THE GUIDE

Ten pension scams we should fear most

As The Times reveals that savers are losing up to £4 billion a year, we reveal the most common traps to avoid

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Scams that offer returns from foreign holiday villages are often too good to be true GETTY IMAGES

As many as one in three transfers from company pension schemes raise a red flag that could signify that someone is being scammed. The warning signs include high fees, investments in unusual companies or the involvement of unauthorised advisers.

This represents a huge increase in suspicious dealings — in 2016 one in 19 transfers was a source of concern.

Financial experts have repeatedly warned that a relaxation of pension withdrawal rules in 2015 offered fraudsters a chance to prey on inexperienced investors looking to access their money.

“It is always the same old story, with conmen identifying where people are vulnerable and swooping in with an offer of ‘guaranteed’ returns,” says Jonathan Watts-Lay, of Wealth at Work, which provides financial education.

Some scams are illegal, others are not, but still lose you money as middlemen extract hefty fees. Here are ten that you need to guard against.

Luxury foreign developments
Scammers often promise fancy returns through investments in far-flung locations. Foreign holiday villages are common. “If you’re promised a 10 per cent annual return from a hotel room in Spain, tread very carefully,” says Tom Selby of AJ Bell, the wealth manager. “Fraudsters will often advertise investments in a development that doesn’t exist or hasn’t yet been built.”

Tree plantations are used to exploit a desire to help the environment GETTY IMAGES

Tree scams
The Pensions Regulator says that tree plantations are often used by scammers because they appeal to a desire to help the environment. “People are offered enticing investments in exotic rubber plantations in Brazil, eucalyptus or teak trees,” says James Glover, a spokesman for the regulator. “In some cases the schemes do exist, but they’re a very bad way to invest your pension. In other cases, the schemes don’t exist and it’s just an excuse to take your money.”

Carbon credits
This scam plays on people’s interest in ethical investment and keeps reappearing. Watts-Lay says: “Businesses buy credits to offset their carbon emissions and these are traded, but conmen sell them to unsuspecting members of the public in small quantities, at a price far higher than their real value.” When these investors come to sell, they realise that no one wants to buy them in such small quantities, and certainly not at the price they paid for them.

Guaranteed returns
If someone tells you that an investment is a sure thing, it should immediately raise red flags. “Nothing — and I mean nothing — is guaranteed when it comes to investments,” Selby says. “The closest thing you’ll get are government bonds. If a company you’ve never heard of says it can deliver guaranteed returns, don’t touch it with a bargepole.”

Pension transfers overseas
Getting you to invest your money overseas is a key ploy for scammers because your money will be harder for the authorities to track. Angela Brooks, a director of Pension Life, which represents scam victims, says that qualifying registered overseas pension schemes (QROPS) have been used by scammers to steal money from British investors.

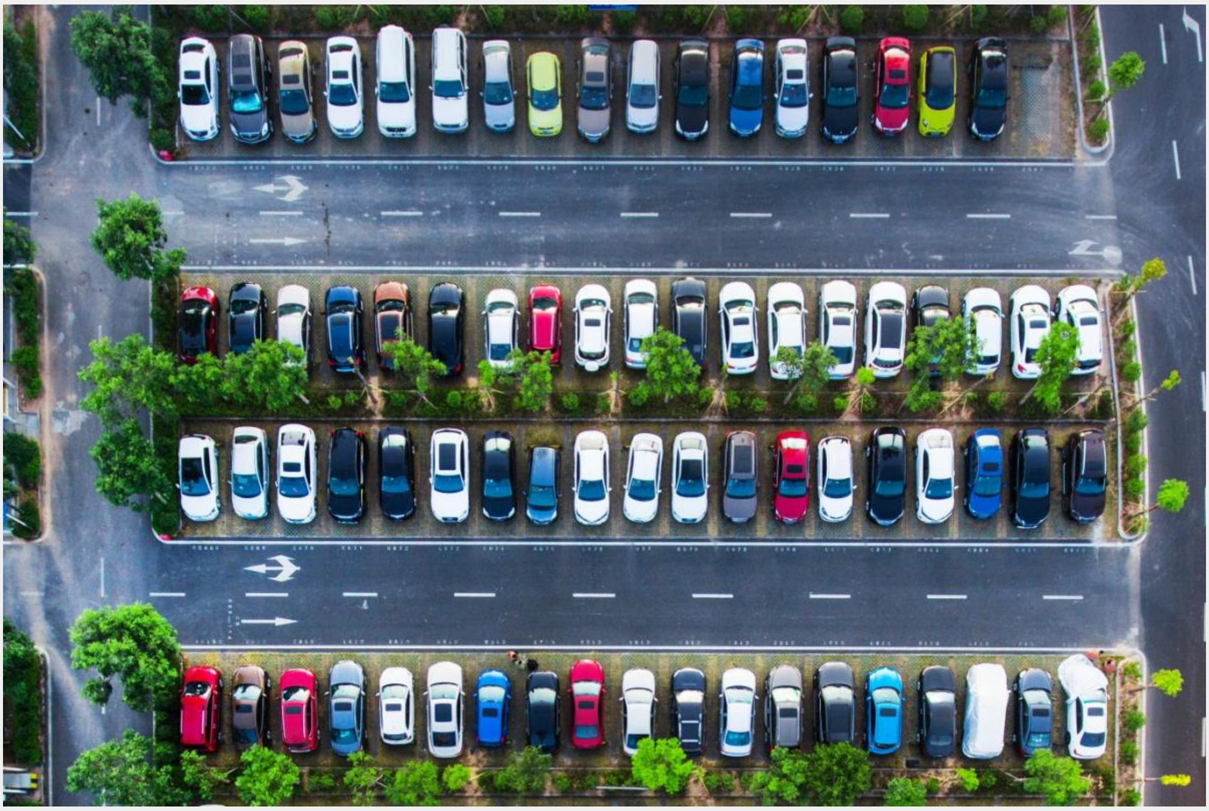
QROPS are primarily designed for people who want to move overseas at retirement, but are being used by scammers. Brooks says: “Dodgy advisers have been persuading savers to put their pensions into QROPS by claiming that less stringent rules overseas will make it easier for them to get at their money. These unregulated advisers then invest the money in toxic, illiquid, high-risk assets such as unsecured offshore property loans and football gambling. These are unregulated schemes, frequently worthless, and it is illegal to promote them to clients in the UK.”

A ‘free review’
If anyone contacts you offering a free pension review, put the phone down. Such offers are usually a bait to lure unsuspecting customers into disclosing their financial details, says Baroness Altmann, a former pensions minister and campaigner.

She says that one offer was taken up by a man who had cancer and was retiring early. He agreed to transfer his substantial six-figure pension pot into a spread of so-called luxury assets, including coins, stamps and yacht hire. He was promised a monthly income of at least £5,000, but received nothing.

Death bonds
This involved persuading investors to buy a second-hand life insurance policy from a terminally ill person who sells it for less than the payout would be upon their death, so that they get some money now. The buyer then profits from the difference when cashing in the policy after the oerson dies. Watts-Lay says: “These supposedly ‘low-risk’ investments fail when the policyholders live longer than expected and an investor’s money is tied up for years.”

Relationship-based fraud
In February the Pensions Regulator said that there had been a significant increase in "fraudster families" who dupe savers into withdrawing their money by emphasising their supposedly trustworthy status as husband-and-wife or family-orientated schemes.



Promised returns for investing in car parks rarely materialise GETTY IMAGES

Car park spaces and storage units
Promoters offer "assured" returns of 7 or 8 per cent for investing in car park spaces. These returns rarely materialise. Another type of investment involves storage units. These might look tempting, but are to be avoided, says Tim Wixted of Neglect Assist, solicitors specialising in professional negligence cases. "These are very illiquid investments and don't have a proper market for selling on, making it very difficult to value your investment," he says.

Fractional scams
The pension freedoms have also opened the way to legal rip-offs known as fractional scams. Savers are persuaded by financial advisers to take their money out of lucrative company pensions and reinvest them in poorer-performing alternatives, losing big fractions of their investment in commission to advisers, spurious fund charges and other administration fees.

Henry Tapper, founder of Age Wage, which collates and rates pensions, says it is like having a pizza from which several people take a slice before it gets to you. “Everybody takes a small cut and you lose because you do not fully understand the investments you’ve taken out,” he says.

Port Talbot steelworkers were persuaded in 2017 to exchange their pension incomes for risky funds with annual fees of 2 per cent and exit penalties of 10 per cent. *Times* Money last year reported how Peter Lord, who worked for Rolls-Royce for 27 years and had suffered a brain injury, was persuaded to cash in his £200,000 final salary pension — only to find five months later that he had lost £16,000.

Don’t be a victim

• If you are cold-called (which is now illegal) or contacted out of the blue by an adviser on email or text, hang up or delete.

• Ensure your adviser is authorised by the Financial Conduct Authority — check register.fca.org.uk

• Be wary of new companies. Some advisers are avoiding recriminations by declaring bankruptcy • and setting up new companies in a process known as phoenixing.

• Don’t be pressured — be suspicious of anyone setting you an artificial deadline.

• Get free, impartial advice from pensionsadvisoryservice.org.uk