

### Summary

- As much as £13 million is being pried away from pension savers every week due to fraud.
- Some say that, although auto-enrolment has been a major success, it has also created problems in terms of scams.
- Some in the pensions industry communicate minimally with members, doing little beyond sending an annual statement. That must change, according to experts.

# Increasing financial literacy; lowering scams

As part of *Pensions Age's* year-long special focus on financial literacy, Chris Newlands explores the relationship between financial literacy, or lack thereof, and the risk of falling for pension scams

Pension savings take decades to build but can be lost to scammers in just a matter of minutes.

According to figures obtained by the Pensions Management Institute, Britons have lost more than £2.6 billion to pension fraud since the start of 2020.

Between the beginning of the decade and the end of last year, almost 100,000 people have fallen victim to investment fraud, based on data obtained via a freedom of information request to the City of London Police's National Fraud Intelligence Bureau. The numbers show as much as £13 million is being pried away from pension savers every week.

The figures are dazzling for all the wrong reasons, and it raises the question of financial illiteracy and whether the pensions industry is working hard enough to educate its increasing number of customers, thanks to auto-enrolment.



### Auto-enrolment impact

Redington senior vice president, Russell Wright, says: "Before pointing the finger at providers, it is important to consider the unintended consequences of automatic enrolment.

"Although this has been a major success in many ways, it has also created an environment where people have large pots of money that they understand very little about – the perfect hunting ground for criminals."

He says this makes it even more

important for the industry to ensure it gets "the basics right".

Wright adds: "Have providers ensured their welcome communications have gone through member testing and adapted them to get the relationship off to a good start? Do their regular communications educate and empower members? And then there's the acid test – is it easy to speak to someone? This last point is so important for driving confidence in the industry and ensuring people have a trusted point of contact."

Auto-enrolment has not just created large pots of money, however, as for many, who work part-time or move jobs regularly, it has also created multiple workplace pensions to remember.

Around one in seven, or 7.3 million, UK adults have been the subject of an attempted pension scam in the past 12 months, according to LV=, with

the insurer suggesting people's growing collection of pension pots is causing confusion and increasing the potential avenues for fraudsters to try and steal from savers.

Indeed, the research outlined that there are six million individuals with multiple pension pots who, the insurer says, "may be more exposed to scams".

LV= chief executive, David Hynam, said in a statement: "Avoiding falling prey to scams is becoming ever harder, with more people having a number of pension pots, and so keeping track is increasingly difficult for consumers."

### Education

Returning to the question of whether the pensions industry might be partly to blame for the rise in scams, PensionBee director of public affairs, Becky O'Connor, agrees that "pointing fingers" can sometimes be counterproductive, but that constructive criticism is essential for driving positive change.

The industry does have a responsibility to educate and safeguard their customers, she says, but this should be seen as part of a broader effort that includes regulators, policymakers, and consumers themselves.

O'Connor tells *Pensions Age*: "Pensions are often seen as complex and intimidating, which is partly a result of a lack of engagement that hasn't exactly been counteracted by providers over the years, who have tended to communicate minimally with members beyond sending an annual statement.

"Scammers use this to their advantage. To combat this, pension providers need to demystify pensions through simple, jargon-free communication and practical examples. Reminders about scams must also be regular, throughout the year."

On the face of it, common sense would suggest there is a clear link between levels of financial literacy and being scammed. If people know more about how pensions and investments work, you expect them to be less likely to fall victim.

But, it is not as straightforward as that, says Financial Inclusion Centre co-director, Mick McAteer.

#### Attitudes and vulnerabilities

"Rather than financial literacy per se, the chances of falling victim to scams is as much about attitudes and vulnerabilities at a given point in time, and how likely a group is to be targeted by scammers. Knowledge of how scams work, and ability to detect scams rather than having detailed knowledge of pensions is also critical."

He points to Financial Conduct Authority (FCA) research that surprisingly found that the more educated people were, the more likely they were to fall victim to a pension scam. Those with a university degree, for example, were 40 per cent more inclined to agree to a free pension review from an unfamiliar company, and 21 per cent

more likely to accept an offer for early access to their pension – both common pension scams tactics.

McAteer says: "Overconfidence about knowledge of financial issues is a real problem. The same FCA research found that despite nearly two-thirds of people surveyed saying they are confident making decisions about their pension, the same proportion said they would trust someone offering pensions advice out of the blue – one of the main warning-signs of a scam."

### **"We need criminals to know pension scheme members are financially savvy and forearmed to spot and report a scam"**

Another potential area of weakness within the sector, according to some market experts, is that the current pension system is designed for traditional patterns of work and is not suited to help employees who take significant career breaks, work in multiple or part-time roles, or frequently move between jobs.

Now Pensions head of campaigns, Samantha Gould, says: "That means for many that they don't tend to think about their pensions regularly or often, and that is where vulnerabilities can be found."

Gould believes further expansion of auto-enrolment could help with this and that the move to lower the age of those covered by the system would be beneficial.

"Getting more people saving via automatic enrolment would be an effective way to start addressing these vulnerabilities, as well as closing the current pension savings gaps faced by the UK's underpensioned. The Department for Work and Pensions announced in 2022 that the age of

mandatory auto-enrolment will be reduced to 18 from 22 and that a mandatory 8 per cent of contributions to earnings will be applied from the first pound of earnings," she says.

"These are important steps in the right direction to help people make meaningful contributions and support savers in the longer-term. As people become more directly aware of their pension savings, their knowledge of financial scams and how to negate their effects are more likely to improve."

Gould hopes the long-awaited arrival of the pensions dashboard service, which will be introduced within the next couple of years, will "be a welcome introduction" to allow all pension savers to view their pensions and see the size of their pot. "This will help them to align their retirement goals with their pension saving journey and keep their pensions front of mind," Gould says.

#### Discouraging scams

What must not happen is being resigned to the fact scams will take place whatever steps they take – that it is a problem that will not go away whatever action is taken.

Wright says: "People install burglar alarms or put up 'beware of the dog' signs not because they're a sure way of stopping a robbery, but because it discourages the criminal from breaking in. We need to do the same with pensions.

"Structural changes like additional powers for HMRC, the ban on cold-calling and attempts to prevent fraudulent pension transfers are well intentioned measures to make life harder for scammers. But we also need criminals to know pension scheme members are financially savvy and forearmed to spot and report a scam – the equivalent of a Rottweiler waiting behind the front door. This will change the odds and discourage criminals from targeting pensions."

 **Written by Chris Newlands, a freelance journalist**