

Pension liberation factsheet

A warning about the risks and consequences of pension liberation or 'trust busting'

This information is provided by the Pensions Regulator, the body that regulates work-based pension arrangements in the UK. A work-based pension scheme is any scheme that an employer makes available to employees. This includes all occupational schemes, and any stakeholder and personal pension schemes.

The objectives of the regulator are to protect the benefits of members of work-based pension schemes, to promote good administration and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

What is 'pension liberation'?

The term 'pension liberation' (also known as 'trust busting') describes the process by which people release their pensions before retirement and convert them entirely into cash (they do not keep their pension savings for retirement). There are no lawful means to achieve a release of funds before retirement through pension liberation.

Is 'pension liberation' the same as 'pension unlocking'?

No. Pension liberation should not be confused with 'pension unlocking'. With pensions unlocking, a person aged 50 or over can legally release up to 25% of their total pension as a tax free lump sum. The FSA warn that unlocking your pension will almost certainly mean you will have less income in retirement and as a result, unlocking is only suitable for a very limited number of people and circumstances. Information on pensions unlocking can be found on the FSA website www.fsa.gov.uk including a useful fact sheet called '*Unlocking pensions – Make sure you understand the risks*'.

How does pension liberation work?

Organisers of pension liberation may claim that they can release your pension as a cash lump sum through a 'legal loophole'. There is no 'legal loophole'. In fact, by organising pension liberation, those involved may be committing criminal offences such as fraud (false representations) and money laundering.

In order to release your pension, it first has to be 'transferred' out of the pension scheme that holds it for you. Pension transfers are undertaken on the understanding that the transfer value (money representing your pension rights) will be used to provide you with pension benefits in retirement (for example, providing a tax free lump sum and a regular income or 'annuity').

In 'pension liberation' transfers, the money transferred is not used to provide pension benefits in retirement. Your pension scheme would not part with a transfer if it suspected that it would be released in cash. In order to mislead your pension scheme into parting with your transfer, the organisers of pension liberation will have to pretend to run a legitimate pension scheme which provides pension benefits or may pretend to be agents authorised to work for recognised pension companies.

What is the catch?

Converting a pension into cash might sound very attractive to people who urgently need money. However, if something sounds too good to be true, it invariably is.

You can only use your pension fund once. If you liberate your pension, there will be no tax free lump sum or income from it when you retire.

As part of the liberation transaction, you will probably have to pay the organisers a 'commission' or 'arrangement fee' and you may have a number of 'deductions' made from the transfer value before you get it. You might be told these deductions are from a number of different things, but typically, you may get around 70% to 75% of your transfer value once the organisers have taken their cut (deductions will vary).

You might be told that part of the deduction will be paid to HM Revenue & Customs to cover your income tax. However, it is extremely unlikely that money will be paid to HM Revenue & Customs on your behalf to cover tax due on a liberated pension because this kind of transfer activity is not lawful.

If you have liberated your pension, you will eventually be contacted by HM Revenue & Customs for appropriate tax. All the cash released from the pension scheme will be treated as taxable income. It is also likely that you will be charged additional penalties or charges or interest by HM Revenue & Customs.

Example: *You have a pension with a previous employer. The transfer value of the pension is £20,000. You decide to liberate the pension after being approached by the organiser of a pension liberation scheme who assures you there is a legal way of releasing your pension in this way. You are told that 25% of your pension transfer (£5,000) has to be deducted. The organisers tell you that this deduction is made up of 22% tax for HM Revenue & Customs and 3% is the organiser's 'commission' cut. You get £15,000 after their deductions.*

Despite the assurances from the organisers about the legality of your pension release, you will eventually be contacted by HM Revenue & Customs about the tax due on your liberated pension. No tax was paid to HM Revenue & Customs on your behalf. Your standard tax liability could be anything from 22% to 40% of the full £20,000 liberated (up to £8,000) and it is likely that additional charges and penalties will apply on top. That means you could be left with little of the original transfer of £20,000 and no pension left for when you retire.

What action is the Pensions Regulator taking to tackle pension liberation?

The Pensions Regulator was established on 6 April 2005 under the Pensions Act 2004. The new Act prescribed new powers to help disrupt pensions liberation activity and put things right.

At present, the Pensions Regulator is considering the most effective ways to **prevent** pension liberation by warning pension schemes when a new activity is discovered as well as providing fact sheets like this one to raise awareness of the consequences of pension liberation.

The Pension Regulator continues to investigate new reports of liberation and will continue to co-operate with the pensions industry, other government agencies and law enforcement agencies to ensure liberation is prevented, deterred and disrupted. Where evidence of criminality exists, the regulator will co-operate fully with law enforcement agencies to ensure perpetrators are brought to justice.

Organisations that can help you if you have money problems

Citizens Advice Bureaux – See the phone book or Yellow Pages for your local Citizens Advice Bureaux or visit the website www.nacab.org.uk.

National Debtline – This helpline offers advice on debt problems and free booklets on dealing with debt.

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