of which the following spring to mind:

(a) A slowing down in the speed of service for the ordinary customer while the extra earlier payments are being made, with some queueing and congestion at the busier post office counters.

(b) Difficulty in indentifying those pension orders due for advance payments which are presented in weeks subsequent to the one in which the payment is due, as well as that of distinguishing between books on which there is an advance entitlement and those on which there is not.

(c) An increased error rate.

(d) Greater opportunity for fraud by counter staff and more particularly by people acting as agents for pensioners.