Pension Liberation Fraud: The New Kid On The Block

Having a pension fund itself would make most people happy, but liberating one makes it sound even more enticing and for some poor people, too enticing by half as they fall victim to the new fraud which is in vogue at the moment, pension liberation.

The premise is simple. Normally people can only access their pension pot after they turn 55 years of age. In rare situations, where tragically a terminal illness is diagnosed for example, access can be granted earlier. However, Organised Crime Groups (OCGs) are now targeting individuals promising them the opportunity of getting early access to their money which is tied up in their pension funds.

It's their money, why shouldn't they get it when they need it? Especially in these challenging economic times.

It's an attractive marketing tool used by the OCGs and which they deploy through the medium of text messaging, cold calling or by aggressive marketing on the Internet.

It doesn't stop there though because the pill is sweetened further by the fact that not only would people get their money back early but the added bonus is that they would get it back tax free due to the fact that they would be transferring their pension funds to a pension provider registered off shore. All that would be required is the ubiquitous administration fee of 10% or so.

Sound too good to be true? It most certainly is.

The consequences for the saver are that eventually their pension fund is either spirited away to an off shore jurisdiction never to be traced again or it's destroyed by never ending rolling administration fees that were not disclosed to the saver (most probably as a result of copy paperwork never being provided by the OCGs) when they agreed to the transfer of their funds from their original providers. And if the OCG doesn't get you, HMRC can levy charges and fines of more than 50% of the overall pension pot if they discover what has taken place.

That's why the government and a host of government agencies involved in the pension industry and its regulation have jointly launched Operation Bloom in an attempt to head off this new species of fraud before it begins as its forecast by the government that as much as £600 million of pension savers' money is at risk from these organised criminal gangs.

The advice advanced by the government in order to address this burgeoning problem is sound and in effect is good common sense: don't give out personal financial information to cold callers, check out the companies involved in selling these products, seek independent financial advice, never rush into making a decision and request clarity on whom will be looking after the pension pot until you retire and how will it be paid out on retirement.

In some respects the old adage that if something sounds too good to be true, it probably is, is the best advice to follow.

But the underlying problem that does not seem to be being addressed by the government is what is causing the environment for this type of fraud to thrive and develop. The reason simply why people are falling for these scams is that they need access to their money due to a host of reasons - illness, redundancy, etc.

In our current economic state and with the challenges being thrown up by an ever changing socio-economic demographic, the need for constructive pension reform is just as important than effective and pro-active regulation.