Stopping pension scammers in their tracks

Jonathan Watts-Lay explores what trustees can do to help protect members from scams

These uncertain times brought on by the pandemic are seen as a window of opportunity for fraudsters looking to prey on vulnerable individuals, and pensions are seen as an easy target by some. Action Fraud warned in April that almost £2 million has been lost to pension scams so far this year. It's a problem which has been around for some time and the Pension Scams Industry Group (PSIG) estimates that £10 billion may have been lost to pension scams by 40,000 people since 2015. This may not even be the full extent of the problem as The Pensions Regulator (TPR) revealed earlier this year that it is investigating over £54 million worth of lost pension savings in cases that have affected 18,000 savers.

Defined benefit (DB) pension transfers are a particular area of concern, and the XPS Pension Group highlighted that almost six out of 10 of DB transfers in April indicated at least one warning sign of a potential scam, with the level of red flags much higher than before the pandemic.

What can be done?

TPR has asked trustees to pledge to do what they can to protect scheme members including; providing regular scam warnings, encouraging members considering cash drawdown to access guidance services, to carrying out checks and provide warnings on high risk transfers.

PSIG has recently updated its Code of Good Practice to reflect the latest regulatory and legislative changes. Key changes relate to TPR updates including a new letter that warns members who are thinking of transferring to a defined contribution (DC) arrangement of the risks of doing so; as well as additional guidance for trustees to encourage the use of Pension Wise or regulated advice, and to provide risk warnings about complex investment structures.

The new recommendations by PSIG include for trustees to consider telephoning members during the due diligence process and before any transfer payments are made, when concerns of pension scamming have been identified. Also, all transfers of concern should now be reported and not only those which are refused. The PSIG's three core principles remain the same including: raising awareness of pension scams for members and beneficiaries; having robust processes for assessing whether a scheme may be operating as part of a scam; and being aware of the known current scam strategies.

The role of trustees and employers

Our latest research with PMI indicates that pension scams certainly are an area of worry. It found that nearly all (94 per cent) of trustees surveyed were concerned about their members being scammed out of their savings. Trustees and employers play a key role in ensuring members make informed choices concerning their pensions. This includes providing financial education and guidance as it can help members understand their options and what red flags to look out for. It can also help them to decide if they would like further support such as regulated financial advice, although this of course is a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

Carrying out due diligence on providers can make the process far more robust. This should include checking that any financial education and guidance providers are workplace specialists with experience of providing support to members to help them understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam. Due diligence on regulated advice firms should cover areas such as; qualifications of advisers, regulatory record of the firm, compliance process eg compliance checks of 100 per cent of cases, pricing structure, and experience of working with employers and trustees.

It's time that trustees and employers do all they can to stop pension scammers in their tracks and put in place robust processes to support and protect members. This now needs to be about striving for good member outcomes and not minimal compliance, as many years of pension savings can be lost in the blink of an eye.

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