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MONEY BOX: PENSIONS SPECIAL

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LEWIS: Hello. In today's Pensions Special Money Box, one crook is jailed for 8 years; another nine cases are under investigation. The Serious Fraud Office tells us there are hundreds of millions of pounds at risk of pension fraud. Are pension charges too high and too hidden, the industry debates with this week's big critic? The Pensions Minister himself Steve Webb joins us and tells us his plans to make pensions more portable. And Bob Howard's here. He's been listening to some tapes.

HOWARD: Yes, a firm cold calling with some seemingly tempting pension offers.

McCOURT: I was amazed that somebody who's non-regulated were able to promote such very high risk investments.

LEWIS: And that's later. But thanks for that, Bob, we look forward to it.

But we start with pensions fraud, one of the biggest threats to individuals. That's the warning today from the Joint Head of Fraud at the Serious Fraud Office. Nine inquiries are underway. Hundreds of millions of pounds is at risk. The scam begins by getting individuals to transfer their money from their pension scheme into a Self Invested Personal Pension, a SIPP. The crooks then persuade them to transfer that money abroad where it disappears. Joint Head of Fraud at the SFO, Jane de Lozey, explained to me how the fraud has developed.

DE LOZEY: When SIPPs came into the marketplace, they were designed to be used by very sophisticated investors and high net worth individuals. The market, as it has opened up, is now being offered to a wider range of investors, and what we are seeing is that ordinary people are being encouraged to release their pension monies where they are currently held, often in very stable investments, and put those monies into the hands of what we suspect are fraudsters and criminal syndicates operating in this area.

LEWIS: How big is this problem?

DE LOZEY: Well to give you an example of a case that recently concluded, the value of that fraud was £52 million; and that related to the pensions of approximately 2,500 people, it affected nine pension schemes. I am currently dealing with three such schemes. I'm aware of six other suspected frauds, and the value of those six others alone is in the region of £200 million. And that is just six that I and partners in the Pensions Regulator and the FSA are aware of, so I'm afraid the scale of the problem is very grave indeed.

LEWIS: Those are the ones you know about. That's, as you say, more than £200 million of fraud. Where does it go beyond that? What's the scale of it beyond that? Do you know?

DE LOZEY: Who knows, to be honest with you, Paul. We are just at the start of seeing the huge threat that this poses to individuals. Many of the schemes that we're seeing at the moment involve developments of land, golf resorts and the like overseas, and we are also seeing a trend in terms of renewable energy sector and biofuels.

LEWIS: And how can people protect themselves against this? How can they recognise when what they're being offered, which may seem on the face of it very attractive, is a scam?

DE LOZEY: It can be very difficult because often fraudsters are employing professional people as intermediaries, so these people can give a veneer of respectability to what is essentially a scam. There are many IFAs up and down the country who are being recruited. Obviously people are encouraged to check out with the FSA if they are approached by someone who's acting in this sort of intermediary capacity. We are seeing people who've sold their houses and have put all their life savings with one investor and, unfortunately, we know that person to … well we suspect that person to be a fraudster.

LEWIS: If you get a cold call or indeed a cold text message about this, isn't the safest thing just to put the phone down, say no?

DE LOZEY: That's what I would do.

LEWIS: And how is this kind of business regulated? It seems to be missing this kind of fraud.

DE LOZEY: You're absolutely right in that particularly in the SIPPs market, the regulation falls between the FSA and the Pension Regulator. And SIPPs trustees are not actually regulated by either entity, so there is a gap in the legislation which is being exploited by fraudsters.

LEWIS: So the trustees of a Self Invested Personal Pension are not regulated?

DE LOZEY: And they can come from any walk of life. There are no minimum qualifications. You or I could set up tomorrow as a SIPPs trustee, and that is what is so alarming about this.

LEWIS: Would you like to see the law changed?

DE LOZEY: I think the law has to be changed as a matter of priority. That is something that colleagues at the Pension Regulator and other partner agencies are working on to address because in the move to open up the market and create more flexibility and more consumer choice, with that unfortunately comes greater scope fro fraudsters to capitalise.

LEWIS: You're involved in frauds of all sorts at the Serious Fraud Office. How does this compare with the rest of it? How serious is it compared with other frauds?

DE LOZEY: I have to say that in my 8 years at the Serious Fraud Office, I have not come across anything which I think is of higher public interest and also something that poses a real risk to the state which may be left to pick up the tab when these people retire and find that the pot of money they thought was waiting for them no longer exists and has been dissipated by fraudsters.

LEWIS: Jane de Lozey of the Serious Fraud Office.

Well we are all encouraged to save in pensions and most of us (thankfully) avoid fraud. But many people are concerned about the size of the charges which eat away at our pension savings. Our pension pot always has a little tap at the bottom out of which drip annual fees, dealing charges, administration costs, and other sometimes mysterious levies. We've reported before on Money Box how even a modest charge can make a massive chunk away from your pension fund after 40 years. This week Pensions Manager David Pitt-Watson returned to the theme, claiming that not only could a 1.5% annual charge cut a pension by more than a third, but that pension funds were secretive over the actual charges they levied. His report for the think tank the RSA called *Seeing Through The British Pension System* was published this week, and David Pitt-Watson is here with me. Just summarise your main complaints, David.

PITT-WATSON: Yeah, I mean I think the first thing is just how important, as you said, charges are, Paul. You know if you're paying 1.5% per year during the 60 year lifetime of a pension from the age of 25, retiring at 65, and taking a pension for 20 years, that 1.5% charge can take … our calculation is 38% of your money - a 2% charge. Nearly half your potential pension disappears.

LEWIS: And that's because the early amounts you're putting in, that charge is levied off that amount every year after year after year?

PITT-WATSON: That's exactly right and it's terribly important that people look at charges and think about charges and know about charges. But what we've discovered is that people don't know about charges, and we know that from looking at research that the Government has done over the past 3 years and we report on that. But also - and concerningly I think - we know that there are certain charges that are hidden, so as you said ones like the cost of trading shares or taxation costs and so on. So we phoned 23 pension providers in the UK and asked them three times what their charges were and whether there were any other charges. Twenty-one of them came back and said there were no other charges, and we know that there are other charges. And, look, I think this is first of all a wake-up call that we must have openness and transparency for people who are selling pensions; but more than that, we can do better. If you go to Denmark, they have a very interesting system where people get a pension statement that looks like a bank statement. So you don't get a percentage, you see exactly what's been deducted from your account, and we think we ought to do that in the UK.

LEWIS: Listening to that in Edinburgh is Otto Thoresen, Director General of the Association of British Insurers, whose members provide most of our pensions. Otto Thoresen, what's wrong with that?

THORESEN: Well I think I'd start, Paul, by separating out the two points that David makes. Firstly, the importance of charges. I completely agree with him. If you look at how the market for defined contribution pensions has developed over the last decade or so, firstly with the introduction of stakeholder pensions and then with the impact of the Turner Commission and subsequently the Pension Reform Agenda, we've seen annual management charges come down significantly over the last decade. So now our most recent research suggests that the average annual management charge for workplace savings is around about .77%.

LEWIS: Well that's workplace savings, isn't it? It's not the same if I walk into an insurance firm and say, look, I'd like a personal pension. That's still going to be 1 or 1.5% plus these extras.

THORESEN: Absolutely. But I was focusing more on what's coming in terms of the auto-enrolment issue in the workplace savings pushed through pension reform. But if I could move on. I mean, as I say, we completely agree about the importance of charges, and actually we think the market has been effective through those changes that I described earlier in pushing those charges down. If we move onto the issue about people knowing about charges and about the importance of transparency, I actually agree with that one too. The issue …

LEWIS: *(over)* What are you going to do about it though?

THORESEN: Well if you just give me a second. The first point I'd make is that if (as our members in the insurance industry) you're regulated by the FSA, there's actually quite a significant amount of disclosure already. The problem I would suggest is that the disclosure was developed in the past from a retail environment and actually needs to be looked at to make it more accessible and more easy for people to engage with. On the trust base side of the industry, of course, there's no real disclosure around charges at all; and, as a result of that - this was reported on by the National Audit Office recently - there's quite a bit of confusion in having the two regulators. And I'll come now to the point that …

LEWIS: Briefly if you would.

THORESEN: Yes I will. … that David made on the 21 out of the 23, for example. I would put that down, to be honest, as more of a misunderstanding than a deliberate attempt to mislead. But the point is costs - trading costs, stamp duty - those in the past were less important because of the high level of charges generally. We should be working at how we can make those more clear to people and allow them to judge between good value and less good value.

LEWIS: And what about the Danish system where you get a statement that sets out very clearly in pounds, not in percentages, what you've paid each year, because currently annual pension statements don't do that, do they?

THORESEN: No, well I think a couple of comments. I think the first one is - and this is another area where I agree with David - he says in his report that it's important that we make disclosure that is cost effective for the industry and for the consumer, and I think we need to think carefully about the best way to do this in order to help people engage because we shouldn't be making it difficult for people to engage. I don't actually think the Danish system in itself takes you that much further forward, but I'm open to all suggestions about how we can improve the level of transparency.

LEWIS: Otto, I'm going to give David ten seconds to come back on any point he wants to make.

PITT-WATSON: No, I think Otto is agreeing with what it is that we're saying here and that's great. But I think I'd say two things. Look, let's get a programme for taking this forward. I mean look, Otto, I just think let's go back to people that are selling pensions and say when these questions are asked, let's go back and think about how we would put a Danish system in.

LEWIS: And Otto Thoresen, will you do that and will you go back to the old pensions that are still charging a lot more than this and say cut your costs?

THORESEN: Paul, we're involved in a number of things at the moment which are aiming to improve the plumbing and the operation of the pension system.

LEWIS: Very quickly.

THORESEN: I'm certainly very happy to talk with David and others about how we can improve transparency in this area.

LEWIS: Okay, good. Otto Thoresen, David Pitt-Watson, thanks, we must leave it there, because listening to that is Pensions Minister Steve Webb. And I'll raise some of those points in a minute, but first the Government came up with plans this week to help people who have a number of small pension pots from different employer schemes. The plans would mean that as you moved from job to job, your pension would follow you. Steve Webb's there in Bristol. Steve, just tell us briefly how this would work.

WEBB: So the idea is that because people change job quite frequently, they risk leaving relatively small amounts in lots of scattered pension pots. And the idea we put forward this week is that when you change your job, particularly under the automatic enrolment system where your new firm put you into a new pension, that would be combined with your previous pension unless you chose that it didn't happen, and that way people would build up you know one or a smaller number of pension pots which would be better value for money.

LEWIS: It sounds good value, but of course as your pot follows you from employer to employer, your new employer might have a more expensive scheme with those high charges we've heard about and you'd actually be worse off than if it had stayed where it was.

WEBB: There is a trade-off between the benefits to the consumer - for example not losing pots altogether, not facing the higher charges you often face when you leave a scheme and the money just sits there, not being able to buy a good annuity with a small pot - so combining pension pots gives you all those benefits. But you are right, there is a variation in charges between schemes and that's why, first of all, there is an opt-out for people; they don't have to do the transfer. But we do need to look at the scale of doing this, so that we're talking relatively small pots where otherwise people lose very badly if they just get left behind.

LEWIS: And will you be taking action to try and make charges lower because there isn't even a cap on workplace pensions now, is there, as there used to be on stakeholders, for example, of 1.5%?

WEBB: What's happening at the moment is we're looking very closely at charges, so we keep a hawk eye on this and our research says that over nine out of ten of these workplace pensions are charging 1% or less. So it's important people understand the absolute norm is relatively modest charges and charges that are coming down, but we do have the power to cap charges if we see that as the market develops, higher charges are coming in, and we will use those powers if we need to.

LEWIS: I was going to ask you that. You say you will use them. So that's a threat - or a warning, I should say - to the industry, that if they don't keep prices down, you'll act?

WEBB: Absolutely because it's fine with the big firms, but when we get to the smaller firms we need to be sure they're not being taken advantage of.

LEWIS: And Steve Webb, we heard earlier from the Serious Fraud Office that SIPPs - which many people are being encouraged to move their money into - the trustees of SIPPs, Self Invested Personal Pensions, are not regulated. The Serious Fraud Office wants the Government to take urgent action. Is your department working on that already?

WEBB: We are. I mean, as you heard, the Pensions Regulator, for which we're responsible, is working with the Serious Fraud Office on the issue that's been raised. But just two points to bear in mind. I mean, first of all, these sorts of fraudulent activities are illegal now. The man involved in the scheme that the SFO talked about has been locked up for 8 years, so another bit of regulation wouldn't make it any less illegal. It's illegal now. But we do need to make sure the regulations are right, but there is a backstop for scheme members - the Fraud Compensation Scheme - so people should certainly be aware and be very cautious with these schemes, but there is protection in place as well.

LEWIS: Steve Webb, thank you very much indeed.

Money Box has been contacted by a listener who says he was cold called by a firm which tried to persuade him to cash in his pension and put the money into a SIPP despite the firm not being regulated to give pensions advice. Bob Howard's been investigating.

HOWARD: Paul, we were contacted by independent financial adviser Nick McCourt from Glasgow. Last month he was cold called by a firm called Money Return Limited.

McCOURT: They phoned me and offered me a free pension review. "We can highlight information about your pension that your current provider isn't obliged to tell you."

HOWARD: As there was no charge for the review, he gave permission for the caller to contact his pension provider. He didn't tell the firm he was an independent financial adviser because he wanted the advice that any other member of the public would get. An executive from the company contacted him after she'd got the results and told him the review had thrown up a number of important of issues about his current pension arrangements. Over a number of days, the executive and her supervisor gave Nick McCourt some detailed analysis on the phone and via email. He was so alarmed at what he was hearing, he decided to record a call. One answer which particularly worried him was a projection as to what his pension would be worth in around 22 years time when he's hoping to retire.

EXECUTIVE: So last year it was £140,285.

McCOURT: Yeah.

EXECUTIVE: This year it's £128,670.60.

McCOURT: Yeah.

EXECUTIVE: So if I, for example, take into consideration the same loss, how many years is it until you've got to retire about?

McCOURT: About 22 years.

EXECUTIVE: About 22 years. So if I times £11,614.56 by 22, that gives me £255,520.32. So your pension would be non-existent.

McCOURT: Alright, okay, that's …

EXECUTIVE: *(over)* So if they carried on charging you this amount, your pension would actually be minus … your pension would be minus £126,849.72.

McCOURT: *(laughs)* Right.

LEWIS: Bob, if I've understood that right, she was saying he'd owe the pension scheme money at the end?

HOWARD: That certainly seems to be the implication. But the executive had a solution: Nick McCourt could take his money out of his current pension arrangement and put it into a Self Invested Personal Pension or a SIPP. This would be used to invest in a variety of projects from student accommodation through to ethical forestry.

EXECUTIVE: So if you did want to go with ethical and prime site …

McCOURT: Yeah.

EXECUTIVE: … then you'd have that SIPP and that's £350 set-up and £350 a year. So you're saving yourself.

McCOURT: Yeah.

EXECUTIVE: Forget the set-up fee, but with the first annual management charge, you're saving yourself over £1100.

McCOURT: Yeah, okay.

EXECUTIVE: Just in charges.

HOWARD: The executive suggested at various points that Nick McCourt could contact an independent financial adviser if he wanted another source of advice. But Nick McCourt was very concerned that a normal member of the public without his expert knowledge could end up simply acting on the advice provided by Money Return Limited. The Financial Services Authority categorises SIPPs as regulated products, which can only be recommended by somebody who's authorised by the FSA. When Nick checked Money Return Limited's status on the FSA's website, he found it was not regulated by the FSA, so it can't give pensions advice. Nick contacted the FSA twice to say he was alarmed at the advice he'd been given, but a month later the regulator had still not acknowledged him, so he contacted us.

McCOURT: I decided to get in touch with Money Box because I was amazed that somebody who’s non-regulated were able to promote such very high risk investments to people over a phone without knowing anything about their circumstances.

HOWARD: We asked the FSA to confirm what its rules are on firms advising clients about products such as SIPPs. It told us this.

FSA STATEMENT: A firm that is acting as an introducer should not provide advice or give any sort of recommendation unless it is authorised by the FSA to do so. If an introducer gives advice without being authorised, it is likely to be breaking the law.

HOWARD: When we asked the FSA why it hadn’t acknowledged the two calls from Nick McCourt, it apologised and said the calls had been logged and he should have been contacted to say so. We asked somebody from Money Return Limited to give an interview, but nobody was available. But the firm told us Nick McCourt’s experience was an isolated example and said the executive told him she wasn’t a financial adviser and couldn’t give financial advice, and it suggested Nick McCourt may have intentionally misled her and encouraged her to exceed her brief. It also sent this statement.

MONEY RETURN LIMITED STATEMENT: Money Return Limited takes all concerns and criticisms extremely seriously. Our sales staff must inform all customers that they’re not financial advisers and, should the customer wish to continue, it’s our protocol that they must speak to an independent financial adviser. Money Return Limited has reviewed all the tapes and issued further guidance to our staff. We are conducting a full internal investigation in addition to seeking advice from a panel of external compliance experts. We hold our responsibility to provide a compliant, professional and beneficial service very highly.

LEWIS: Well that was the statement from Money Return Limited at the end of Bob’s package. Thanks, Bob. We decided though to speak to our own compliance expert. Julian Ellis is a chartered financial planner and Director of Financial Services

Regulation Limited, which advises IFAs on compliance issues. I asked him for his assessment.

ELLIS: I don't think they are complying judging by the comments that I've read. There are a number of areas where they may be breaking the Financial Services and Markets Act, including carrying on regulated activity whilst unauthorised, issuing a financial promotion, a real time financial promotion whilst unauthorised, making arrangements with a view to transacting investment business as a regulated activity. And no person can carry out a regulated activity unless they're either authorised or exempt, and it would appear that firm is neither authorised nor exempt.

LEWIS: And would it help their case if at some stage in the conversation they said, "Oh by the way, you should see an IFA"?

ELLIS: I don't think it would help because it would still be a financial promotion, and the Financial Services Authority has found problems with financial advisers who didn't understand that talking to someone in such tones would be a financial promotion.

LEWIS: If they were breaking the Financial Services and Markets Act by doing one of these activities for which they're not regulated, how serious is that? Is it a crime? Is it a sort of misdemeanour? Is it just something that somebody should say don't do that again?

ELLIS: Yes they can go to prison and they can be fined.

LEWIS: From the cases you're seeing, is there a growth in marketing of Self Invested Personal Pensions which is not being done properly?

ELLIS: Well certainly the Financial Services Authority has seen as substantial increase and they consider it to be an emerging risk in their retail conduct risk outlook this year that they issued a while ago.

LEWIS: So if somebody is approached about their pension fund and invited to put it into a SIPP, what can they do to make sure that what they're being offered is lawful and indeed sensible?

ELLIS: Well the first thing they should do is go to the Financial Services Authority's website and check on the register there to see that they are dealing with a firm that is authorised and regulated. And once they've done that, then they can have a certain level of confidence - although, as we know, there are a lot of firms that are still failing because of poor advice.

LEWIS: Julian Ellis of Financial Services Regulation.

Well that's it for today. There is more on our website, bbc.co.uk/moneybox, where you can download the programme and also have your say on pension charges and other issues. Some of you are already. Somebody's already emailed to say he's being encouraged to put his pension fund into a Cape Verde property scheme. There's no Money Box Live this week, but at 3 p.m. on Wednesday you can hear a repeat of today and it will have some added extras. Money Box is beginning its summer holiday, but don't worry, Saturdays won't be empty. Next week my colleague Ruth Alexander is here with a special programme on finance and young people. And after that, well you'll see. I'm back in September. Today the reporter was Bob Howard, the producer Sally Abrahams, and I'm Paul Lewis. Have a good summer.