

Why do errors occur?

Causes of incorrect payments from social security systems

– Findings from expert seminars

*Summary of Report 5 by the Swedish Commission against benefit fraud and errors*



# Summary

The Swedish Commission against benefit fraud and errors has been commissioned to act as a coordination body for measures against incorrect payments from the public insurance and benefit systems (the social security systems). The report presents the findings from the Delegation's expert seminars on the causes of incorrect payments from 16 social security systems<sup>1</sup>. Altogether 17 full-day seminars have taken place, two of them on financial assistance from municipalities. Over 100 system experts from the agencies and organisations concerned have taken part. A fixed scheme of analysis was used for each seminar in order to achieve a uniform structure. The purpose of the seminars was to obtain as full a picture as possible of the causes of incorrect payments.

The systems were selected on the basis of a risk perspective. A further criterion guiding the selection was that all agencies and organisations that are represented in the Delegation and that make decisions on payments from the social security systems must be involved. The 16 systems examined in the report cover payments totalling SEK 253 billion, based on outcome figures for 2006. They involve 10 expenditure areas and four ministries (Ministry of Health and Social Affairs, Ministry of Employment, Ministry of Education and Research and Ministry of Justice). The social security systems studied are administered by the Swedish Social Insurance Agency, the Swedish Labour Market Administration (comprising the National Labour Market Board, 20 county labour boards and 325 employment offices), the National Board of Student Aid, the Swedish Migration Board, 36 unemployment insurance funds and 290 municipalities.

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<sup>1</sup> Assistance allowance, dental care allowance, sickness and activity compensation, sickness benefit, housing supplement for pensioners, parental benefit, temporary parental benefit, maintenance support, housing allowance, unemployment benefit, activity support, wage subsidies, recruitment incentives, post-secondary student aid (including student loans and student grants), compensation to asylum seekers, financial assistance.

In several cases, the social security systems studied are the subject of other inquiries that are making in-depth studies of the type of benefit concerned from various points of view. Such in-depth analyses of the respective systems are not presented in this report. Instead the aim is to give an overall presentation of the causes of incorrect payments covering several systems. One of the foremost merits of the work of the Swedish Commission against benefit fraud and errors – and accordingly of the expert seminars held – is the fact that several systems are studied in parallel using the same methods. Moreover, the studies have been carried out in direct cooperation with the agencies and organisations concerned, which means that the method used has broad support from them.

### Delimitations

The term *incorrect payments* in the report refers to three different types of error: *deliberate errors*, caused by conscious actions intended to unfairly obtain incorrect compensation; *unintentional errors*, caused by clerical errors, arithmetical errors or carelessness, giving rise to incorrect or deficient reference data; and *systematic problems*, caused by the design of the regulatory or support systems and that make it difficult to define whether a payment is correct or incorrect.

The term cause in the report has been limited to errors arising in the case-handling process, i.e. at the time of application, processing and decision-making or in connection with follow-up and controls.

The extent of the error in Swedish kronor is not specified in this report. The causes of error, on the other hand, have been structured on the basis of how common they are estimated to be. Accordingly, the report indicates whether the cause of error is very common, common or uncommon. Other gradations are also given, such as uncertain frequency. The frequency is estimated in relation to incorrect payments and therefore gives no indication of the extent relative to the total number of payments. In 2007 the Swedish Commission against benefit fraud and errors will be making a survey of the extent of incorrect payments relative to the total number of payments.

## General causes

The experts have pointed out numerous risks of incorrect payments in all the systems examined and in all systems they have identified a considerable number of causes of error, several of which are common or very common. The experts are also of the opinion that these potential causes of error have largely been realised, that is, such errors have in fact occurred and will continue to occur if nothing is done. The data shown in the report therefore reveals a significant risk of error, perhaps substantially more serious than has appeared from previous risk analyses performed by the agencies.

The 16 systems studied might seem very different in terms of purpose, target group, rules, administrative routines, and so on. Nonetheless, when it comes to causes of incorrect payments as well as potential measures to address the problems, the similarities between systems and between agencies are striking. The report therefore aims in the first instance to describe the general patterns of causes of incorrect payments that have come to light in the seminars. The general causes of error are reported for each stage of the case-handling process. *Annex 1* (available in Swedish only) shows the causes of error identified, system by system, on which the general descriptions are based.

Many of the errors are caused by incorrect information provided by the applicant, mainly concerning income, wealth, residence and other types of incorrect statements. These errors are due to carelessness, ignorance or sheer wilful deception on the part of the applicant. Incorrect information also comes from sources other than the applicant, such as employers, doctors, schools and care providers. Several causes of error have to do with the processing of cases. Data is impossible to check or is not checked because of a lack of resources and time during processing. Speed and quantity are felt to have been given priority over quality and correctness of payments. There are also deficiencies in the processing systems, which lack both substantial opportunities for control and built-in warning signals. The regulatory systems are felt to be complicated, unclear and difficult to check up on. Moreover, in several cases the rules leave broad scope for assessments and negotiations, leading to variations in the way they are applied, both regionally and between case officers. This hinders consistent application of the rules in the different systems.

## Essential grounds for compensation

There are a number of essential criteria that most of the social security systems studied have in common and that provide the basis for the allowances, compensation or loans that are paid. These criteria are residence, income and capacity. A comparative analysis is made of the rules governing these grounds for compensation in the different systems.

According to the experts, errors associated with the *residence requirement* are common. The concept of 'resident' is used in the different regulatory systems in a way that allows different interpretations and leads to difficulties of control. The regulatory systems have no absolute link to population registration records. The population registration records, moreover, contain errors. Having people registered by dwelling unit (apartment) is key to ensuring correct compensation from several of the systems. Such a system has been approved and is planned to be implemented in 2010, in which case such household and housing statistics will not be available until 2011.

Incorrect income information is considered by the experts to be a very common cause of incorrect payments. *Income* is determined in many different ways and by many different actors. The concept of income is complicated and requires a good deal of calculation on the part of the case officer. There is little possibility of control with regard to compensation based on estimated future income. In addition, there are no automatic control routines for checking income and loss of income with respect to employers. Current income controls are largely based on retrospective controls, when an incorrect payment has already occurred and not infrequently after a certain time lag. This risks leading to significant incorrect payments and consequently to a risk of significant detriment, both to the state and to the individual.

According to the experts, assessments of capacity result in incorrect payments. A person's capacity – which mainly means capacity for work – can be assessed differently depending on which social security system is involved and which body is therefore responsible for the assessment. Yet the assessment of capacity is absolutely key to decisions on compensation and to the individual's subsistence. Both the Swedish Social Insurance Agency and the employment offices, unemployment insurance funds and social

services assess capacity for work, but on the basis of different regulatory systems and definitions.

### **Measures against incorrect payments require a comprehensive approach**

The examination of the social security systems on the basis of the expert seminars and the compensation criteria described shows that the systems are not designed to facilitate controls and prevent incorrect payments. By design, the systems are based on the individual or the household and adapted to take into account virtually every conceivable situation a particular individual or household may be in. Far too little importance has been attached to ensuring that these situations are also possible to check up on, so that the right compensation goes to the right person. Obvious examples of this are the difficulties of control concerning the absolutely fundamental criteria of residence, income and capacity. Further analyses should be made in these areas.

It emerges very clearly from the discussions with the experts that the social security systems are interconnected. Changes in one system can have unforeseen consequences for other systems. Measures should therefore be taken coherently to ensure the greatest possible effect. At an overall level, the need for measures can be summed up in the following points.

- It is important that the social security systems are seen as a single coherent system, with cross-interdependencies. When the systems are seen as a whole, it becomes possible to consider abolishing certain sub-systems and meeting needs through other sub-systems.
- The regulatory systems for the social security systems are complex and difficult to grasp and need to be clarified and simplified for the sake of effectiveness and efficiency. Key concepts and qualifying conditions on which different forms of compensation and benefits are based need to be given a more consistent definition.
- Other regulatory systems, primary and secondary legislation that affect the possibility of ensuring correct compensation from the social security systems need to be looked over so that they do not unnecessarily complicate processing and controls.

## Summary

This applies primarily to regulations that prevent the exchange of information between agencies and organisations.

- The agencies need to jointly develop information systems and control strategies as well as forms of cooperation, and to exchange experience.
- All agencies making payments need to look over their processing routines, internal education and training and support systems, as well as internal and external information. Controls and follow-up controls need to be given higher priority. There is great potential for correct payments if case officers have access to better support, but this requires investments in modern information technology.