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‘Too good to be true’ pension release claims targeted

A new campaign has been launched as part of a crackdown on schemes that claim to be able to release pension cash as a loan or lump sum before the law allows.

Consumers are being targeted with spam text messages, cold calls or website promotions, encouraging them to switch existing workplace or private pension, with the promise of being able to access some of their cash before they reach 55.

Launching the campaign on 14 February, the Pensions Regulator said people could be misled, or not properly informed, that tax charges and fees could reduce their pension pot by more than half, leaving them with little to live on in retirement.

The rest of their funds are likely to be invested in risky, unregulated investment structures, often based overseas. It said hundreds of millions of pounds had been taken out of pension schemes in this way, with thousands of members affected.

Accessing a pension before the age of 55 can result in an unauthorised payment, which can attract significant tax charges and penalties. On top of administration fees, total charges can amount to more than half of the amount transferred. Warning signs to look out for include:

- being approached out of the blue over the phone or via text message
- pushy advisers, often unregulated, who claim to be able to help consumers access pensions before age 55
- companies that offer a loan, saving advance or cashback from a pension
- references to loopholes, overseas investments, creative or new investment techniques.

The Pensions Advisory Service’s chief executive Marta Phillips said: “Although it may be tempting to release cash from your pension early, schemes presented to you, particularly if you are under age 55, are unlikely to be legitimate and you will incur a large tax penalty.

“In addition, our experience is that you are also unlikely to ever recover the balance of your funds. Therefore, if it sounds too good to be true, it usually is.”

The Pensions Regulator’s chief executive Bill Galvin said: “The pensions industry needs to do what it can to protect members from these offers. Before considering any transfer requests, we want trustees, providers and administrators to consider whether members’ savings are being transferred into a liberation scheme.”

Action Fraud’s head Steve Profit said: “Never be rushed into an offer and always be on your guard against anyone trying to push you into a decision, especially when it concerns something as important as your pension. We would advise anyone who thinks they may have been a victim, or if they have information regarding pension liberation fraud to contact Action Fraud on 0300 123 2040.”

RDR and investment advice: an overview

Major changes to the way financial advisers provide investment advice took effect from 1 January 2013 under the Financial Services Authority's Retail Distribution Review (RDR) reforms. Key points are summarised here but for more detailed information, please contact us.

Independent or restricted?

Advisers now offer independent or restricted advice. The FSA defines independent advice as "designed to reflect the idea of a genuinely independent financial adviser being free from any restrictions that could impact on their ability to recommend whatever is best for the customer."

A restricted adviser can recommend certain products, certain providers or both. This could mean offering recommendations on a single type of product or one provider's products, for example when they work with or for that provider.

Restricted advisers must not describe their advice as independent and make it clear to clients what restricted advice means in practice.

Remuneration

Both types of adviser must operate charging structures free of any influence from, or potential bias towards, product providers. Fees are paid directly to the adviser or met through product charging.

Professional standards

To continue providing investment advice, advisers had to have reached a higher minimum level of qualification by 1 January 2013 and must keep their knowledge updated through a tougher Continuing Professional Development (CPD) regime.

All advisers must hold a Statement of Professional Standing, issued by an accredited professional body and renewed annually, subject to their meeting CPD requirements.

Client segmentation

Advisory firms must "segment" clients, to assist in delivering different services to different types of client. Segmentation is designed to help them establish appropriate business models, remove cross-subsidy between clients and ensure they receive what they pay for.

UK retirees 'will use up savings in 7 years'

New figures show that the average UK retirement will last for 19 years but that average retirement savings will be used up after just over a third (37 per cent) of that time.

The findings were revealed in HSBC's The Future of Retirement: A new reality, published on 20 February, which covered 15,000 people in 15 countries.

The 12-year shortfall in retirement savings in Britain was the worst identified by the study. Malaysia performed best, with an average expected retirement of 17 years and savings lasting for 12 years.

The average expected retirement for all countries surveyed was 18 years, with retirement savings lasting for ten years.

The survey also found that currently 56 per cent of the global working population was failing to prepare adequately for later life, rising to 66 per cent in the UK.

Of these, 19 per cent globally were not preparing at all, rising to one in three (34 per cent) in the UK. However, 63 per cent of Britons said they feared financial hardship in retirement (compared to 57 per cent globally), and 31 per cent that they would have to work longer than they wanted to.

The study also found retirement savings were vulnerable to being drawn on to meet shorter term needs. In the UK, 14 per cent of those yet to retire said they would use retirement savings to cope with major life events such as buying a home or paying for children's education.

And 57 per cent of those not yet fully retired in the UK would willingly put saving for a holiday ahead of saving for retirement, compared to 43 per cent globally.

Christine Foyster, head of wealth development at HSBC UK, said: "People throughout history have faced the question of how to provide for the future. The solution is simple: the earlier you start to plan the better prepared you will be.

"The key is for everyone, regardless of age or income, to make small changes now to ensure they get the retirement they expect."

Auto-enrolment set to be made simpler

The government is to consult on proposals to make automatic enrolment into workplace pensions simpler.

The consultation, which is due to be launched in March, will give employers and the pensions industry a chance to comment on practical or technical improvements.

Auto-enrolment of eligible employees into a qualifying workplace pension began in October 2012. The roll-out began with the largest employers, those with more than 120,000 staff, and will be extended to every employer in the country over the next five years.

The Department for Work and Pensions said that any changes made as a result of the consultation would recognise the need to give employers and pension providers enough notice to update their systems.

Minister for Pensions Steve Webb said: "We've been listening to the experience of employers that have enrolled their workforce so far and recognise that some parts of the process could be improved. By consulting on these changes we can address this before automatic enrolment is rolled out to small and medium-sized businesses.

"We don't want to make changes to legislation lightly but do we want to make sure that automatic enrolment is working as well as possible."

Now that the phased introduction of auto-enrolment into qualifying workplace pension schemes has begun, more and more businesses will need to start putting in place action plans for meeting their new obligations.

A key task will be to review any existing pension arrangements and implement any steps required to ensure compliance. Businesses with no scheme will need to ensure they introduce compliant arrangements that will deliver good outcomes for workers' retirement savings, as required by the Pensions Regulator.

With auto-enrolment likely to become a priority issue for increasing numbers of businesses, specialist expertise in this area can be invaluable.

At Birchwood Investment Management, our fully qualified team offers extensive experience in auto-enrolment and other occupational pension issues.

Our pensions experts can provide advice on a one-to-one basis, or through seminars, or we can provide more specialist assistance with reviewing and upgrading pension schemes or implementing new schemes. For more information, please contact us.

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