

Policy on the Overpayment and Underpayment of Pension Scheme Benefits

Lambeth Pension Fund

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Contents

1. Purpose statement
2. Application and scope
3. Prevention of overpayments
4. Responsibility of scheme members
5. Managing overpayments
 - 5.1. Overpayments following the death of a scheme member
 - 5.2. Overpayments where the scheme member should have known of the error
 - 5.3. Overpayments where the scheme member could not have known of the error
 - 5.4. Overpayments due to incorrect member information being supplied by a scheme employer
 - 5.5. Overpayments due to fraud or corruption
6. Managing underpayments
 - 6.1. Underpayments following the death of a scheme member
 - 6.2. All other underpayments
7. Recovery of overpayments
8. Authorisation
9. Policy monitoring

1. Purpose statement

This policy covers overpayments and underpayments of pension in relation to the London Borough of Lambeth Pension Fund ('the Fund'), which is managed by the London Borough of Lambeth Council ('the Administering Authority').

Overpayments and underpayments of pension can occur for a variety of reasons. It is therefore important that the Fund has a clear policy on how to manage these once they are identified.

This document is designed to provide the Fund with practical guidance rather than a rigid framework, providing flexibility for the Fund to consider alternative courses of action when circumstances warrant.

2. Application and scope

The policy applies to:

- Scheme members of the Lambeth Pension Fund, and their dependants.
- Executors of the Estate, personal representatives and any other beneficiaries of deceased Lambeth Pension Fund members/dependants.
- Scheme Employers.
- Fund Officers.
- Pensions Committee.

This Policy has been designed to provide assurance to members and stakeholders of the Fund that:

- all overpayments will be treated in a fair and equitable manner; and
- recovery will be sought without undue delay, taking legal advice where necessary; and
- clear processes are in place to prevent and investigate potential fraudulent activity.

3. Prevention of overpayments

The Fund has the following processes in place in order to minimise the risk of overpayments or underpayments occurring:-

- All calculations are checked before processing for payment.
- Prompt action of all pension payments returned by banks and building societies. The Fund issues a life-certificate document to be completed by the member and signed by an individual witness. Failure to return the form would result in the suspension of future payments.
- Suspension of a scheme member's pension where any scheme correspondence is returned. This allows officers time to investigate fully to

ensure that overpayment does not occur; for example, mail may be returned where the scheme member has died.

- Reminders in correspondence that the Fund must be advised of changes in circumstances or the death of a scheme member.
- A report is run monthly to identify individuals in receipt of a dependant's pension to identify when a change from a short-term to a long-term pension is required and where a child's pension needs to be ceased as they approach the age of 18 or 23. Further investigations are then carried out annually for children that are aged 18 to 23 in continuous full-time education at a school / college / university; to ensure they are still entitled to receive a pension.
- Along with other LGPS Funds in England and Wales; The Fund has entered into a data sharing agreement; this means that member data is uploaded on a monthly basis to the National LGPS database. This allows Funds to share membership data to prohibit the payment of a refund where previous accrued membership is held with another LGPS Fund and prevents an overpayment of a death grant.
- The Fund participates in overseas life existence checks to ensure only legitimate pensions are being paid and to reduce the likelihood of fraudulent activity.
- Regular checking of the Tell Us Once system which allows a bereaved person to report a death to many government departments and local council services in one go.
- The Fund participates in the National Fraud Initiative, which is undertaken every two years. Pensioner member data is compared with the Department for Work and Pensions database of deceased individuals and highlights matches for investigation.
- The Fund regularly uploads data and downloads matching results via the National Fraud Initiative's Fraud Hub, a secure online platform that allows organizations to share information and screen data to identify potential fraud and data errors.
- Monthly reconciliations of payments made outside of the Pension Administration Payroll System, including refunds of contributions, retirement grants, death grants and transfers.

4. Responsibility of Scheme Members

Scheme members have a responsibility to notify the Fund if they identify or suspect that pension or lump sum payments are in excess of what they ought to be. There is an expectation that individuals will review payments against quotes received from the Fund.

Where a member believes payments to be inconsistent with their entitlement they should notify the pensions team immediately by emailing pensions@lambeth.gov.uk, by telephone on 020 7926 3333 (option 2) or by post to Lambeth Pensions, London Borough of Lambeth, PO Box 80771, London, SW2 9QQ

5. Managing overpayments

Under Regulation 14 of the Registered Pension Scheme (Authorised Payments) Regulations 2009 the Fund is obliged to correct any overpayment they discover within a reasonable period of time, in order to avoid tax consequences.

The Pensions Regulator recognises that there is a legal obligation for pension fund managers to have in place appropriate controls to ensure the scheme is managed in accordance with the scheme regulations. In practice, this means we must ensure the correct benefits are paid and where that is not the case, we need to recover any past overpayments as well as correcting the benefit payments for the future.

5.1. Overpayments following the death of a scheme member

Overpayments of pension following the death of a member are common and - persistent, notwithstanding the steps taken by the Fund to prevent and minimise them. This is primarily due to delays in receiving death notifications and the constraints of our administrative processing schedule. In some cases, a full month's payment may already have been issued before we are informed of a member's passing later in that month.

All correspondence regarding an overpayment under these conditions will be handled particularly sensitively due to the circumstances. The pensions team will seek to identify the individual managing the estate or locate the deceased member's beneficiaries in order to inform them of the overpayment and the options for recovery of this. If necessary, an invoice will be issued, and the matter will then proceed through the council's debt recovery process.

The Fund will not look to recover overpayments if the total amount of the overpayment is less than £250 (net). This is due to the anticipated administrative cost of recovering such amounts. This amount will be kept under review.

5.2. Overpayment where the scheme member should have known of the error

There are various circumstances where an overpayment of pension can occur and the scheme member should have reasonably known or was aware of the error.

Some scenarios where this can occur are as follows, however, the list is not exhaustive:-

- **Entitlement to pension and/or current rate of pension ceasing**

Following the death of a scheme member, a pension is paid to a dependent child who is under the age of 18. Scheme documentation states that a pension is payable where the child is under age 18, or up to age 23 if they are in full time education. Prior to reaching age 23, the dependent child ceases full time education. They fail to inform the Fund of the fact that they are no longer entitled to receive a pension.

The scheme member is aware that a Pension Sharing or Earmarking Order is in place. However, the Fund does not receive a copy until after the implementation date and as a result their pension is not reduced from the appropriate date.

- **Administration error by the pensions section**

On retirement the scheme member is notified in writing of their correct retirement figures. However, an error occurs when the figures are being input onto the pensioner payroll system by a Fund officer which results in a higher amount being paid into the scheme member's bank account.

The scheme member is notified in writing that their pension is due to be reduced, for example due to a National Insurance Modification or where a surviving spouse is due to go from their short term pension to lower rate long term pension. However, in error the payroll record is not amended and the scheme member continues to receive the higher rate pension into their bank account.

In such cases the Fund will seek to recover the total value of the overpayment, with this being recovered from the scheme members ongoing pension. Once an overpayment has been identified, the Fund will take steps to reduce future pension benefits to the correct level as soon as possible and notify the member that an overpayment has occurred including, where possible, the net overpayment calculation. Further details on the recovery process can be found below in the 'Recovery of Overpayments' section.

5.3. Overpayments where the scheme member could not have known of the error

There are various circumstances where an overpayment of pension can occur and the scheme member could not have known of the error.

Some scenarios where this can occur are as follows, however, the list is not exhaustive:-

- **Pensions Increase**

The annual Pensions Increase is incorrectly applied to elements of a member's pension e.g. due to HMRC advising the Pension Fund of the wrong Guaranteed Minimum Pension (GMP) figure, which results in a higher rate of pension being paid.

- **Administration error by the pensions section**

On retirement an error is made in calculating the scheme member's pension entitlement. The incorrect (higher rate) pension amount is then input by the benefits administration officer onto the payroll system and the scheme member subsequently receives written notification of the incorrect pension figures. The error is not picked up by the Pension Fund at the time and the member could not reasonably have known the original calculation was incorrect.

In such cases the Fund will seek to recover the total value of the overpayment, with this being recovered from the scheme member's ongoing pension. Once an overpayment has been identified, the Fund will take steps to reduce future pension benefits to the correct level as soon as possible and notify the member that an overpayment has occurred including, where possible, the net overpayment calculation. However, in these cases, the scheme member will have received the payments in good faith, therefore the Fund will make sure any recovery plan is fair and reasonable.

Further details on the recovery process can be found below in the 'Recovery of Overpayments' section.

5.4. Overpayments due to incorrect member information being supplied by a scheme employer

If an overpayment occurs as a consequence of inaccurate information being provided by the scheme employer, the Fund will seek to recover the overpayment through the scheme member's ongoing pension. Recovery through the pensioner payroll system will allow for the appropriate adjustment for tax. In order to avoid any further overpayment the Fund will reduce the scheme member's pension to the correct amount from the next available payment and notification will be given in writing.

5.5. Overpayments due to fraud or corruption

On rare occasions members' benefits may be overpaid due to:

- Fraud by the member or their estate
- Fraud by the employer

- Fraud by a pensions officer
- Other criminal activity such as blackmail or corruption

Where an overpayment is discovered to have been made due to fraud or any other criminal act, the pension will be suspended, and an attempt will be made to recover the overpayment immediately.

The Fund will involve internal audit in such cases to determine what action may be taken in relation to the fraud and the settlement of overpayments may be resolved by the Courts of Law.

6. Managing underpayments

6.1. Underpayments following the death of a scheme member

Where the member has died since the underpayment has been identified, any arrears of pension or pension commencement lump sum must be paid to the deceased member's estate. In these cases, a claim form is sent to the member's next of kin, and if the total amount payable to the estate is below the limit for which a grant of probate is required (as specified in the Administration of Estates (Small Payments) Act 1965, then the Fund will pay the amount to the person specified on the claim form. If it is above the limit then Grant of Probate or Letters of Administration will be required before payment can be made.

Where a death grant payment is discovered to have been underpaid, (including where the balance of 10 years' annual pension is due to a deceased member's estate following the death of a pensioner), the underpayment will be reimbursed to the party determined previously in accordance with the exercise of the Fund discretion under the LGPS Regulations 2013 providing it is paid before the period of two years beginning with the earlier of the day on which the Fund first knew of the members death and the day on which the admin authority could first reasonable have expected to have known of it. Any death grant underpayment paid after this period would be paid to the deceased's personal representatives and will be subject to a tax charge.

6.2. All other underpayments

Where an underpayment of pension or lump sum is identified by the Fund, the pension will be immediately increased to the correct level and the member will be informed in writing of the underpayment.

An underpayment of pension will be reimbursed to the member in one lump sum payment which is paid through the pensioner payroll with the next monthly pension payment.

An underpayment of lump sum will be reimbursed to the member in one lump sum payment directly to their nominated bank account within 10 working days.

Interest will be paid on the underpaid amount(s) in line with Regulation 81 of the LGPS Regulations (in particular, interest is due on pension payments which are

more than 1 year late, and on lump sum payments which are more than 1 month late). Interest payable under this regulation is calculated at one per cent above base rate from the due date of payment and compounded with three-monthly rests.

Lump sum payments to rectify pension underpayments are treated as income for tax purposes and the tax will be deducted through Pay As You Earn (PAYE) in the usual way. The tax deducted will be estimated and may not be the correct amount once all of the member's income for the year is taken into account. After the next 5 April, HM Revenue & Customs (HMRC) will check whether each member has paid the correct amount of tax and, if not, they will contact the member directly. Members can contact HMRC directly if they think they have paid too much tax and request a refund. Where the Fund deems appropriate or upon receiving a request from a member, a year-by-year breakdown of the arrears will be provided. This enables the member to address any tax queries with HMRC.

7. Recovery of Overpayments

Following the death of a scheme member the Fund will not seek to recover overpayments of less than £250 (net) as these are deemed to be uneconomical to pursue. The Fund's usual approach in those circumstances will be that the sum is written off and is treated as a liability against the scheme member's former employer.

The Fund will seek to recover overpayments that have occurred within the last six years (in accordance with the Statute of Limitations). Overpayments that have not occurred within the last six years will have the appropriate proportion or the entire amount written off, subject to latest legal advice.

In all cases, once an overpayment has been identified, the Fund will take steps to reduce future pension benefits to the correct level as soon as possible and notify the member that an overpayment has occurred, including where possible, the net overpayment calculation.

Where the Fund seeks to recover an overpayment it will agree a suitable recovery period with the scheme member – as a general rule of thumb the recovery period will be no less than the period over which the overpayment occurred (except in the case of fraud).

There may be instances where the scheme member is unable to return the overpayment because they have already spent the money in good faith. In these cases, officers will seek to engage and negotiate with the scheme member, seeking legal advice where required, to agree a recovery plan.

When deciding on a particular method for recovery of the overpayment, the Fund will consider all relevant circumstances.

The Fund will make all reasonable efforts to engage with the scheme member in respect of any overpayment. Should the scheme member refuse to engage with the Fund despite repeated attempts by Fund officers, the Fund will proceed with recovery by reducing their monthly pension payments from the next available

payment date. The scheme member will be given written notification in advance of the recovery giving them an opportunity to get in touch if they wish to negotiate a revised re-payment schedule.

Where the overpayment is an overpayment of a lump sum, the Fund will usually seek to recover the amount in full through one immediate payment. However, consideration will be given to collect this in instalments if this is not a suitable option.

Occasionally, all or part of an overpayment is deemed to be irrecoverable. In these circumstances, the Fund may seek to waive all or part of an overpayment. Relevant considerations may include but are not limited to:

- How long after the overpayment first occurred that it was discovered;
- Whether the member could reasonably have been aware that they were being or had been overpaid;
- Whether the member died before the overpayment was discovered;
- The amount of the overpayment;
- The cost of recovering the overpayment;
- Whether the overpayment was the result of a criminal act;
- The age, health and financial position of the member;
- Whether the recovery of the overpayment would impose demonstrable "material hardship" on the member and the extent to which this hardship would impact their circumstances.

The individuals with authority to approve the waiver are identified in section 8 below.

Occasionally, bulk 'reconciliation' exercises (such as the McCloud Judgement) will result in the discovery of overpayments of pension. In view of the size of these exercises and the number of potential overpayments, decisions concerning the writing-off of those overpayments will be made on a case-by-case basis by the relevant decision-making body within Lambeth Council, outside of this policy, taking into account any national guidance on the matter.

8. Authorisation

The Fund will apply the following levels of authority when writing off individual overpayments:

Total value of overpayment	Authority to write off overpayment
Below £250	Automatic write off
Between £251 and £2,500	Pensions Manager
Between £2,501 and £10,000	Assistant Director of Pensions
Between £10,001 and £25,000	Director of Finance
Above £25,000	Corporate Director of Finance

Where any guidance regarding the write off of overpaid pension is provided for the Local Government Pension Scheme (LGPS) as a whole (for example in relation to the rectification of benefits due to the McCloud), the Fund will follow such guidance

as long as this does not contradict other London Borough of Lambeth Council policies which override such guidance.

9. Policy Monitoring

This policy was approved by the Pensions Committee on 25 March 2026 and is effective from 1 April 2026. This policy will be reviewed at least every 3 years, or sooner in response to any changes in the LGPS or other relevant legislation, and will be updated as required. Any significant updates will be subject to consideration and approval by the Pensions Committee, and the revised policy will be published as a public document following approval.