

Pensions Committee

10am, Monday, 24 June 2013

Individual Member Transfers

Item number	5.9
Report number	
Wards	All

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Single Outcome Agreement

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Executive summary

Individual Member Transfers

Summary

The Pension Regulator, HM Revenue & Customs, the Financial Conduct Authority and the Serious Fraud Office have all recently combined to warn pension funds and the public of the dangers associated with those seeking to encourage members to liberate their pensions, commonly with enticements of receiving an early cash-lump sum and/or tapping into 'enhanced' investment performance.

These practices are often to the long term detriment of the members, routinely involving material tax and other charges, poor investment performance and contracting with recently established entities with poor financial covenants. In the most extreme cases, these arrangements can involve unlawful 'liberation fraud' (e.g. where cash is released to members from sums accrued for the purposes of providing a pension in breach of the relevant rules governing the circumstances in which lump-sums of this nature can be taken).

The pension fund is required to exercise discretion as to whether to approve transfers. While the Pension Regulator has issued guidance in terms of identifying potential cases of liberation fraud, it places the onus on the pension funds themselves to have sufficient procedures in place to identify any suspicious practices and properly exercise their discretion as to whether or not to approve a transfer.

We are receiving an increased number of additional transfer requests, many of which appear to involve practices which may constitute liberation fraud. We have therefore put in place a procedure which involves additional levels of diligence/enquiry of the member itself and the proposed transferee scheme. This is to ensure that any decisions around whether to approve these types of transfer can be as informed as possible, are clearly documented and that we are sending a clear external message that these transfers are not being approved as a matter of course. This procedure must however strike an appropriate balance so as to ensure that lawful transfers are not unduly delayed.

Recommendations

We recommend that the Committee note the increasing incidences of potential liberation fraud and that the officers are putting in place appropriate procedures to ensure that the members are aware of this risk and that the exercise of discretion in approving any such transfers is done on as informed a basis as possible.

Measures of success

To identify any cases of liberation fraud prior to approving any such transfers, make members aware of the risks associated with pension liberation and allow routine transfers to proceed with minimum disruption.

While there has been some frustration among members in relation to the additional procedures prior to approving a transfer out of the scheme, we are aware that other funds in the public and private sector are taking a similarly robust approach and we have recently been contacted by a member to thank us for our role in blocking a transfer that would have involved liberation fraud and his being in serious financial difficulty. We are looking to see if that member will provide comments for us to use on our website and other materials to help raise awareness of this very immediate and serious threat to members.

Financial impact

There is no direct financial impact/cost in implementing this policy, except that (i) it will likely be more labour intensive for the pension administration team (although we are looking to streamline the process), and (ii) there are financial benefits associated with good governance in this area/avoiding potential claims against the fund and/or fines from the Pension Regulator.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

Guidance issued by the Pension Regulator entitled “Predators stalk your pension” – <http://www.thepensionsregulator.gov.uk/professionals/pension-liberation-fraud-professionals.aspx>

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None