

Pension crooks are stealing lifetime's savings, MPs warn

Patrick Hosking, Financial Editor

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There were fears that when pensions freedoms were introduced, some people could blow their retirement savings on buying fast cars SEAN GALLUP/GETTY IMAGES

MPs are to investigate the radical pension freedoms of two years ago that allow anyone over the age of 55 unfettered freedom to blow their retirement savings.

The Commons' work and pensions committee is to launch an inquiry into how the "freedom and choice" reforms are working in practice, in particular over concern that they are exposing vulnerable people to fraud.

Frank Field, chairman of the committee, said that "a new breed of pension crooks" had grown up to try to part people from their retirement savings. The committee will also investigate wider concerns that people are not getting the best value from their savings and that too many of them may be risking poverty in old age because of the temptation to splurge.

“Pension freedom and choice liberated savers to choose what they wanted to do with their own money,” Mr Field said. “This was welcome, but as with any radical reform it is important to monitor its practical effects closely to ensure it is working as envisaged. In this case, it is vital that adequate support ensures people are equipped to ensure they don’t make decisions they subsequently regret.”

George Osborne stunned the industry when, as chancellor, he announced the changes three years ago, overturning the decades-old convention that savers in defined-contribution pensions funds qualified for tax perks today usually to buy an annuity tomorrow and so ensure that they did not become a burden on taxpayers in old age. At the time Steve Webb, the pensions minister, said that he was relaxed and that people could buy a Lamborghini if they wished.

A million pension pots have been accessed since the reforms went live and £11.8 billion withdrawn, according to figures from the Financial Conduct Authority. In July, it claimed that taking pensions early was “the new norm”: of pension pots accessed, 72 per cent were by people aged 55 to 65.

Nevertheless, it is not clear that the practice is as common as the FCA suggested: another 5.6 million pots in that age bracket remained untouched.

While many people are accessing their pots, 94 per cent of them claim to have other sources of retirement income in addition to the state pension.

One big concern is that people are emptying their pension pots only to invest the money in other assets, surrendering the tax advantages of pension saving.

“This behaviour is totally irrational and highlights the lack of trust and ownership that people feel towards pension saving,” Jon Hatchett, of Hymans Robertson, the actuaries, said.

Thirty per cent of people accessing their pots were doing so without taking advice, the FCA found. Mr Field quoted police data which

suggested that more than £43 million of people's retirement savings had been lost to fraud since the policy was announced.

11 comments

Post

Curmudgeon

A dumb idea, dreamt up by a dumb politician. Typical short term thinking. Nothing beyond the next election.

Projector

You can't expect our stupid out of touch MP's to understand this.

Simon Shaw

"A million pension pots have been accessed since the reforms went live and £11.8 billion withdrawn."

So the average amount accesses has been £12,000 - and that is over two years. Also around 88% of those in the 55-65 age bracket with personal pension pots haven't (yet) taken advantage of this reform (that's a group that happens to include me).

I'd say, on that basis, that Steve Webb's very welcome reform is working well.

Nigel Bracken

The current rules on benefits etc already deal with people coming back to the state. The FCA could use it's vast resouces and powers to target fraudsters. There will always be crooks just as there will always be greedy, gullible fools but ending this flexibility because of £43m of fraud on £11.8bn withdrawn is baby with bathwater time.

Robert Holmes 4

what was the phrase: a fool and his/her money....

Michele A

So here we are, a couple just turned mid-50s, running our own business, paying tax, etc. In need of a loan to carry out essential renovations on our home and unable to find one because of the ridiculous "computer says no" processes adopted by banks. The bureaucracy is mind-boggling and is not just a sledge hammer to crack a nut, the restrictions are not even an accurate response to the problems of debt in 2007. So, as potentially responsible borrowers with absolutely no adverse credit history throughout our entire lives, we find that there is no lender willing to help us to the extent we need. Therefore, we have been forced to raid our pension pots. And now the current chancellor has penalised our ability to save again for our retirement with the punitive tax rates for contributions over £4,000 per year - again, to prevent the kind of profiteering which would not have applied to us. Whichever way we turn, life is made difficult. So, I am very sorry for the mess that is being left for future generations but I am even more frustrated that there is no fair avenue for the self-employed to seek loans. Please tell me which self-employed person was it in the UK who caused the crash of 2007? The whole financial system and Government response to it is ill-judged and ill-informed. We elect MPs who are predominantly qualified lawyers to create ever more laws to rectify the laws of their predecessors, yet they have no experience of the real economy or the real needs of the sensible people who work hard in small businesses to pay their wages (small businesses are the backbone of our economy in case you were not aware of this).

mgn-dbx

@Michele A well said.

The Fantastic Mr Fox

@Michele A

As an adviser, I understand and agree with the issues you raise.

My alternative to pensions is to use ISA's in future. I know these are not as good as pensions, but it is the best/closest alternative. I would also advise clients to broaden their investment avenues to Buy-To-Let properties or small commercial property, for instance. In the latter case, especially for personal use.

Whitestone

DC Pension freedoms should be dependent on having a secure income (e.g. a DB pension) of say £15k p.a. That was the sensible rule when drawdown was introduced and should not have been removed.

John McKay

The biggest crook was Osborne. Will someone put him in prison? Please.

The so-called 'Pension Reforms' were all about tax.

<http://www.thisismoney.co.uk/money/pensions/article-2683078/Pension-reforms-main-aim-boost-tax-receipts-former-government-adviser-claims.html>

<https://www.ft.com/content/aa48c1c0-0411-11e7-aa5b-6bb07f5c8e12>

By bringing forward this tax take future Chancellors will lose out. The result is that they will be having to tax youngsters even

more than they would have. I would not like to be a tax payer in 10 years or so when the chickens come home to roost!

Come and Go

@John McKay Maybe you (or I, for that matter) would not care to be one of the chickens either....