TIMES INVESTIGATION

Pension scams cost £4 billion

Third of transfers are red-flagged after reforms

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The value of pension transfers increased from £5.4 billion in 2014 to £33 billion last year after George Osborne allowed savers access to part of their pension pots from the age of 55 GETTY IMAGES

Pension scams are costing British savers up to £4 billion a year and are the "next big financial scandal", experts have warned.

Mis-selling cases have risen sharply since 2015, when a relaxation of pension rules took effect. Last year at least 100,000 people transferred out of defined-benefit pension schemes. It is now thought that a third of all pension transfers exhibit "red flags", up from one in 19 three years ago.

Celebrities have been caught in alleged frauds. *The Times* has discovered that one of Britain's best-known TV broadcasters, who cannot be named for legal reasons, moved more than £1 million into an offshore pension scheme that is now feared to have collapsed.

Scams can encompass both criminal fraud and legal attempts to persuade savers to invest in inappropriate or high-risk ventures. This newspaper has identified dozens of cases where savers have been left facing financial hardship, yet the people responsible have had no significant penalty imposed.

In an investigation into pension mis-selling it can be revealed how:

• Two of Britain's best chess players sold a "pension liberation" scheme leaving members with large tax bills yet have faced no sanction;

• Ferraris and private school fees were bought with pension cash by middlemen who allegedly misappropriated millions of pounds but who have never faced police investigation;

• a scammer who misused £13 million to fund a champagne lifestyle in Spain has yet to be charged despite a judge finding him dishonest 18 months ago;

• the public has been blocked from learning details of an alleged £14 million pension scam after the regulator removed a judgment from its website;

• Google is running adverts for firms promising to "release your pension early" through schemes that could lead to major tax penalties.

The value of pension transfers increased from £5.4 billion in 2014 to £33 billion last year. The boom was caused after George Osborne, as chancellor, reformed the sector to allow savers access to a quarter of their pots tax-free from the age of 55.

While the freedoms have been welcomed, they have also been a boon to scammers who have persuaded huge numbers of savers to pour their cash into high-risk investments such as plantations, storage pods, biomass plants or burial units.

In one case, an army veteran handed over £34,000 to invest in truffle-tree farms that were never cultivated. He has yet to see a penny in compensation. In another, an airline pilot who lost £380,000 in a pension scam is being pursued by HM Revenue and Customs for £80,000 more than a decade later.

"Pension scams have the potential to be the next big financial scandal," Baroness Altmann, a former pensions minister, said. "Regulators have failed to respond with adequate urgency and are leaving consumers at the mercy of fraudsters. The fallout risks putting younger people off pensions altogether."

The pension regulator has only completed one prosecution against a low-level fraudster while the Financial Conduct Authority (FCA) admitted in February that only ten of its staff were engaged in fighting pension fraud.

An FCA spokesman said that it was carrying out two criminal investigations into pension fraud. Meanwhile, more than 3,000 people a day are contacting the body’s Scam Smart website over concerns that they may have been scammed.

The City of London police, which runs Action Fraud, the country’s financial crime and reporting centre, admitted that it held no statistics on the number of prosecutions for pension fraud. Project Bloom, the government- run body set up to combat pension scams, told MPs in 2017 that prosecuting fraudsters was not its “strategic focus”.

“Criminal sanctions against those who defraud individuals are plainly and wholly under-used,” Michael Cotter, a solicitor representing wronged investors in multiple pension scams, said. “Proper justice is being denied to victims.”

A study by the Pension Scams Industry Group last year of £1.3 billion worth of transfers found that about one in eight was suspect. Applied to the total British transfer market, this equates to about £4 billion a year at risk.

In a separate analysis, the pension consultancy XPS said that one third of transfers it saw exhibited at least one red flag, such as an unauthorised adviser or suspiciously high fees: a 580 per cent increase on 2016 figures.

The number of cases showing three or more red flags doubled in a year to almost 7 per cent of all transfers. Payouts by the Financial Services Compensation Scheme (FSCS) for “pension negligence” increased from £32 million in 2015 to £159 million last year. Almost 1,000 complaints over pension transfers were received by the FSCS last year compared with only 103 in 2016, its director said.

“We’re seeing many examples of mis-selling as both regulated, but also increasingly unregulated advisers, promote risky, illiquid investments,” Mark Neale, chief executive of the FSCS said. “We see providers who fail to perform rudimentary due diligence.”

The FCA said that tackling pension scams was a key priority and that in practice a much higher number of staff than ten worked in the area. The pension regulator said it had a number of criminal investigations under way into pension fraud worth tens of millions of pounds and was starting another awareness campaign this year. The government said it was working closely with partners to “smash the scammers”.