

The hidden costs of pension scams

✔ **Margaret Snowden considers how, along with the immediate financial loss to the member, scams can also cost a great deal in terms of time and effort lost, plus potential legal and tax charges**

Pension liberation is dead, but pension scams are changing shape. Expats and people who no longer feel any affinity with their former employers are ripe for unscrupulous intermediaries and advisers. Victims can lose their entire savings and it is hard for them to find help, but there are also other, less obvious costs of scams.

Information about scams is still hard to come by if you are a scheme administrator or trustee, but we all know enough to be concerned. At the Pension Scams Industry Group (PSIG), we undertook research during 2018 to help raise awareness of scams, but also to dig deeper on what was happening at administrators; the first line of defence against scammers – and we found some surprising things.

Firstly, the scale of scams is hard to uncover. Because administrators are too busy trying to spot scams, suspicious cases aren't being recorded in a centralised way – though we shouldn't be surprised, because they haven't been asked to do this. Many aren't actually paid to protect consumers against scams, but nevertheless thankfully they do. However, without records of suspicious activity, claims about the extent of scams will be seriously under reported.

Our research tells us that between 0.5 per cent and 12 per cent of all transfer requests investigated uncover suspicious traits. The more you look, the more you find, but the more you do, the more expensive the protection. We

estimate 5 per cent of transfers involve scam activity and that alone justifies investigating transfers in line with our *Combating Pension Scams: A Code of Good Practice*.

However, this comes at a cost as, according to the research, the time spent investigating a transfer request to spot a scam ranges from 15 minutes for a straightforward case to over 10 hours for a complex one. With a sample of 27,000 transfers included, the cost to the three organisations involved was around 14,000 man hours in 2018, which could amount to around £1 million a year for just three providers. We should think on this when we ask what the industry does to protect against scams.

It is encouraging to note that all three organisations in the pilot research group use the code as a basis for due diligence, but we believe that only 50 per cent of schemes have appropriate processes. This is important because The Pensions Ombudsman (TPO) in at least two cases has pointed to the code as an example of what good looks like.

Failure to follow the code could be costly, especially as there is a new wheeze emerging – that of ambulance chasing after DB transfers since 2013, when The Pensions Regulator introduced its Scorpion anti-scams campaign. Some of these may prove to be scams themselves, because of evidence that scammers return to the scene of their crime to cheat the victim out of more money in a false attempt to help them recover the stolen assets. The chasers are



currently advertising their services in the media, so beware. This issue, which has emerged because of the TPO's Mr N determination where the scheme concerned was told to reinstate the member, could ultimately prove very expensive to schemes that have not done 'enough' to spot dodgy transfers.

The third area of hidden cost, and arguably the cruellest, is the tax charge that follows scams. The unauthorised payments charge sees up to 55 per cent of monies taken from a scheme early or in excess of the permitted maximum is applied, regardless of whether or not the member actually received the unauthorised amount. A scheme sanction charge between 15-40 per cent may also be levied against the transferring scheme. The law here is out of date, as it intends to penalise those who evade tax and not the ordinary man in the street who can be forgiven for not understanding the complexities of pension regulation and who are duped by some very clever scammers. Work is underway to challenge this situation, but it is very costly to individuals and schemes.

The cost of scams is greater than we imagine, whether in actual monetary loss to the member, or the less obvious human cost, the investigative costs, the potential for reinstatement and legal costs – as well as the tax charges that can be levied against individuals and schemes.

✔ **Written by Pension Scams Industry Group chair Margaret Snowden**