

Preventing fraud in pension plans

Trustees of pension plans have many responsibilities, including basic duties such as ensuring that a plan document exists and that the plan meets all legal and regulatory requirements.

Appointed trustees must ensure that all government reporting is filed timely and accurately and that the plan operates as defined by the plan document and within compliance of the law. And, trustees need to ensure that plan participants receive appropriate communications regarding their plan benefits. While these responsibilities are vital, the single most important role of a pension trustee is the protection of plan assets. Of the many potential threats to a plan's assets, fraud is no doubt one of the greatest.



QA How can pension trustees spot and prevent fraud?

To answer that question, let's look at some of the fraudulent tactics that have been used against pension plans in the past.



Participant fraud

How can participants commit fraud, you ask? There are actually several ways. First, an insider might change records to show that a participant is entitled to a greater benefit than would otherwise be available according to the plan document. This could be accomplished by altering compensation or service records.

A more common type of fraud occurs when family members of a deceased participant fail to notify the plan administrator that the participant has died. The family continues to deposit the checks as if the participant were still alive.



Vendor fraud

Pension plans often rely on multiple external vendors to provide plan services, such as support or operations. Most of those vendors will provide the contracted services at a negotiated fee. Occasionally, however, some vendors may submit duplicate invoices for payment, or invoices for services that have not been rendered to the plan. In addition, dishonest employees might process fraudulent invoices for payment by the plan.



Investment fraud

Investment fraud can take several forms. Investment records can be modified to disguise the fact that plan assets are used to make loans or divert plan assets to plan fiduciaries. On the rare, unfortunate occasion, plan trustees have been persuaded to invest in funds that ended up being Ponzi investment schemes.

Understanding the different types of pension fraud is the first step in identifying and preventing these types of threats, and in your role as plan trustee, you can take steps to reducing your plan's vulnerability. To learn how to prevent fraud in your plan, check out "Steps to identify and prevent pension fraud."

References

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Contact us



1-800-588-9330



tafthartleyservices@bmo.com



bmotafthartleyservices.com



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