The scale of the problem

In the first of *Pensions Age*'s year-long series on the subject of scams, Laura Blows explores the different types of pension scams, how the cost-of-living crisis may increase the prevalence of scams, and the impact of scams for both the member and the pensions industry

Summary
- The average loss per individual to pension scams is estimated to be around £75,000.
- There are many different styles of scams targeting retirees, including transfer scams, liberation scams, investment scams and layering scams.
- The cost-of-living crisis may increase the risk of people being vulnerable to scams.

Defrauding pensioners is not a new phenomenon. Yet ever since the freedom and choice reforms of 2015, scammers have been attracted by the siren call of significant sums of money suddenly becoming available to people who are typically not used to managing such wealth.

As pension transfers are invariably large sums of money, "it is likely that scammers would target them as the potential reward appears very high compared to consequences/risk of being caught or found out during the process", SPP Administration Committee deputy chair, Amit Shanker, suggests.

"The world has cottoned on to the massive value invested in pensions, the opaqueness of its workings and the lack of trust in providers, that scammers spotted a rich source of income, for relatively little cost and risk to them," Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, explains.

The amounts obtained by scammers can be significant, with Dalriada Trustees head of technical, research and policy, John Wilson, noting that some individuals have lost seven figure sums and the average loss per individual is estimated to be around £75,000.

While Snowdon acknowledges that we don't know the scale *[of pension scams]* "and can only extrapolate from what we do know", PSIG believes that around 5 per cent of pension transfers could be scams, "which could mean over a £1 billion a year being lost to up to 10,000 people".

Methods

The methods in which scammers obtain these figures are also varied and evolving.

According to Scottish Widows senior corporate pension specialist, Robert Cochran: "More often than not, a pension scam starts with an unexpected phone call, email, or text from someone claiming to represent a financial services firm or government body, but the tactics being used are becoming increasingly sophisticated."

While "all pension scams are basically the same – scammers deceive with false claims of better outcomes and people fall for them, what varies is the approach", Snowdon says. She highlights four typical types of scams.

First, she explains, transfer scams are where someone moves their pension savings from a safe scheme to an unsafe one, where the savings can be directly stolen or squandered through charges and investment losses. These are often to international SIPPs, which are UK personal pensions, but involve overseas advice and are thereby not subject to UK financial protection if things go wrong.

Second are liberation scams, where someone transfers their savings in order to access funds earlier than the law permits and thereby incur tax penalties. This is often combined with theft and investment losses.

Then there are investment scams, which are where someone is persuaded to cash in their pension savings and invest them in unregulated or bogus vehicles.

Finally, layering scams involve someone transferring their pension to an arrangement where there are several parties quietly deducting significant fees to whittle away the funds.

At risk

With such a variety of scams available, anyone can be at risk, particularly as scammers are very convincing and appear trustworthy. "Ironically around 50 per cent of people think they would never fall for a scam, despite evidence to the contrary," Snowdon notes.

"While people of all ages need to be on their guard, the sheer value of assets held in defined contribution pensions means they will always be a target for fraudsters," AJ Bell head of retirement policy, Tom Selby, warns.

However, Snowdon states that most pension scams are against 50-something males because they tend to have more savings and are closer to pension age. "Also, a little financial sophistication gives people more courage to go for that 'once in a lifetime opportunity'," she adds.

Scammers were normally likely to target low-income areas, along with those members of society who could be considered vulnerable members of society, such as the elderly, who could be more susceptible to scams or of being confused/overwhelmed by information/pressure from scammers, Shanker notes.

"However, scammers have materials that appear genuine to members and by also using convincing adverts online a larger audience is being targeted and could fall foul of a scam," he adds.

Cost-of-living crisis

With the current cost-of-living crisis, more people may become susceptible to scammers, prompting The Pensions Regulator (TPR) to launch a strategy to educate the industry and savers on the threat of scams, prevent practices that can harm savers' retirement outcomes, and fight fraud through the prevention, disruption and punishment of criminals.

"Many more people are under financial stress and very vulnerable. They need access to cash to get by and pension savings will therefore be very attractive," Snowdon says. "Because rules on pensions access are so inflexible, people will be driven to scammers who will offer to help but will help themselves to people's savings."

In October, the Financial Conduct Authority (FCA) raised concerns that rising costs could leave people vulnerable to scams, after research found that 25 per cent of savers would consider withdrawing money from their pension earlier than planned to cover the cost of living. This has already started to occur, Cochran says. "Unfortunately, we've seen an increase in the number of pension scams taking place in the UK. Our research has found that more than one in 10 people have been targeted by a pension scam, with one in 20 of these saying the scam was successful," he notes.

"We've seen an increase in the number of pension scams taking place in the UK, as scammers use rising living costs to take advantage of people"

Consequences

The ramifications for this can be significant. Wilson notes that trustees and providers have duties to protect pension savers and "when they fail to do so, those that lose out will seek redress from those who may have transferred money without proper checks. Like with PPI, there are now claims companies specialising in this area".

Research by Wealth at Work and the PMI found that pension trustees have 'grave concerns' for their members as they approach retirement, with 92 per cent of trustees fearing they will be targeted by scammers. The pensions industry should care about scams first and foremost because it damages the welfare of customers, Selby says. "Regardless of whether scams directly involve pensions or not, it is clearly terrible if large numbers of people are defrauded of their life savings," he explains.

"There is also the risk that if people don't feel their pensions and investments are safe from scammers, they will stash their cash under the mattress or simply choose not to save for the long term at all."

Written by Laura Blows

***Pensions Age* 2023 scams focus**

Throughout 2023, *Pensions Age* will be shining a spotlight on pension scams, delving deep into the many issues and challenges the industry faces in tackling fraudsters.

Over the year we will explore topics such as the evolving nature of scams and their psychological impact – how they manage to entice people, and the mental impact of falling victim of a scam. We will hear first-hand about the devastating consequences of losing your pension savings to a criminal and highlight the effective communication methods implemented by trustees, employees, regulators and providers to minimise this risk to their savers.

While the vital role of politics and regulation in this fight against scammers will be explored, so too will be the importance of collaboration with all parties to tackle this foe. Best practice methods of minimising fraud will be highlighted and we will talk to the experts with one-on-one interviews about how best to achieve these goals.

Finally, we will celebrate the industry's hard work and achievements in this area by showcasing success stories of protecting potential victims and prosecutions of fraudsters.

Commenting on *Pensions Age*'s scams focus, Minister for Pensions, Laura Trott, says: "One of my key priorities is to make sure savers are armed with the tools they need to catch out duplicitous fraudsters who operate online.

"These crooks will use any means necessary to get at peoples hard-earned savings, and even the savviest among us could fall victim to these sophisticated scams.

"The landmark Pension Schemes Act introduced legislation to prevent pension savers from becoming a victim of a scam and I will continue to work closely with industry leaders so we keep your savings out of their pockets.

"I am in full support of *Pensions Age*'s campaign to shine a light directly on scammers so this year we can take down more criminals who want to part us from our retirement funds."