DRN-3504907

The complaint

Ms B complains about the advice Cathedral Financial Services LLP gave to her to transfer the benefits from her defined-benefit ('DB') occupational pension scheme to a personal pension. She says the advice was unsuitable for her and believes this has caused a financial loss.

What happened

In March 2016, Ms B's employer announced that it would be examining options to restructure its business, including decoupling the BSPS (the employers' DB scheme) from the company.

The consultation with members referred to possible outcomes regarding their preserved benefits, which included transferring the scheme to the Pension Protection Fund ('PPF')[1], or a new defined-benefit scheme ('BSPS2'). Alternatively, members were informed they could transfer their benefits to a private pension arrangement.

In May 2017, the PPF made the announcement that the terms of a Regulated Apportionment Arrangement ('RAA') had been agreed. That announcement said that, if risk-related qualifying conditions relating to funding and size could be satisfied, a new pension scheme sponsored by Ms B's employer would be set up – the BSPS2.

In October 2017 the DB scheme administrators sent its members "time to choose" packs. Those gave scheme members three options:

- To stay in the BSPS and move with it to the PPF.
- To opt to move their benefits to the BSPS2.
- To transfer out of the scheme and into a private arrangement.

Ms B was concerned about what the scheme developments meant for the security of her pension. She contacted Cathedral for advice. She met with it and it did an initial triage of her circumstances. In November 2017 it advised her to opt into the BSPS2. It added that Ms B might wish to consider transferring out if she was "*minded to control*" her pension. Cathedral completed the necessary forms for Ms B to opt into the BSPS2. Having done so she asked it for further advice.
Cathedral gathered information about Ms B's entitlement under the DB scheme and obtained a transfer value analysis report. It also completed a fact-find with her and an assessment of her risk appetite. Amongst other things, it recorded that:

- Ms B was 42 years old, single and in good health.
- She was employed earning around £38,000 a year gross.

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[1] The PPF acts as a 'lifeboat' for insolvent DB pension schemes. It pays compensation to members of eligible schemes for their lifetime. The compensation levels are, generally, around 90% of the level of the original scheme's benefits for deferred pensions. But the PPF's rules and benefits may differ from the original scheme.

- She and her employer together were contributing 16% of her salary to her employer's new defined contribution ('DC') pension.
- She owned her own home, worth around £120,000 subject to an outstanding mortgage of £27,280, which she intended to pay off in five years;.
- She wanted to move her pension funds to a plan under her control.
- She had concerns about her employer's financial stability.
- Her job was physically demanding and she felt she might need to change it once she reached her fifties.
- Her preferred retirement age was 57.
- Her attitude to risk was "lowest medium".
- Her DB scheme had a cash equivalent transfer value ('CETV') of £357,452.
- The BSPS2 would pay Ms B a full pension at age 65 of £23,343 a year or a reduced pension of £16,192 and a tax free cash ('TFC') lump sum of £107,946.
- At age 57 Ms B would be entitled to a full pension of £14,893 or TFC of £72,843 and a reduced pension of £10,932 from the BSPS2.
- The PPF would entitle Ms B to a full pension at age 65 of £18,772 or TFC of £97,337 and a reduced pension of £14,604.
- At age 57 the PPF would pay Ms B a full pension of £13,487 or TFC of £74,103 and a reduced one of £11,116.

In January 2018 Cathedral sent Ms B a suitability report setting to its analysis and recommendation. In brief it recommended she should transfer her DB funds to a named personal pension. Amongst other things it said this would allow her to access her pension funds flexibly. Ms B accepted Cathedral's recommendation and transferred her funds to the named personal pension.

In 2021 Ms B complained about Cathedral's transfer advice via this Service. In short she said she didn't think the advice was suitable for her. Cathedral didn't uphold her complaint and she referred it back to us. One of our Investigators looked into it. He didn't think Cathedral's advice was suitable for Ms B. Amongst other things he said that given her age and the many years to retirement, Ms B had no need to transfer out of the DB scheme when she did. She had no specific need for flexible access to her pension that would justify a transfer. He recommended that Cathedral should compensate Ms B for any losses she incurred by transferring. He added that Cathedral should pay Ms B £300 to address her distress and inconvenience arising from the unsuitable advice.

Cathedral didn't agree with our Investigator's assessment of the complaint. In short it said that our Investigator hadn't put enough weight on its initial triage advice to join the BSPS2 or on Ms B's "pressure" or "agitation" to transfer. It said she wanted to preserve death benefits, for "penalty free" early retirement and had a mistrust of the scheme. Cathedral added that its advice allowed Ms B to achieve her objectives.

The investigator wasn't persuaded to change his opinion, so the complaint was referred to me to make a final decision.

What I've decided – and why

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

In bringing this complaint and responding to it both Ms B and Cathedral have made a number of points. But, in this decision, I don't intend to address each and every matter raised. Instead I will focus on the issues I see as being at the heart of Ms B's complaint and the reasons for my decision.

I’ve taken into account relevant law and regulations, regulator’s rules, guidance and standards and codes of practice, and what I consider to have been good industry practice at the time. This includes the Principles for Businesses (‘PRIN’) and the Conduct of Business Sourcebook (‘COBS’). And where the evidence is incomplete, inconclusive or contradictory, I reach my conclusions on the balance of probabilities – that is, what I think is more likely than not to have happened based on the available evidence and the wider surrounding circumstances.

The applicable rules, regulations and requirements

The below is not a comprehensive list of the rules and regulations which applied at the time of the advice, but provides useful context for my assessment of Cathedral’s actions here.

PRIN 6: *A firm must pay due regard to the interests of its customers and treat them fairly.*

PRIN 7: *A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.*

COBS 2.1.1R: *A firm must act honestly, fairly and professionally in accordance with the best interests of its client (the client's best interests rule).*

The provisions in COBS 9 which deal with the obligations when giving a personal recommendation and assessing suitability. And the provisions in COBS 19 which specifically relate to a DB pension transfer.

Having considered all of this and the evidence in this case, I’ve decided to uphold the complaint for broadly similar reasons to those our Investigator gave.

The regulator, the Financial Conduct Authority (‘FCA’), states in COBS 19.1.6G that the starting assumption for a transfer from a DB scheme is that it is unsuitable. So, Cathedral should have only considered a transfer if it could clearly demonstrate that the transfer was in Ms B’s best interests. And having looked at all the evidence available, I’m not satisfied it was in her best interests.

Financial viability

Cathedral carried out a transfer value analysis report (as required by the regulator) showing how much Ms B’s pension fund would need to grow by each year in order to provide the same benefits as her DB scheme (the critical yield).

Cathedral gave its advice after the regulator gave instructions in Final Guidance FG17/9 as to how businesses could calculate future 'discount rates' in loss assessments where a complaint about a past pension transfer was being upheld. I'll explain that a discount rate is a measure of what an investment is likely to grow at in the future. We find it a useful tool to establish whether an investment is likely to match or exceed the required growth rates to make a DB transfer financially viable. Prior to October 2017 we published similar rates on our website. Whilst businesses weren't required to refer to these rates when giving advice on pension transfers, they provide a useful indication of what growth rates would have been considered reasonably achievable for a typical investor.

Ms B was age 42 at the time of the advice and said her preference was to retire at age 57. The critical yield required to match Ms B's benefits from the BSPS2 at age 57 was 6.11% if she took a full pension and 4.78% if she took TFC and a reduced pension. At age 65 those figures were 4.66% and 3.73% respectively. The critical yields to match the benefits available through the PPF at age 57 were quoted as 3.55% a year if Ms B took a full pension and 3.28% a year if she took TFC and a reduced pension. At age 65 the critical yields were 2.72% and 2.49% respectively.

The relevant discount rate closest to when the advice was given which I can refer to was published by this Service for the period before 1 October 2017, and was 4.2% a year for 14 full years to retirement at age 57 and 4.5% for 22 full years to retirement at age 65. I've kept in mind that the regulator's projection rates had also remained unchanged since 2014: the regulator's upper projection rate at the time was 8%, the middle projection rate 5%, and the lower projection rate 2%.

I've taken this into account, along with the composition of assets in the discount rate, Ms B's 'lowest medium' attitude to risk and also the term to retirement. In this instance as the discount rates were higher than the critical yield to match the BSPS2 benefits at age 57, it seems unlikely they would be matched. Although there was potential to match the benefits had Ms B's pension gone into the PPF or if she took TFC and a reduced pension at age 65. But there would be little point in Ms B giving up the guarantees available to her through her DB scheme only to achieve a level of benefits outside the scheme that was broadly comparable to what she would receive from remaining in it. That's because, in order for the potential to improve slightly on the DB scheme benefits, she would need to put those funds at risk. And, if there was an extended period of poor performance or her investments suffered losses that could result in her being worse off in retirement.

Further, by transferring from the DB scheme Ms B would have to pay the fees and charges that are required in order to invest in a personal pension. And those would reduce any gains the funds made. In this case, apart from an initial fee to transfer of £4,000, Ms B would be paying Cathedral an ongoing fee for its advice of £600 a year (or 0.18% of the fund). Those are not charges she would have had to pay if she had remained in the DB scheme.

Cathedral said its cashflow models showed that by taking an income by drawdown, at age 57 Ms B could take a pension of £18,312 and TFC of almost £147,000. It said that was significantly more than her BSPS 2 entitlement and could last her until she was 84 when the fund would be depleted. But, it seems its models were based on a consistent growth rate of 4% a year which would produce a fund value of around £440,725 at age 57. However. given the volatilities of the market and Ms B's attitude to risk, which Cathedral described as being "*conservative*", regular returns at the mid-level seem unlikely. And there's no evidence that Cathedral "stress tested" its models to show the effects of poor performance or market crashes. And, if those events occurred her fund could be depleted before her life expectancy.

It’s also notable that the named personal pension provider produced its own projections of what Ms B’s fund might be worth in retirement. The pension provider’s projections are far more conservative than Cathedral’s; its mid-level growth rate is 3.3% against Cathedral's projection of 4%. The pension provider also adjusted its projections to allow for the effects of product and adviser charges. It also made a further adjustment to allow for inflation, which it assumed to be 2.5% a year. The pension provider gave figures for Ms B taking retirement in 2042, when she would be 67, rather than 2032 (age 57) as used by Cathedral. So, given the pension provider’s projection allowed for ten years more growth than Cathedral, I would have expected its figures to be somewhat above the amounts Cathedral provided. But, the pension provider’s projections show that (after adjustments) at age 67 Ms B’s pot would be worth £342,000. So, in real terms that would be a loss based on an initial investment of over £357,000.

I accept that the pension provider’s models are an illustration only and use different assumptions to those Cathedral employed. But I think it’s a useful comparison point to demonstrate that Cathedral’s models are unlikely to paint a full picture of what Ms B probable income would be in retirement by transferring or what she would be giving up by doing so.

It follows that while there was the possibility Ms B could be better off by transferring, that was anything but guaranteed and doing so meant putting her pension fund at risk. And, if her investments didn't meet Cathedral’s projected growth rates, then she could find herself worse off in retirement. I don’t think that “clearly demonstrates” as the regulator required that it was in her best interests to transfer.

Of course financial viability isn’t the only consideration when giving transfer advice, as Cathedral has argued in this case. It said its recommendation allowed Ms B to achieve her other objectives. So I've gone on to consider whether Cathedral has clearly demonstrated that its advice was in Ms B’s best interests. When doing so I've been mindful that Cathedral’s role was to find out what Ms B’s wants and needs were and why. Its role wasn’t simply to do what she wanted without appropriate analysis and challenge of her motives for doing so.

Flexibility and income needs

Cathedral said that transferring out of the scheme would allow Ms B to retire at age 57. But at the time of the advice Ms B was still around 15 years away from turning 57 and almost 23 years away from her DB scheme’s normal retirement age of 65. She wouldn’t receive her state pension until 67. A lot could happen in the intervening period. So Ms B’s plans to retire early, made when she was still only 42, could have changed significantly by the time she neared 57.

I can fully understand Ms B’s wish to retire early. I think most people would say they would like to retire early if given the chance. I also think most people would understand that having the opportunity to retire early isn't worth compromising their income security for the remainder of their life for. It seems to me that this is something Ms B was likely to reassess once she reached or neared age 57. And as such, I think early retirement was something that she aspired to, rather than a definite plan.

In any event I don’t think Ms B had a distinct need to take early retirement. As I've said above I can understand why she would want to retire at age 57. Ms B said her work was physically demanding and not something she might wish to do in later life. But she also appears to have recognised that she could explore a change of jobs, rather than retiring completely. Further, for most people, early retirement means a significant drop in income. That would dramatically reduce most individuals’ spending power and lifestyle choices. So, when faced with that prospect at an early retirement age, the majority choose not to retire. Instead they opt to continue working to support their current and future lifestyle options. And that seems to be a more likely prospect for Ms B. But there's no evidence Cathedral seriously challenged her objective of early retirement. It follows that I don't think it met its obligations to challenge her objectives in light of what she would be giving up.

I also think it's worth noting that Cathedral's suitability report presented early retirement – either from the DB scheme or the PPF – as being something to be avoided because of the *penalties* that came with doing so. Whereas it sold the possibility of early retirement as a benefit of transferring. But, the *penalties* Cathedral referred to were nothing more sinister than actuarial adjustments. Those adjustments reflect that, by taking a pension earlier, it's likely that it will have to last longer and so cost the scheme more. As such the scheme actuaries calculate a reduction in the yearly pension to allow for the fact that the member will claim the pension – most likely – for a longer period. That's not a 'penalty' for taking the pension early, it's simply a compromise for having the benefits of that pension over a longer period.

So I think describing the early retirement factors which would reduce the DB scheme pension as a *penalty* wasn't providing Ms B with information that was clear, fair and not misleading. Similarly, while Ms B could access benefits from her personal pension without a penalty, any such deduction would reduce the remaining pension pot and also decrease the amount remaining in the pot as well as the amount it would grow by. So drawing down funds from an earlier date would in effect lessen one or all of the following:

- The amounts Ms B could take as income.
- The time frame she would have funds available for.
- The remaining funds available as a death benefit.

It follows that taking money from her personal pension early could also have a more significant effect on Ms B's income in retirement than taking benefits from the DB scheme or the PPF early. That's because the benefits from the DB environment would continue to grow in line with the relevant indexation regardless of how early Ms B took it. In contrast any returns from the personal pension would be dependent on investment performance.

Cathedral added that by transferring this allowed Ms B to access her funds flexibly in retirement. But I can't see evidence that Ms B had a strong need for flexible access to her income throughout retirement. Cathedral doesn't appear to have modelled what Ms B's income need would once she retired. And given that was still between 15 and 23 years away I don't find that unusual. Instead, it seems Cathedral asked Ms B how much she thought she would need and she estimated it would be 50% of her current income. But given that there was no real certainty about what Ms B's future income needs were likely to be it doesn't appear she had any concrete requirements to access her DB funds flexibly in order to meet those income demands.

Also Ms B had recently started paying into her employer's DC scheme at 16% of her salary, or roughly £6,080 a year. She could have anticipated continuing to contribute to that policy (or a similar one if she were to change jobs in the future) for the remainder of her working life. So I think it's reasonable to assume that, by the time she reached 57, her personal pension should have amassed a sizeable pot. Indeed without allowing for Ms B increasing her contributions, her salary growing, or any return on the investment, by 57 she could have a pot in the DC pension of around £91,200. And that sum would increase to around £140,000 by the time she reached 65. So Ms B could have accessed those funds in a flexible manner if she felt the need to do so and used them to support early retirement had she wanted to. That would have allowed her to leave her safeguarded DB funds untouched until nearer to the DB scheme's normal retirement age. So she didn't need to transfer out of the DB scheme in order to be able to retire early.

That said, it's true to say that Ms B couldn't have had the same level of flexible access to her DB funds as she could from a personal pension. While she could have chosen to take those early, if she'd wanted to take TFC, then she would have had to take that at the same time as drawing a regular income from her pension. Whereas the personal pension would allow her to draw down funds as she saw fit. It's also the case that Ms B could have taken 25% of her entire personal pension fund as TFC whereas the BSPSs has stricter rules about how much can be taken as a lump sum. But while I can see why a higher lump sum and more choice over how much to take and when might have been an attractive prospect to her, I'm not persuaded that Ms B had any concrete need to take TFC at all or to vary her income throughout retirement. And if Ms B did need flexible access to funds, she could have arranged to take those from her DC pension.

It follows that I'm satisfied Ms B could have met her flexible income needs in retirement while remaining in the BSPS2. So, I don't think it was in her best interests to transfer her pension just to have flexibility that she had no obvious need for.

I understand the option of drawing all of her pension income flexibly might seem like something that would be nice to have. But I can't see that Ms B had any genuine need for that flexibility that would be worth giving up guaranteed benefits for at the time that Cathedral gave its advice. So I don't think it was in her best interests to transfer.

Death benefits

Ms B told Cathedral that she wouldn't want her benefits to *"be lost completely*" in the event of her death. At that time Ms B was single without dependents. Her DB scheme would have paid a spouse's pension after her death. But, as she didn't have a spouse at the time, then she may have thought her pension would die with her. However, that assumes her circumstances would remain unchanged until her death and so a spouse's pension would never have been of any value to her. That said, Ms B Was still relatively young, so the opportunity for her to change her lifestyle before retirement meant that the potential benefits from a spouse's pension shouldn't have been dismissed. However, a personal pension did have the advantage that whatever remained within it on her death could be left as a legacy for Ms B's nominated beneficiary. And, if that happened before her retirement or soon after, then that would likely be a significant sum.

But I don't think that was a sufficient reason to recommend a transfer. The priority here was for Cathedral to advise Ms B about what was best for her retirement provisions. A pension is primarily designed to provide income in retirement rather than for a legacy to beneficiaries after death. But in transferring out of her DB scheme Ms B was essentially giving up a guaranteed, index linked, increasing income in retirement, for the potential of a lump sum for her beneficiaries that they may not receive for many years to come. And by that time, the fund could have been depleted by Ms B's withdrawals from it in the meantime. So, potentially, there may have been very little left by the time of her death.

It's also notable that Ms B could nominate any beneficiary of her choosing to receive the remaining funds she had accumulated in the DC pension on her death. So, she already had a means of ensuring part of her pension didn't die with her. But I don't think Cathedral did enough to bring this to her attention.

Overall I don't think different death benefits available through a transfer to a personal pension justified the likely decrease of retirement benefits for Ms B.

Mistrust or concerns over financial stability of the DB scheme

Cathedral said that Ms B had a mistrust of the scheme trustees. And despite Cathedral's initial triage advice that Ms B should opt for the BSPS2 she continued to push for a transfer and was *adamant* that she wanted to do so.

I'm aware that many BSPS members like Ms B had serious concerns about the security of their pension pots. There were also worries about the future of their employer and the actions of the scheme trustees. The situation was evolving after the BSPS closed in March 2017. There was also some widespread trepidation about what moving pensions to the PPF meant for members. It's also well known that this was a period of uncertainty for people like Ms B. But this only serves to emphasise the need at that time for a balanced assessment of the options available and ultimately the need for suitable advice.

I understand that there will be instances where a client seeks financial advice with preconceived notions or concerns about the financial health of an employer or pension scheme. And Cathedral's indicated Ms B was leaning towards transferring when she sought advice. It's evident that, following its initial triage, Cathedral advised Ms B to opt into the BSPS2. But it's also apparent that when it did so it said this would allow Ms B to keep the option of transferring in the future. So I don't think any recommendation it made at that point, before it had provided the detailed analysis in its suitability report would negate its final recommendation to transfer given a month later.

Further, I accept that Cathedral believed Ms B had a mistrust of her employer or the scheme trustees ability to manage her pension going forwards. But Cathedral was tasked with rationally addressing Ms B's concerns and providing an appropriately balanced view of the available options. And in order to recommend that Ms B should give up her safeguarded benefits Cathedral needed to be able to clearly demonstrate that doing so was in her best interests. So, even if Ms B had been *adamant* that she wanted to transfer this wouldn't justify a reason for Cathedral recommending she do so. It should only have made a recommendation it considered was in Ms B's best interests. Accordingly, if it thought a recommendation to transfer was not in her best interests, that's the advice it should have given, regardless of her strength of feeling on the matter.

I also think Cathedral has overstated Ms B's desire for control over her pension. She was not an experienced investor and I can't see that she had an interest in or the knowledge to be able to manage her pension funds on her own. So, I don't think this was a genuine objective for Ms B – it was simply a consequence of transferring away from her DB scheme.

It follows that I'm not persuaded that any *agitation* or mistrust Ms B experienced when she entered into the advice process was sufficient reason for Cathedral to recommend she should transfer her safeguarded benefits to a personal pension.

Summary

I don't doubt that the flexibility, control and potential for higher death benefits on offer through a personal pension would have sounded like attractive features to Ms B. But Cathedral wasn't there to just transact what she might have thought she wanted. The adviser's role was to really understand what Ms B needed and recommend what was in her best interests.

Cathedral was in a good position to have analysed, tested, challenged and advised Ms B about what was in her best interests for retirement planning. It knew valuable pension pots like Ms B's DB scheme were paid into with the intention of providing for retirement. So, I don’t think it was in her best interests to transfer her DB scheme funds to a personal pension.

Ultimately, I don’t think Cathedra’s advice was suitable for Ms B. She was giving up a guaranteed, risk-free and increasing income. By transferring, Ms B was likely to obtain lower retirement benefits and in my view, there were no other particular reasons which would justify a transfer and outweigh this. Cathedral shouldn't have advised Ms B to transfer out of the DB environment simply because she was leaning that way when she entered the advice process or because of any strength of feeling that was what was right for her to do. Similarly, as I've said above, the opportunities for flexibility or different death benefits weren't worth giving up the guarantees associated with her DB scheme for.

So, I think Cathedral should’ve advised Ms B to remain in the BSPS2.

Of course, I have to consider whether Ms B would've gone ahead anyway, against Cathedral's advice. I accept that Ms B is an adult and plainly capable of making her own decisions. But, after thinking about this carefully, I'm not persuaded she would have transferred if it wasn’t for Cathedral’s recommendation she should do so. That’s because, at the time of its advice, Ms B’s BSPS pension accounted for a significant portion of her retirement provision. She was an inexperienced investor who had no need to put her pension funds at risk and she was paying Cathedral for its expertise.

So, if Cathedral had given clear advice against transferring out of the DB scheme, explaining why it wasn’t in her best interests despite her concerns, I think she would have accepted the expert professional advice she was paying for.

It follows that I don't think Cathedral’s advice to Ms B to transfer out of her DB scheme was suitable for her. Instead I think it should have advised her to remain within the BSPS2. So, I think it's fair for Cathedral to compensate Ms B for the unsuitable advice, in line with the regulator’s rules for calculating redress for non-compliant pension transfer advice. And, as this matter has been a source of distress and inconvenience for Ms B, as she’s been concerned that her security in retirement might have been compromised as a result of Cathedral’s unsuitable advice, I think it should pay her £300 to address that.

Putting things right

A fair and reasonable outcome would be for the business to put Ms B, as far as possible, into the position she would now be in but for the unsuitable advice. I consider Ms B would have most likely remained in the BSPS2 if Cathedral had given suitable advice.

Cathedral must therefore undertake a redress calculation in line with the rules for calculating redress for non-compliant pension transfer advice, as detailed in policy statement PS22/13 and set out in the regulator’s handbook in DISP App 4:
https://www.handbook.fca.org.uk/handbook/DISP/App/4/?view=chapter.

When making the calculation Cathedral (or providers acting for it) should use the FCA’s BSPS-specific redress calculator to calculate the redress. A copy of the BSPS calculator output should be sent to Ms B and our Service upon completion of the calculation.

For clarity, Ms B has not yet retired, and she has no plans to do so at present. So, compensation should be based on the scheme’s normal retirement age of 65, as per the usual assumptions in the FCA's guidance.

This calculation should be carried out using the most recent financial assumptions in line with PS22/13 and DISP App 4. In accordance with the regulator's expectations, this should be undertaken or submitted to an appropriate provider promptly following receipt of notification of Ms B's acceptance of the decision.

If the redress calculation demonstrates a loss, as explained in policy statement PS22/13 and set out in DISP App 4, Cathedral should:

- calculate and offer Ms B redress as a cash lump sum payment,
- explain to Ms B before starting the redress calculation that:
    - her redress will be calculated on the basis that it will be invested prudently (in line with the cautious investment return assumption used in the calculation), and
    - a straightforward way to invest her redress prudently is to use it to augment her personal pension
- offer to calculate how much of any redress Ms B receives could be augmented rather than receiving it all as a cash lump sum,
- if Ms B accepts Cathedral's offer to calculate how much of her redress could be augmented, request the necessary information and not charge Ms B for the calculation, even if she ultimately decides not to have any of her redress augmented, and
- take a prudent approach when calculating how much redress could be augmented, given the inherent uncertainty around Ms B's end of year tax position.

Redress paid to Ms B as a cash lump sum includes compensation in respect of benefits that would otherwise have provided a taxable income. So, in line with DISP App 4, Cathedral may make a notional deduction to cash lump sum payments to take account of tax that consumers would otherwise pay on income from their pension. Typically, 25% of the loss could have been taken as tax-free cash and 75% would have been taxed according to Ms B's likely income tax rate in retirement – presumed to be 20%. So making a notional deduction of 15% overall from the loss adequately reflects this.

Cathedral should also pay Ms B £300 compensation to address her distress and inconvenience arising from its unsuitable advice.

Where I uphold a complaint, I can award fair compensation of up to £160,000, plus any interest and/or costs that I consider are appropriate. Where I consider that fair compensation requires payment of an amount that might exceed £160,000, I may recommend that the business pays the balance.

My final decision

<u>Determination and money award</u>: I uphold this complaint and require Cathedral Financial Services LLP to pay Ms B the compensation amount as set out in the steps above, up to a maximum of £160,000.

<u>Recommendation:</u> If the compensation amount exceeds £160,000, I also recommend that Cathedral Financial Services LLP pays Ms B the balance.

If Ms B accepts this decision, the money award becomes binding on Cathedral Financial Services LLP.

My recommendation would not be binding. Further, it's unlikely that Ms B can accept my decision and go to court to ask for the balance. Ms B may want to consider getting independent legal advice before deciding whether to accept any final decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 28 September 2023.

Joe Scott
Ombudsman