

Pensions liberation: the road to hell is paved with cash incentives



PSIT opinion by:
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Many people are feeling the pinch. **Those in work are lucky to get even a tiny pay rise**, whilst others are facing redundancy or are already unemployed. Finding the money to buy food and clothing, let alone go on holiday, is a real struggle.

It is not surprising then that an offer to get immediate cash by using a legal loophole to unlock the money you have tied up in a pension scheme seems like an unmissable opportunity. Sadly, for anyone who takes up the offer, particularly if they are under 55, **it usually ends in disaster**.

It is true that some of these 'pension liberation' offers are not technically illegal; but some are, and they can all have dire consequences, such as:

- money being moved overseas, possibly becoming irrecoverable
- high fees, for example 25% of the fund
- substantial tax charges on the 'unauthorised' payments
- bouncing cheques from the liberators.

What, if anything, can trustees do to prevent scheme members from ending up in this predicament?

After all, **members have a right to transfer their benefit entitlement to another approved pension scheme and trustees must honour a genuine request**. It is important to understand how the liberators make these transfers look real.

One common ruse is to set up a scheme with a name that is almost, but not completely, identical to a well established company that does have a registered pension scheme. **Pushy tactics are also a feature of liberation scams:**

- "If you agree today, you can get a special £1,000 incentive bonus"
- "Please chase your pension scheme trustees to pay the transfer quickly"
- "We'll send a courier with the forms so you can sign today"
- "Don't worry about making copies, we'll send them to you".

Trustees need to be very careful when transfer requests are received and must look for signs like these.

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You should also check whether the scheme is newly registered or sponsored by a dormant company, and be sure to know whether several requests for transfers to the same scheme have been received. Check the details with the relevant authority – HMRC, FSA or Companies House – and ask the member for as much background information about the request as possible without being too pushy!

The need for cash is a powerful motivator. On many occasions, it will lead to members ignoring support offered by trustees and insisting they process the transfer. It might be possible to delay a transfer payment whilst checks are being carried out, but not beyond the usual disclosure deadline. In extreme cases, the Pensions Regulator has said that they **“would expect trustees to be able to demonstrate that they have taken steps to establish the legitimacy of an arrangement where they have delayed making a transfer for that reason”**.

The Regulator and HMRC are actively investigating a number of pension liberation vehicles, but are unable to publicise names whilst investigations proceed. In the meantime, trustees can help, even if only in a limited way.

Ask members a few key questions about the advice they have been given and look for the warning signs in the paperwork. Financial misery for many could be avoided and, as Samuel Johnson never said, the road to hell is paved with cash incentives!

What do you think?

Share your thoughts with us,
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