Chapter 12 Department of Social and Family Affairs

12.1 Reckoning of Pre-1953 Contributions for the Old Age (Contributory) Pension

Introduction

Prior to the introduction of this special pension scheme, contributions paid prior to 1953 could only be used to satisfy two of the three qualifying conditions for the Old Age (Contributory) Pension (OACP) i.e. that a person must have entered insurance 10 years before pension age and have at least 156 social insurance contributions paid since first entering insurance. Pre-1953 contributions could not be used for the third qualifying condition i.e. yearly average of contributions.

Contributions paid by insured persons prior to 1953 did not contain a pensions element. This continued to be the case until 1961 when the pension element was introduced at the same time as the introduction of the OACP. However, contributions made under the unified system of social insurance, introduced in 1953, were fully recognised for pension purposes from the outset. The Minister for Social, Community and Family Affairs introduced a special OACP from 5 May 2000 for people with pre-1953 contributions who otherwise might not qualify for a pension or only for a reduced pension (Social Welfare Act 2000, Part V, 16).

The new arrangement allows people who commenced insurable employment before 1953 and who had at least five years paid insurance comprising either pre-1953 contributions or a combination of pre and post-1953 contributions to qualify for a pension. To qualify a person must be aged 66 or over and have a total of 260 full rate social insurance contributions paid, at least one of which must have been paid prior to 1953. In determining how pre-1953 contributions are reckoned, each 2 contributions paid count as 3 so if all contributions are paid prior to 1953 a person can qualify for the pension with 173 paid contributions.

The pension payable is currently €78.75 per week - 50% of the maximum weekly personal rate of the normal OACP. Additions for adults and child dependants, where applicable, are also payable at 50%.

Estimating the Cost of the Scheme

The Department of Social and Family Affairs had identified two groups of people who entered social insurance before 1953 as likely to benefit from the amended qualification:

- People in receipt of a pension at rates less than the half rate pension
- People not currently in receipt of another social welfare pension including applicants previously found not to qualify and people who had never previously applied for a pension.

The Department estimated that 3,000 people would qualify for the new payment at a full year cost of €8.9 million and a cost of €6.7 million in 2000 when seeking Department of Finance approval for the scheme. The overall claim load was expected to be 5,000.

The Department's calculations were based on the fact that approximately 36,000 applications for the pension had been rejected since 1988. No statistics were available for reject cases prior to that date. Of the 36,000 cases rejected, 29,500 had no date of entry into social insurance recorded and 3,400 had a date of entry recorded as pre-1953. The Department had estimated that a further 10,000 persons were in receipt of EU/or Bilateral Agreement pro-rata pensions[79] from the Department. Many were paid at less

[79] These pensions are based on a combination of full-rate Irish social insurance contributions and reckonable social insurance in EU countries or a country with which Ireland has a Bilateral Social Security Agreement. The pension is a pro-rata payment based on the proportion of the Irish social insurance contributions to the total number of contributions paid and/or credited.

than half the maximum rate. This process gave the Department a total of almost 42,900 people with a potential entitlement under the new qualification discounting the unknown numbers refused pension prior to 1988.

The Department estimated an administration cost of approximately €760,000 (extra staff, overtime, etc) to:

- Identify cases with a date of entry into insurance prior to 1953
- Ascertain the total number of contributions paid in these cases
- Determine if the person was still living.

Initial Take-up of Scheme

About 2,700 claims were received before the scheme was advertised in the national and provincial papers in late June 2000.

At the end of December 2000, the Department had received 11,669 claims for the new pension. It had also identified 13,500 pro-rata pensioners who might qualify for the new pension at a higher rate than their existing pension. The outcome of the Department's processing of both groups at end December 2000 is shown in Table 12.1.

Table 12.1 Scheme Activity for period 5 May 2000 to 31 December 2000

Category	Applicants	Awarded ½ rate OACP	Awarded standard rate OACP	Not qualified	Not Processed at 31.12.00
New Applications	11,669	3,545	36	1,331	6,757
Existing pro-rata cases	13,500	7,332	448	3,663	2,057
Total	**25,169**	**10,877**	**484**	**4,994**	**8,814**

The annual cost of the 10,877 cases awarded the pension in 2000 was €33.4 million. The additional cost of the 484 cases found to be qualified for the standard pension was €1.8 million.

UK Applicants

Media coverage of the new scheme in November 2000 generated an increase in the number of applicants. The Department started to receive a significant number of applications from United Kingdom (UK) residents who accounted for over 40% of all applications at the end of the year. The Department advised UK applicants to submit claims through their local Department of Social Services (DSS) office in the UK - the standard arrangement under EU regulations.

In February 2001 the DSS Overseas Branch notified the Department that it had received around 2,000 Pre-1953 claims over the previous month. The Department had been under pressure since late 2000 from Irish societies in the UK and the Irish Embassy to have an advertising campaign in the UK. The Department was initially opposed to such a campaign, as it wanted to clear the existing backlog of cases on hand. The Federation of Irish Societies in the UK organised a series of presentations and workshops and Pre-1953 awareness Road Shows in early 2001 and, by May 2001, 2,258 out of the 2,947 new Pre-1953 claims unprocessed with the Department, were from persons resident outside the State.

In July 2001 the Department launched an advertising campaign in a number of UK daily newspapers that were considered to have wide circulation in the elderly Irish community and in two weekly Irish interest papers. Officials from the Pension Services Office (PSO) and the Department's Information Section attended seminars held in tandem with the newspaper campaign by the UK Irish societies in London, Manchester, Leeds and Birmingham.

Administrative Difficulties

The administrative problems caused by the number of unforeseen applications were exacerbated by the fact that processing individual claims was tedious and time consuming because of the necessity to trace social insurance and/or employment details which were over 50 years old and predated the Department's computerised record system. Significant overtime had to be worked in the Client Data Services Index section responsible for tracing old insurance numbers.

The Department calculated that at least one third of people rejected for the pension appealed the decision. In May 2002 the Department had 783 appeals on hand which could be broken down into two categories:

- 723 cases that required the issue of a clarification letter
- 60 cases that had been referred to the Appeals Officer.

People appealed mainly because no insurance number could be found for them, no complete insurance record existed or they were ex-public servants who felt they had not been treated fairly. Appeal cases were tortuous and required a check on all variations of the person's name and the county in which their employment was registered. Many applicants had more than one insurance number as it was found that people were given a new insurance number if they changed job.

Current Take-Up and Back Log

Table 12.2 shows the take up of the scheme at August 2003.

Table 12.2

Claim Status	UK	Ireland	Others	Total
Awarded ½ rate OACP	13,715	10,267	3,580	27,562
Awarded standard rate OACP	327	232	60	619
Not qualified	4,137	5,128	875	10,140
Not Processed	520	351	60	931
Pro-rata Review Cases Not Qualified[80]	-	-	-	4,552
Total Applications	**18,699**	**15,978**	**4,575**	**43,804**

Claims for pre-1953 pensions are currently being received at a rate of 60 per week. Over and above the backlog of unprocessed claims and the current intake, there is still a considerable amount of associated work to be carried out.

There are 3,000 claims for examination for entitlement to an EU pro-rata pension. These are in respect of people who did not qualify for the standard pre-1953 pension and were passed to the EU area for review. In addition, there are 2,840 cases with a pre-1953 pension that might have a possible entitlement to an EU pro-rata pension prior to May 2000. There are a further 2,420 pro-rata cases where entitlement may be affected by changes in the banding of rates introduced in Budget 1999.

Data provided by the Department indicates that 50% of claims awarded are from the UK as against 37% from Ireland. 7% of claims are from the USA, while Canada and Australia account for 3% and 2% respectively.

Actual Cost of the Scheme

The pre-1953 pension scheme was estimated to cost €6.7million in 2000 and €8.9million for a full year. Table 12.3 gives details of scheme expenditure for the period 2000 to 2002.

[80] These are existing pro-rata cases which did not qualify for pre-1953 pensions and did not receive a formal reject status as they were already receiving a payment. A breakdown by country is not available.

Table 12.3 Pre-1953 pension expenditure 2000 – 2002

Year	€m
2000	26.1
2001	70.7
2002	113.1
Total	**209.9**

The cost of the additional administrative arrangements put in place to cope with the workload amounted to €1.6m.

As the Department completely underestimated the cost and scale of the scheme, I sought the views of the Accounting Officer.

Accounting Officer's Response

The estimates of the cost of the scheme were derived from an analysis of previous claims to pensions that had been rejected on the basis of insufficient contributions. While it was originally estimated that 6,000 to 11,000 people could benefit under the proposal, this was reduced to 3,000 based on experience of take up of previous pension proposals where the costs had been overestimated. On this basis, the full year cost was estimated at €8.9m.

The reason for the underestimate was, essentially, that the Department did not anticipate the influx of claims for the pre-1953 pension from persons resident abroad. While the estimates that were made did anticipate that some persons from abroad would qualify, the actual numbers involved were seriously underestimated.

The Department is frequently required to estimate the costs of policy proposals and its record in this regard is a good one and this has been recognised by the Department of Finance. The experience in this case was highly unusual.

The unexpected high take-up rate from abroad was influenced by a major campaign by groups working on behalf of people living in certain centres of Irish population in the UK to raise awareness of this particular scheme together with the information campaign undertaken by the Department itself.

Estimating costs in cases like this involves the use of data from the Department's records system. In the case of pre-1953 insurance records, which are held on microfilm, the data are in some cases incomplete and need to be supplemented from other sources. The problem is lack of quality data rather than lack of expertise. The level of expertise in the Department is high and has been supplemented by the recent secondment of a statistician from the CSO. The Department also employs independent actuarial advice from time to time in costing proposals.

It is always difficult to estimate costs where comprehensive data are not available. The Department is conscious that the underestimation, which occurred in this case, had serious implications for expenditure on the Department's programmes and has emphasised the need to question in the most thorough fashion the costing of any expenditure proposals, which arise.

The Department will take on board the specific lessons of this project in estimating the costs of similar proposals in the future.

12.2 Telecommunications System Fraud

The Department of Social and Family Affairs voice phone network consists of 20 Private Automatic Branch Exchange (PABX) telephone systems located throughout the country and connected to the Eircom network. An external contractor maintains the Department's network of PABXs.

On Tuesday 6 August 2002 the Department's account manager at Eircom notified the Department that her risk management section had noticed an atypical telephone pattern of international calls from one of the Department's Dublin PABXs. The Department immediately instructed Eircom to bar international calls from that exchange. Inquiries found that the total value of international calls from the exchange over the previous weekend (August Bank Holiday) amounted to €12,000 approximately.

The Department requested its equipment supplier to help in investigating the matter. The investigation found that:

- One particular number on the PABX was an old feature originally used when technical personnel accessed the system for remote maintenance
- Remote maintenance had not been used for several years and the feature was obsolete
- The Department was not aware that the feature was still enabled
- The line in question had no handset attached
- Incoming calls to this particular number gave a dial tone rather than ringing
- Persons calling the number were in effect connecting to the public service telephone network by virtue of a PABX feature known as Direct Inward System Access
- Hackers were using the line to call international locations throughout the world mostly Africa and the Far East.

As part of the investigation a physical extension was attached to the number at the PABX. This allowed the number to be dialled but not to break out and make calls and also facilitated the capture of details of some incoming calls and their caller line identification number. These numbers, where captured, showed that the incoming calls were from Holland, Belgium and Italy. The access feature was then disabled.

The method used to hack the system was to target identifiable Direct Dial Inwards number ranges. Using specifically designed software, numbers in these ranges are dialled consecutively and if a dial tone, rather than a ring tone, is found the system has been compromised. That number is then used to dial out of the system at no charge to the caller.

The matter was reported to the Garda Bureau of Fraud Investigation and the equipment supplier was requested to carry out a full toll fraud audit on the Department's telephone system.

The Department's phone bill for mid-July to mid-August 2002 was €303,546 exclusive of VAT. This compares with the average monthly bill of €125,000. The previous bill was found to be slightly above average when normally it would be substantially less due to holidays.

The Department completed a detailed examination of the electronic version of the telephone bills received from Eircom for the two periods and extracted the total of international calls made from the exchange. Foreign calls totalled €85,297 in the July bill and €208,839 in the August bill giving a total estimated loss to the Department of €294,136.

Having regard to the magnitude of the loss and the failure of the Department's monitoring system to detect the illegal usage, I sought the views of the Accounting Officer.

Accounting Officer's Response

Scale of Telephone Network

The Department has an extensive telephone and data computer network, to support its 4,500 staff in carrying out critical business requirements, linking all 220 Department offices and 25 offices of other Government and social services agencies.

The Department makes every effort to maintain the integrity of the network in accordance with best-known practices. There are over 11,000 devices attached to its network. While it is not possible within the constraints of its resources, to carry out detailed examinations of all aspects of the network on a regular basis, the Department is satisfied that its network is managed in accordance with current industry standards.

Failure to detect illegal usage

The increase in the July bill was not noticed because, although there were fluctuations due to changeover from Public Service Telephone Network to Virtual Private Network billing on the one hand and factors such as increase uptake of LoCall services on the other, the overall total was not noticeably higher than the norm.

The telephone bill for August 2002 was received on 4 September 2002, one month after the breach had been detected and addressed. It was only then that the extent of the intrusion became apparent. On 17 September 2002 a copy of all international calls during the period of the breach was received and at that time the final figure was revealed.

The weakness revealed in the particular PABX was a little known feature that was enabled sometime in the early- to mid-nineties. The Department was not aware that this vulnerability existed and consequently could not have foreseen that it would be exploited.

Liability for Illegal Usage

The amount due to Eircom for the period in question was paid. An automatic discount in respect of high volume was received from Eircom, as was a rebate in respect of two days of calls inadvertently charged to the Department following the request to Eircom to suspend international dialling facilities from the office in question, and incurred while that technical work was being carried out.

The Department does not consider that compensation is due from its suppliers as it is not in a position to allocate responsibility to them for the breach.

Corrective Action Taken

Once informed of the problem the Department reacted swiftly to the intrusion and sealed off and made safe the danger area. The other telephone systems in the Department were checked and the feature was found enabled on three others. They were immediately disabled. Work on upgrading telephone systems in all 220 locations to the latest security standards is almost complete.

A software package is now used on all PABXs to monitor outbound call traffic. This service is outsourced and web access is available to local managers to review call traffic appropriate to their functional areas. A similar facility is being implemented for the 200 smaller telephone systems. The issue of assigning responsibilities in some of the larger HQ buildings, which do not have a single business owner, is being addressed.

The reviews are conducted at local level. This will be extended to include all business function areas as quickly as is practicable. Managers will be reminded on a regular basis to ensure that all significant increases or decreases in the level of phone calls are thoroughly investigated and followed up.

Follow-up

The Department notified the Garda Bureau of Fraud Investigation promptly. The Bureau indicated that, at that time, they had a number of similar cases on hands, averaging €45,000 and some as high as €90,000 for one weekend. The Gardaí subsequently arranged to have the matter raised on RTE's Crimeline programme to heighten public awareness of the threat.

Full details, logs and statements were given to the Bureau. Typically, fraud of this nature is orchestrated from outside the jurisdiction and a successful prosecution is extremely difficult to achieve. Subsequent contact suggests that it is unlikely that any further progress will be made in this regard.

The Department of Finance's Centre for Management and Organisation Development (CMOD) was notified and asked to inform other departments of the threat. CMOD sent an advisory letter to all members of the Information and Communications Technologies Managers Forum, which consists of senior IT representatives from all departments.