



Summary:

Incorrect payments in social insurance

- Control activities of the Swedish Social Insurance Agency

Summary and recommendations

In 2014 the social insurance system¹ accounted for six per cent of GDP. The long-term sustainability of a system of that magnitude requires that the public perceives its purpose to be important, that it is well administered and that it is as free of abuse as possible. It must also be financially stable over time, since major fluctuations impact other areas of the central government budget. When these things function as they should, the system is perceived to be legitimate and enjoys public confidence.

In the 1990s several studies showed that controls of the social insurance system had been neglected and that governance was deficient. Partly in light of this, in 2005 the Government approved a package of measures to combat fraud in the tax and benefit systems. Part of this package of measures was to set up a delegation to work on incorrect payments, called the FUT Delegation. Among other things, it was to propose objectives for reducing fraud and errors. After the Delegation's final report in 2008 the Government instructed eleven agencies to collaborate on a three-year project to continue combating incorrect payments.

The overall picture, from both the FUT Delegation and the collaborative project, was that almost SEK 20 billion had been paid out incorrectly from the social insurance system as a whole. According to the estimates made, about SEK 1.2 billion had been underpaid and the rest was made up of benefits where the person insured had received overpayment. In total about 35 proposals were made on how work should continue. Some of the proposals made concerned monthly reporting of salaries and that one agency should be given responsibility for coordinating collection of statistics and supplying indicators.

The Swedish National Audit Office considers that four of the FUT Delegation's and five of the collaborative project's proposals are relevant to this audit. Three of these nine proposals have been implemented. These were tightening the overall objective of the work to combat incorrect payments, setting up a time-limited initiative to combat incorrect

¹ Excluding the old-age pension system.

payments and that cross-system risks should be managed through the agencies' internal control work in accordance with regulations and general advice. The proposals not implemented referred for example to monthly reporting of income, conducting regular scoping studies and that one agency should coordinate the collection of statistics and be responsible for indicators supplied in this area.

Focus and scope of the audit

The Swedish NAO audited the work of the Government and the Swedish Social Insurance Agency to prevent incorrect payments after the last report of the collaborative project, in other words, the period 2012–2015. The audit focused on the benefits for which the Swedish Social Insurance Agency is responsible. The audited benefits account for half of the insurance expenditure, half of the payments that are incorrect and for more than 70 per cent of the amount the Swedish Social Insurance Agency demands back every year. These benefits are assistance allowance, housing allowance, sickness compensation, parental benefit and temporary parental benefit. The selection is deemed to provide a good picture of how the overall work of the Government and the Swedish Social Insurance Agency to prevent incorrect payments has been conducted. In the latest study incorrect payments of these benefits amounted to about SEK 8 billion.

Findings and recommendations

Overall the Swedish NAO notes that the Swedish Social Insurance Agency implements many initiatives and measures to reduce incorrect payments, such as combating crime in the assistance allowance system and automatisations of benefits. The Swedish Social Insurance Agency also develops methods of risk profiling with a view to improving effectiveness of initiatives to prevent incorrect payments. Moreover, the Ministry of Health and Social Affairs is working with several proposals, such as simplification of rules and facilitation of information exchange between agencies. The Swedish NAO has received indications that the work of preventing incorrect payments was given higher priority in 2015. The Swedish NAO sees this as positive and intends to follow the work going forward through the financial audit.

However, the Swedish NAO also notes that the work of preventing incorrect payments seems to have been given lower priority since the cessation of the collaborative project in 2012. Customer satisfaction and speed of payment seem to have been given priority until 2015. The Swedish NAO bases this on the following:

The scope of incorrect payments is unknown

An important premise for preventing incorrect payments is knowing their scope. Knowing the scope is important so as to be able to rank the importance of various benefits and to

estimate whether the work of preventing the incorrect payments has achieved the desired effect. The scope can also serve as a basis for analysing how effective the initiatives have been. Within the framework of incorrect payments there are components that cannot be measured using ordinary statistical methods. The FUT Delegation, the collaborative project and the Swedish Social Insurance Agency have carried out scoping studies by using a method called Expert Elicitation. In brief, this means that experts of various kinds systematically make estimates of the size of the error, based on their own specialist knowledge combined with available statistics. The individual estimates are then combined into a total assessment. The method, which is also used internationally, is not exact, but was considered by the FUT Delegation, the Swedish Social Insurance Agency and the collaborative project to be the best way of measuring when the volume of hidden statistics is large. Both the FUT Delegation and the collaborative project submitted proposals that entailed a regular scoping study.

The latest scoping study (in which Expert Elicitation is a component) was conducted in 2010. This indicated a total amount of incorrect payments of just under SEK 16 billion for social insurance, SEK 8 billion of which can be attributed to the benefits included in this audit. After 2010 neither the Government nor the Swedish Social Insurance Agency have conducted or requested any new study that can show the size of the incorrect payments.

The Swedish National Audit Office therefore recommends that the Government:

- ensures that the Swedish Social Insurance Agency regularly measures the size of the incorrect payments.

The Swedish NAO recommends that the Swedish Social Insurance Agency:

- measures total incorrect payments and thereafter carries out regular new measurements.
- starts to develop methods of reducing uncertainty in measurements of incorrect payments.

The work of scoping studies could usefully be in consultation with the Swedish Social Insurance Inspectorate. Moreover, it would seem that the United Kingdom could serve as an example of how the work could be conducted, despite the differences between the two tax and social insurance systems. Measurements are carried out annually there and these can be compared over time, which provides a good opportunity to measure the effectiveness of measures implemented.

Speed of processing has been given precedence

The Swedish NAO sent a questionnaire to the insurance officers for the respective benefits being audited. It shows that they consider that speed of processing of cases has been given precedence over correctness. Moreover, the questionnaire shows that case officers have omitted to investigate suspected errors due to lack of time or lack of knowledge of how they should proceed. The questionnaire also showed that case officers have requested more time for the individual cases and more information about errors.

Great difference between estimated errors and recovery

An examination of the Swedish Social Insurance Agency's annual reports shows that recovery claims amount to more than SEK 1 billion for 2014. If the result, SEK 8 billion, of the latest scoping study in 2010 is assumed to be correct, the Swedish Social Insurance Agency has paid out more than SEK 7 billion too much. This would mean that less than 13 per cent of the incorrect payments have been discovered. At the same time the stock of receivables is growing and in 2015 it was about SEK 3.5 billion. To this can be added that the number of ongoing recovery claims almost doubled between the years 2012 and 2014, from just over 23 500 to just under 47 000. The number of claims that are older than one year changed from 0 to 23 per cent in the same period. The great increase in recovery claims is explained by the service receiving a lower budget allocation in 2014.

The Swedish NAO recommends that the Swedish Social Insurance Agency:

- ensures that priorities in the work to prevent incorrect payments do not lead to lower priority being given to sub-areas such as recovery operations.

If the work of improving control activities solely is given higher priority, it will mean that related areas such as claims and recovery operations will have a heavier workload. For that reason an increased level of ambition in one area must be met by a corresponding increase in related areas.

- draws up service commitments for recovery claims.

The Swedish NAO considers that the increase in claims older than one year should be combated. By setting service commitments for recovery claims the Swedish Social Insurance Agency will make it clear to both case officers and receivers of benefit what waiting period is considered acceptable. In the work of drawing up service commitments the Swedish Social Insurance Agency could usefully utilise the experience of the Swedish Enforcement Authority in the same area.

It is not possible to assess effectiveness of controls

The efforts of the Swedish Social Insurance Agency to reduce incorrect payments are difficult to evaluate since there is no reference data for the size of the amounts being incorrectly paid out. Before November 2015 it has therefore not been possible either to assess whether the controls implemented have been cost-effective or how effective the recovery operations have been, since there is no reference data to show their costs.

Moreover, it is not possible to evaluate the Swedish Social Insurance Agency's strategy of conducting controls as early as possible, as there are no estimates of how the strategy is expected to be able to impact payments. However, statistics from the Swedish Social Insurance Agency show that the number of control investigations has decreased, while control investigations with measures taken have increased. This indicates that the precision of the Swedish Social Insurance Agency's work has improved. The Swedish Social Insurance Agency has also implemented an organisational change in which control investigation and payment control have been concentrated to the *Control* area of operations and the recovery and claims operations have been concentrated to the *Repayment* area of operations. In that way the Swedish Social Insurance Agency considers that it can follow up costs better.

The Swedish NAO recommends that the Swedish Social Insurance Agency:

- measures effectiveness (cost-benefit) of measures to reduce incorrect payments