How have scams evolved since the introduction of pension freedoms?

PENSIONS POLICY INSTITUTE

PPI

PPI Briefing Note Number 121

Introduction

Following the introduction of pension flexibilities (in which people are allowed to withdraw their entire Defined Contribution (DC) pension pot, over the age of 55, subject only to their marginal tax rate) in 2015, Government and regulators have concerns that pension scams may have a broader focus than was previously the case. Though a pensions cold calling ban was put in place a year ago, a significant proportion of people are continuing to fall victim to pension scams, and increasing protection of pension savers from scams and fraud remains as crucial as ever, particularly as scammers continue to evolve to use new types of scams and different channels of contacting potential victims.

This Briefing Note explores:

- How many people have fallen victim to pension scams and how limited data and high levels of underreporting restrict clarity on this issue.
- How scam activity has evolved since the introduction of pension flexibilities, shifting away from traditional pension liberation scams to focus on Self-invested Personal Pensions (SIPPS) and investment scams.

5 million pension savers at risk of falling for at least one of the six tactics commonly used by scammers[1]

Average losses of £91,000 in 2017 and £82,000 in 2018[2]

Pension scams have evolved following the introduction of pension flexibilities

Before the introduction of pension flexibilities in April 2015, the Government categorised pension scams broadly as "attempts to release funds from HMRC registered pension schemes in an unauthorised way".[3] Since the flexibilities were introduced, this definition has been broadened (Box 1).

Box 1: Project Bloom, the cross-government scams taskforce, describes scams as 'the marketing of products and arrangements and successful attempts by a party (the "scammer") to:

- **Release funds from a HMRC registered pension scheme, often resulting in a tax charge that is normally not anticipated by the member.**
- **Persuade individuals over the age of 55 to flexibly access their pension savings in order to invest in inappropriate investments.**
- **Persuade individuals under 55 to transfer their pension savings in order to invest in inappropriate investments.**

Where the scammer has misled the individual in relation to the nature of, or risks attached to, the purported investment(s), or their appropriateness for that individual investor.'[4]

Scammers target the pension savings of those approaching or in retirement because, for many, pension pots are the largest asset they will have throughout their life and can represent a significant gain to scammers.

Scams targeted at this group can be especially detrimental to victims' wellbeing as they are deprived of income or wealth at a time in their lives when income sources become more limited and they have a lesser chance of financial recovery.

Before 2015, most transfer scams focused on pension liberation (taking benefits or savings before normal minimum pension age). There is still ongoing scam activity aimed at getting savers to access their pension before the age of 55, which can leave victims with a large tax bill and no way to pay it after scammers have disappeared with their money.

However, since the introduction of pension flexibilities, there has been a shift towards investment-focused scams, and with the introduction of the pensions cold calling ban in January 2019, scammers have also sought new channels for targeting victims.

PPI Briefing Notes clarify topical issues in pensions policy.

How have scams evolved since the introduction of pension freedoms?

PPI Briefing Note Number 121

While there is general agreement across Government and industry that pension scams are a serious threat to pension savings, finding an effective way to protect savers is challenging, largely as a result of the evolving nature of scam activity, as well as the lack of comprehensive data on the level and nature of scam activity that is occurring. It is also hard to prevent people from withdrawing their money from DC savings pots over the age of 55, and requiring them to take advice first could be unduly expensive for those with small pots. Schemes themselves do not necessarily have the requisite resources or powers to investigate and prevent withdrawals destined for fraudulent schemes and investments. However, more could be done to raise awareness of scams through free guidance and engagement campaigns.

Investment scams have become much more prevalent in the post-pension freedoms landscape

There are several types of common scams. Perpetrators of investment scams may offer investment opportunities that don't actually exist. Alternatively, the investment opportunity offered may be real, but rather than investing the victim's money, the scammers take it for themselves. Scammers also sometimes pretend to be representatives of a legitimate investment group, in order to encourage trust from victims. In other cases, scammers may actually invest the victim's money but the value of the underlying asset is severely eroded by an unnecessarily complex structure of high charges and hidden costs, known as 'fractional scamming' or 'skimming'.

Investment scams include both transfers to pension arrangements that invest inappropriately, as well as flexible access to cash from DC pension pots in order to invest outside of the pensions landscape. The former is considered a pension scam specifically, meaning that schemes and regulators have powers to intervene, however because the latter occurs outside of the pensions landscape, intervention is beyond industry and regulator remit.

In 2018, the most commonly reported scams involved investments in shares and bonds, forex and cryptocurrencies by firms that are not authorised by the Financial Conduct Authority (FCA), which accounted for 85% of all suspected investment scams reported in 2018, although this figure relates to the broader investment area rather than just pension scams specifically.[5]

Scams generally offer above average investment returns, in overseas investments, and/or in alternative assets which average pension savers are less likely to understand in terms of value and risk.

Nearly a quarter (23%) of 45-65 year olds surveyed by the FCA and The Pensions Regulator (TPR) said they would be likely to pursue alternative investment opportunities (such as overseas property, renewable energy bonds, forestry, storage units or biofuels, which are unlikely to be suitable for pension savings) if offered them.[6]

One of the main issues for the pensions industry when trying to protect savers against investment scams, is that often these losses occur after the money has already been removed from the pensions scheme and therefore no longer subject to the same regulation and protections.

Following the pensions cold calling ban, scammers have sought out new channels to approach potential victims

In January 2019, unsolicited calls relating to pensions were made illegal. Although some scammers will continue to make cold calls as some consumers will be unaware of the ban, companies that breach the ban can face fines of up to £500,000. This does not, however, apply to overseas companies (which may have an associated UK imprint).

While the cold calling ban has gone some way to shutting down one channel of contact for perpetrators of pension scams, new approaches have been developing, with an increasing number of victims being targeted online.

In 2018, 54% of those who checked the FCA Warning List had been contacted by potential scammers via online sources (emails, professional looking websites and social media), increased from 45% in 2017.[7]

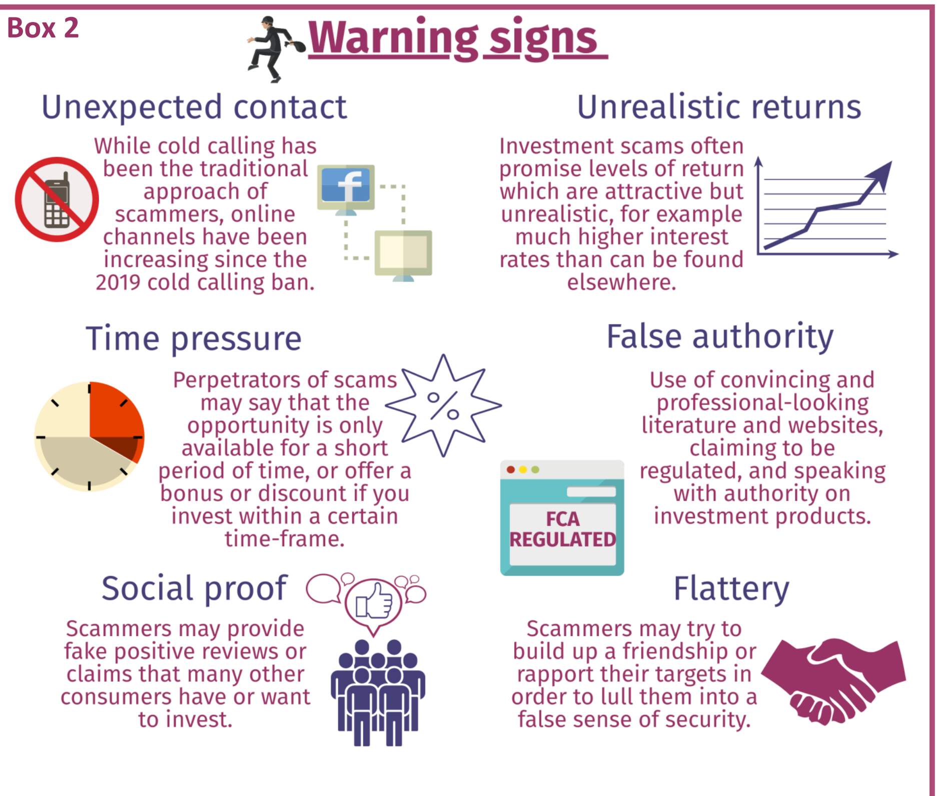
There is a lack of comprehensive data on the level and nature of scam activity, compounded by high, but unknown, levels of under-reporting

More than two-fifths (43%) of people aged over 65 (almost 5 million people in total) believe they have been targeted by scammers, although these are self-reported figures so not all are necessarily linked to a genuine instance of fraud and in cases that were, the scammers were

How have scams evolved since the introduction of pension freedoms?

PPI Briefing Note Number 121

Box 2



not always successful in gaining access to their victim's savings.[8]

42% of pension savers are at risk of falling for at least one of the six common tactics used by scammers (Box 2). This equates to more than 5 million people who are at risk of losing some or all of their pension savings to scammers.[9]

It is estimated that the average amount lost in individual pension scams was £91,000 in 2017.[10] 2018 estimates suggest an average loss of £82,000.[11] However, some victims have lost significantly more, even in excess of £1 million in some cases.[12]

The data available about the number of scams taking place, as well as the amount lost in each scam, does not offer a comprehensive view of the true scale of the issue. There are two factors that particularly impact scams data:

- It is believed that only a minority of pension scams are actually reported.
- Data is not collected in a comparable and easily-aggregated way across the industry.

In early-2020 the Pension Scams Industry Group (PSIG) and Police Foundation carried out a survey to establish the scale of scam activity affecting pension scheme members. Data from the survey is expected to be made available in the coming months and should shed more light on the scale of the problem.

The survey follows on from PSIG's 2018 survey pilot of three providers. The pilot study found that the information wasn't readily available at an organisational level (although in some cases it was collected at a scheme level).

Low levels of reporting and limited available data on the scale of scams activity make it difficult to assess how the number of scams and amounts of pension savings involved may have been impacted by the introduction of pension flexibilities.

Gaps in data on scams make it difficult to assess the impact on individual victims, in terms of the proportion of their savings that they have lost and whether they have other income streams (e.g. DB entitlement) to support them in later life.

DB transfers have increased since the introduction of pension flexibilities, potentially putting more savers at risk of pension scams

Since the introduction of pension flexibilities, pension scams are now more likely to involve investment schemes, Self-invested Personal Pensions (SIPPS), Small Self-Administered Schemes (SSAS) and Qualifying Recognised Overseas Pension Schemes (QROPS).[13] "International SIPPs" have become more prevalent since the introduction of the overseas transfer charge for some transfers to QROPS in March 2017. When transferring to international SIPPs, savers do not have regulatory protections as overseas arrangements do not fall under the remit of UK regulators. The PSIG pilot survey found that SIPPS, including international SIPPS, accounted for 95% of all transfer requests in 2018.

Scams may specifically target DB scheme members who are unable to access their pension savings flexibly within their existing DB arrangements. In 2018/19, there were around 210,000 individual transfers from DB schemes, with a total value estimated at £34 billion.[14]

The number of 'red flags' (Box 3[15]) being reported on DB to DC pension transfers increased from 13% in June 2018 to 34% in June 2019.[16] However, not all of these transfers which gave cause for concern ultimately turned out to be scams. The year-on-year increase in reported 'red flags' does not necessarily indicate an increase in scam activity. It could be a positive indicator of increased trustee awareness of scams and reporting procedures.

Box 3: Top ten transfer 'red flags'[15]
Unregulated intermediary
Member unaware of adviser
Member cold called
Member understanding low
Adviser on a watchlist
Receiving scheme suspicious
No paperwork from receiving scheme
Member can access funds more tax efficiently
Guaranteed return promised
TVAS not provided

Increased pension flexibilities could also expose more savers to scams as they are at greater risk of vulnerability as they reach older ages

Savers in a post-pension flexibilities landscape may face a greater risk of being scammed as they continue to make decisions about how to access their pension savings over the course of later life, not just at the point of retirement. The increasing risk of vulnerability as people age coupled with pension flexibilities has the potential to increase the risk of becoming a scam victim for people in later life.

Despite being confident in their ability to avoid scams and fraud, many savers are not aware of the warning signs or what they should do if they suspect they are being targeted

Three-quarters (76%) of people feel confident at spotting pension scams. However, in a 2016 Citizens Advice carried experiment in which participants were shown mock pension adverts, almost nine in ten (88%) participants selected a pension access offer containing pension scam warning signs.[17]

More than half (53%) of people aged over 55 believe that it is important to act quickly in order to get a good investment deal.[18] This means they are particularly at risk of scammers taking advantage of them through time pressure.

A third (32%) of pension savers aged between 45 and 65 would not know how to check whether they are speaking with a legitimate pensions adviser or provider.[19]

Times of crisis can also increase the risk of scams. Regulators have warned of the potential for increased scam behaviour during the current COVID-19 pandemic, with scammers taking advantage of financial concerns, volatile markets and uncertainty.

Regulators and industry are working together to highlight the steps that savers should take to protect themselves against scams (Box 4). In addition to work by the regulators, a new All-Party Parliamentary Group on Pension scams has been established to discuss ways in which to protect savers against the risk of scams.

As well as increasing awareness of scams, it is important that pension providers have effective procedures in place to protect scheme members. PSIG, which is an unfunded voluntary group focused on prevention of scams rather than consumer warnings or prosecution of scam perpetrators, have published a Code of Good Practice setting out the due diligence

Box 4: The FCA and TPR recommend four simple steps to protect yourself from pension scams:

- **Reject unexpected pension offers whether made online, on social media or over the phone.**
- **Check who you're dealing with before changing your pension arrangements—check the FCA register or call the FCA contact centre to see if the firm you are dealing with is authorised by the FCA.**
- **Don't be rushed into making any decision about your pension.**
- **Consider getting impartial information and advice.**

procedures that schemes should have in place to combat pension scams. While the code has helped many schemes to protect their members from scams, adherence is voluntary, which means that efficacy is dependent on how closely schemes and providers choose to follow it. PSIG is currently working with TPR to encourage schemes to carry out proper due diligence.

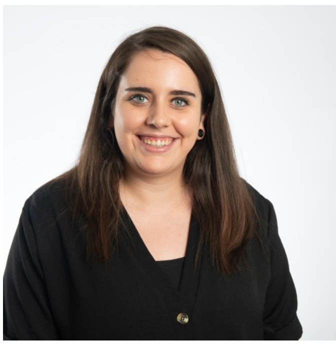
Conclusions:

- Pension scams remain a significant threat to savings, with new channels of contact and types of scam evolving in the wake of regulatory action to protect savers.
- Pension scams are increasingly focused on investment scams, which can be particularly hard to combat as the money has been withdrawn from the regulatory landscape of pensions.
- There is a lack of comprehensive data on the number and scale of pension scams, which can also make it difficult to effectively protect savers.
- The area of pension scams is broad and complex. Further research considering issues around the lack of comprehensive data and clarity on the types of scams that are taking place in the post-flexibilities landscape could shed light on the best way to protect savers from scams.

1. https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers
2. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/scam-victims-lose-more-than-1m-each-to-fraudsters & https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers
3. DWP (2017) *Pensions Scams: consultation outcome*
4. DWP (2017) *Pensions scams: consultation outcome*
5. https://www.fca.org.uk/news/press-releases/fca-warns-public-investment-scams-over-197-million-reported-losses-2018
6. https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers
7. https://www.fca.org.uk/news/press-releases/fca-warns-public-investment-scams-over-197-million-reported-losses-2018
8. Age UK (2018) *Applying the brakes: Slowing and stopping fraud against older people*
9. https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers
10. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/scam-victims-lose-more-than-1m-each-to-fraudsters
11. https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers
12. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/scam-victims-lose-more-than-1m-each-to-fraudsters
13. PSIG (2018) *Code of Good Practice*
14. https://www.thepensionsregulator.gov.uk/en/about-us/freedom-of-information-(foi)/number-of-transfers-out-of-db-schemes-in-2018-19
15. PSIG (2018) *The PSIG Scams Survey Pilot 2018*
16. https://www.xpsgroup.com/news-and-views/xps-identify-scam-activity-warning-signs-on-73m-of-pension-savings/
17. Citizens Advice (2016) *Too good to be true? Understanding consumer experience of pension scams a year on from pension freedoms*
18. https://www.fca.org.uk/news/press-releases/inside-mind-scammer-tactics-investment-fraudsters
19. https://www.fca.org.uk/news/press-releases/regulators-warn-public-pension-scammer-tactics-victims-report-losing-average-91000-2017

This Briefing Note is authored by:
Lauren Wilkinson
Senior Policy Researcher
t: 07935 294 781
e: lauren@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

For more information on the topic please contact Lauren Wilkinson



The PPI is grateful to Age UK for their contribution to the development of this Briefing Note.

ageUK Love later life