Financial Ombudsman Service

complaint

Mr B has complained about the advice he received from R&Quiem Financial Services Limited (R&Quiem). He's unhappy that he was advised to transfer the value of his guaranteed benefits from an occupational pension scheme (the Scheme) to a Group Personal Pension (GPP).

background

Mr B was employed by the same employer from 1983 to 1999 and was automatically enrolled on to the Scheme in 1983. The Scheme had a guaranteed fund available to Mr B on retirement.

The Scheme trustees offered a fund enhancement of £2,762 to members if they transferred out their fund. The trustees allowed for the enhancement to be used to boost the pension transfer value for members. Alternatively, they offered members the opportunity to take up to 50% of the enhancement as a cash lump sum and use the remainder to increase the value of the transfer.

In 2011, R&Quiem recommended that Mr B transfer his benefits to a GPP and take 50% of the enhancement as a cash lump. They did this after carrying out a "Fact Find" questionnaire. They say that Mr B had an immediate need for cash to pay a debt and was aware of the risks in transferring out of the Scheme. A transfer value of £14,624 was transferred to the GPP and Mr B received around £1,000 in cash.

Mr B has now complained that the advice from R&Quiem was not suitable. This is because he lost the guaranteed benefits of the Scheme when he transferred to the GPP.

One of our adjudicator's investigated the complaint. She upheld it because she felt that Mr B's personal circumstances meant that it wasn't appropriate for him to have been advised to give up his guaranteed benefits. She also felt that Mr B wasn't advised to consider other alternatives to pay off his debt of £1,100. He may have been able to do this without giving up his guaranteed benefits.

R&Quiem didn't agree with the adjudicator's opinion. In summary, they said:

- Mr B was made aware of the guaranteed benefits that would be lost after transferring from the Scheme and was prepared to accept this. The cash offer gave Mr B the opportunity to clear critical debt.
- The pension he would have received from the Scheme didn't form a cornerstone of Mr B's retirement planning. The transfer was also in line with his aggressive attitude to risk.
- There was a period of 14 years to retirement which is a sufficient amount of time to smooth the impact of volatility over the years. The critical yield was 4.6%. This was well within the range of achievable returns at the time.
- A loss calculation they have carried out shows that Mr B is now potentially only £247 worse off. This amount is trivial and insignificant when considered in the context of Mr B's disclosed circumstances and needs at the time.

The complaint has now been referred to me to make a final decision.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

People seek and pay for independent financial advice so that they can be advised about what their best options are for their own circumstances. I can see that R&Quiem's recommendation letter was very detailed. However, I don't think Mr B received suitable advice to transfer from R&Quiem in 2011 given his circumstances and the important guaranteed pension benefits he was giving up. I think he should be compensated for this and receive an award for his trouble and upset.

The recommendation letter is based on information provided by Mr B in the Fact Find. I've looked at the Fact Find and can see that Mr B's attitude to risk in 2011 was recorded as very aggressive/speculative. However, I haven't been presented with any evidence to show that R&Quiem queried whether this was a realistic approach for Mr B given his personal circumstances. Mr B didn't have any savings or investments and wasn't a home owner. He also had no other pension provision and was 14 years away from retirement. He was struggling to meet day to day living expenses and had an outstanding debt. I think R&Quiem should have realised that Mr B's personal circumstances meant he had no investment experience and clearly couldn't afford to take significant risks with his pension fund. Put another way, Mr B didn't have the capacity to bear the risk of loss of future pension income.

I think it's probable that the most important reason for Mr B agreeing to transfer his benefits was to meet day to day living expenses and to reduce his debt. I can understand why R&Quiem thought that the pension transfer may be a good way of achieving this. However, I've not seen any evidence to suggest that R&Quiem explored whether there were other options available to him to achieve the same goal. I would have expected this to have been done before advising Mr B to give up his future guaranteed pension.

R&Quiem have said that the pension Mr B would have received from the Scheme wouldn't have formed a cornerstone in his retirement planning. They've also pointed out that the critical yield of 4.6% was achievable. The critical yield is the return the GPP would have needed to make to match the guaranteed benefits of the Scheme. Calculations they have now carried out also show that Mr B has a small likely loss as a result of the transfer. R&Quiem say that this loss is trivial in comparison to the benefits the GPP provided to Mr B.

I think these are all relevant arguments and I've taken them into account. But, having done so, I'm not persuaded that they outweigh Mr B's personal circumstances in 2011 and his capacity for loss. The calculations performed by R&Quiem also show that Mr B has potentially suffered a loss as a result of the advice he received. Even if this loss is small, it doesn't mean that the advice was suitable.

my final decision

R&Quiem Financial Services Limited must perform a loss calculation using the methodology determined by the regulator for the industry-wide Pension Review. In doing so, they should use the latest assumptions published by the Financial Ombudsman Service for cases that fall outside the review. The assumptions and the relevant calculation date can be found on our website.

If a loss is found then redress should be paid in accordance with the methodology set down for the Pension Review.

I think that Mr B was in a financially vulnerable position in 2011. I think he would have suffered some distress on learning that he received unsuitable advice. I therefore direct R&Quiem Financial Services Limited to pay Mr B £200 for the trouble and upset he has been caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 10 July 2015.

Abdul Hafez
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