DRN-3844085

The complaint

Mr G complained that he was given unsuitable advice to transfer his defined benefit (DB) British Steel Pension Scheme (BSPS), to a type of personal pension plan, in 2017.

Pi Financial Ltd is responsible for answering this complaint and so to keep things consistent, I'll refer mainly to "Pi Financial".

What happened

In March 2016, Mr G's former employer announced that it would be examining options to restructure its business, including decoupling the BSPS 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), or a new defined benefit scheme (BSPS2). Alternatively, members were informed they could transfer their benefits to a personal pension arrangement.

In May 2017, the Pension Protection Fund (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 Mr G's employer would be set up – the BSPS2.

In October 2017, members of the BSPS were being sent a "Time to Choose" letter which gave them the options to either stay in BSPS and move with it to the PPF, move to BSPS2 or transfer their BSPS benefits elsewhere. The deadline to make their choices was 11 December 2017 (and was later extended to 22 December 2017).

Mr G was concerned about what the announcement by his employer meant for the security of his preserved benefits in the BSPS. He was unsure what to do and was referred to Pi Financial which is responsible for providing the pension advice. Information gathered about his circumstances and objectives at the time of the recommendation were broadly as follows:

- Mr G was described as being in good health and at the time of the advice he had accrued around 28 years of pension benefits with the BSPS.
- He was 50 years old, married with two children, one of whom was dependent.
- Mr G had earned around £35,000 pa. He had joined the new TATA defined contribution (DC) pension scheme, which isn't being complained about here.
- After all their monthly household expenses, he and Mrs G had some disposable income left over. Mr G and Mrs G had existing savings of £6,000. They had a home worth £200,000 with a mortgage of £18,000 with five years left to run. They had a personal loan which was being paid down and no other major assets or liabilities.
- The cash equivalent transfer value (CETV) of Mr G's BSPS was approximately £383,912. The normal retirement age (NRA) was 65.

Pi Financial set out its advice in a suitability report on 13 September 2017. In this it advised Mr G to transfer out of the BSPS and invest the funds in a type of personal pension plan. Pi Financial said this would allow Mr G to achieve his objectives. Mr G accepted this advice and so transferred out. In 2021 Mr G complained to Pi Financial about its advice, saying he shouldn't have been advised to transfer out to a personal pension.

Mr G then referred his complaint to our Service. One of our investigators looked into the complaint and said it should be upheld. Pi Financial said it hadn't done anything wrong and was acting on the financial objectives Mr G had at the time.

As the complaint couldn't be resolved informally, it's come to me for 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.

I've also 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 Business ('PRIN') and the Conduct of Business Sourcebook ('COBS'). 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 Pi Financial'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.

I have further considered that the regulator, the Financial Conduct Authority ('FCA'), states in COBS 19.1.6 that the starting assumption for a transfer from a DB scheme is that it is unsuitable. So, Pi Financial should have only considered a transfer if it could clearly demonstrate that the transfer was in Mr G's best interests.

I've used all the information we have to consider whether transferring away from the BSPS to a personal pension was in Mr G's best interests. I have also carefully considered the response from Pi Financial.

Having done all this, I'm upholding Mr G's complaint.

Financial viability

Pi Financial referred in its transfer analysis and suitability report to 'critical yield' rates. The critical yield is essentially the average annual investment return that would be required on the transfer value - from the time of advice until retirement - to provide the same annuity benefits as the DB scheme. In this case, Pi Financial used the existing scheme (BSPS) for the critical yield comparisons, rather than the 'new' BSPS2.

The critical yield comparison was a requirement from the regulator at the time when advising clients on DB transfers. It's also important to point out that the critical yield comparison is only one of a number of different metrics I've used to compare the different schemes. And in my view, these all point one way – that Mr G was probably going to receive lower financial benefits in retirement, as a result of transferring to a type of personal pension plan.

We know BSPS was being stopped. But many weeks before this advice, which was dated 13 September 2017, BSPS members had been told that if the RAA was approved, they would have a choice – to move into a new scheme (BSPS2) or into the PPF with the old scheme. A newsletter had also been put on a microsite that had been set up to support BSPS members and more details of the BSPS2 had emerged by the time Pi Financial produced its suitability report. It's true the situation was dynamic in that some changes were being proposed at that very point, but we know a great deal about the timeline because we've seen many similar complaints to this one. And I think it's also fair to say that despite some uncertainty at the time, the BSPS2 critical yields were likely to be between the BSPS and PPF yields, but most likely much closer to the existing scheme (BSPS).

Having said all that, Pi Financial said that the critical yield required to match the benefits at the age of 65 in the BSPS, was 7.31% if Mr G took a pension without a tax-free lump sum. If taking a tax-free lump sum, the critical yield was 5.39%. Pi Financial said all the critical yield rates were, in the view of the adviser, achievable; but it didn't really explain why. In my view, this was an exaggeration as Mr G would need his pension growth to exceed these percentages year-on-year for a transfer-away to become financially viable. I think this was unlikely. I say this with the following in mind.

The advice was given 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. Prior to October 2017 similar rates were published by the Financial Ombudsman Service 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.

The relevant discount rate closest to when the advice was given which I can refer to was published by the Financial Ombudsman Service for the period before 1 October 2017 was only 4.2% per year for 14 years to retirement (age 65), which is well below all of the critical yield figures I've referred to above. I've also kept in mind that the regulator's upper projection rate at the time was 8%, the middle projection rate was 5%, and the lower projection rate was 2% although these rates hadn't been updated for some time and we were in a period of sustained low interest rates and low bond yields. At the time, Pi Financial assessed Mr G's attitude to risk (ATR) as "medium". Mr G had also said he wasn't sure he'd take a lump-sum upon retirement.

So, when Pi Financial said the critical yields for retiring at the NRA were achievable this wasn't credible in my view. This is because to make transferring worthwhile, the expectation of the growth in a personal pension would need to exceed the critical yields. And in this case, the growth would need to exceed 7.31% each year on average for 14 years if using the NRA. So I don't think the adviser should have implied that reaching this growth was achievable without a detailed explanation and evidence to back this up; the discount rate and the regulator's projections imply reaching this level of growth was unlikely.

I've also noted that when using the NRA of 65, Pi Financial's own transfer analysis said that in order to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing scheme, the estimated fund required (also known as the capital value) was £667,680. Even to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing scheme, assuming *no* spouse's pension, *no* increases in payment and *no* guarantee at retirement, the estimated fund required at 65 was £390,549. To reiterate, these figures are found in Pi Financial's own analysis based on data the regulator required businesses to refer to at the time. And because these figures are well above Mr G's CETV, they represent, in my view, a revealing window into the value of the guaranteed pension Mr G could be giving up by transferring away, rather than to move into a similar DB scheme such as BSPS2. That was what was on offer here.

Mr G had apparently expressed an interest in retiring earlier than the NRA. However, he was still only 50 years old and so I think this was still aspirational retirement planning on his part, rather than a certainty; I explain a little more about this later. But even so, I don't think the adviser really discussed the critical yields at all for an early retirement at the age of 55. I say this because I don't think the figures calculated in Pi Financial's transfer analysis were calculated correctly. For example, the suitability report said the critical yields were more than 20%. But the actual figures shown in the analysis seem to suggest that the critical yield for a retirement at 55 were *minus* 20%. Clearly if this were the case, there would be a very strong case indeed for an early retirement on purely advantageous financial grounds – and this wasn't the situation here.

I've also noted that the discount rate for retiring at 55 was only 3%, so I think this suggests the level of annual growth he could reasonably expect at 55 would be even lower than what I've described for a planned retirement at 65. And of course, the much shorter investment period would mean far less chances for Mr G's funds to iron out the normal peaks and troughs of investing. In short, the investment risks were higher.

However, Pi Financial wasn't – and still isn't – really using the critical yields to defend the complaint. Its defence revolves more around the flexibility Mr G might achieve by transferring away. But overall, there would be little point in transferring from a DB scheme just to receive benefits in retirement of a broadly similar financial value to such a scheme. In this case however, I think that matching let alone exceeding the critical yields at 65 was unlikely. And for retiring at 55, the critical yield figures produced were clearly wrong and the issue wasn't really discussed in any detail.

Elsewhere in its transfer analysis, Pi Financial also made mention of the PPF, which it described as a compensation scheme providing a *"safety net"* for pension schemes when the sponsoring employer becomes insolvent. Pi Financial said the critical yields to match the benefits available through the PPF at age 65 were lower. But these yields related to the *reduced* benefits available with the PPF and Pi Financial itself says Mr G wouldn't have wanted to transfer to this scheme. It's also important to remember here that the effect of charges and fees associated with a personal pension such as the one being recommended to Mr G, would have further reduced the likely growth.

I therefore think it's fair to say that from a financial comparison perspective, Pi Financial's own figures, shown in its suitability report and transfer analysis documents, showed that transferring to a personal pension plan would mean Mr G would likely receive lower pension benefits in the longer term, when compared against the BSPS.

I’ve also considered some projections Pi Financial used to help show that if he transferred out to a personal plan, the funds could last Mr G well into retirement. I think it’s fair to say these were certainly not comparing like-with-like. What Pi Financial was showing Mr G were comparisons with plans which lacked the guarantees and benefits of a DB scheme. They relied on investment risk which I think was too high, factored in over many years and based on past performance. Some of the scenarios also showed Mr G running out of funds in his 70s whereas his DB scheme was guaranteed for life.

Of course, according to Pi Financial, its recommendation that he should transfer out to a personal pension was not wholly based on the financial comparisons with his current scheme alone. Rather, Pi Financial said Mr G also had other reasons to transfer away, so I’ve thought about all the other considerations which might have meant a transfer was suitable for him, despite providing the overall lower benefits mentioned earlier.

I’ve considered these below.

Other needs and objectives

I have used all the documents we still have from the advice sessions to summarise the following objectives Pi Financial says its recommendations were based on. The ‘fact-find’ for example notes Mr G’s objectives were:

- Wanting to improve death benefits from his pension for his wife and children

- Wanting flexible income as he was considering a possible reduced role from age 55

- Looking to access some benefits from age 55 to bridge the gap until he received his state pension at age 67

I have therefore considered these issues in turn.

Death benefits

Death benefits are an emotive subject and of course when asked, most people would like their loved ones to be taken care of when they die. The BSPS2 contained certain benefits payable to a spouse if Mr G died. It also made provision for support to a child in full-time education. Mr G was married and so in my view this represented a good benefit.

But I think the adviser told Mr G that he’d be able to pass on the *whole* value of a personal pension if he died, potentially tax-free, to anyone he nominated. The adviser also recorded that Mr G wanted his children to benefit in the event of his death as well as his wife, and it was also recorded that Mrs G hadn’t been too well recently.

In my view, all this needed a careful explanation which I don’t think Mr G was given.

Overall, I think the death benefits of the DB scheme were substantially underplayed. Mrs G’s health, concerning as I’m sure it will have been, wasn’t really the issue and as far as I know, there was no expectation that her life might be cut short. If Mr G died before retiring from the DB scheme, Mrs G would have received a lump-sum related to her husband’s lifetime pension contributions. This was a significant sum and it would have far outstripped their outstanding mortgage and the personal loan they were paying down. And whilst never unwelcome I’m sure, there were no other obvious requirements for Mrs G to need cash over a reliable income. I’ve also noted that whilst she had a pension of her own, the chances are that it was moderate in value.

More suited to Mrs G in my view, was that the death benefits in retirement under BSPS2 included at least half of Mr G's annual pension for the rest of Mrs G's life, if her husband pre-deceased her. Significant indexation guarantees were included so I think Mrs G would have been reassured she had some protection against inflation when her own pension wasn't large.

I'm also sure that Mr G would have genuinely wanted his two children to receive something if he passed away prematurely. But when he did transfer (as recommended) he apportioned 98% of the death benefits in the personal plan to be paid to Mrs G and 1% each to his two children. No doubt he wanted Mrs G to be the custodian of the funds, but to me this doesn't show that he wanted to substantially alter who his death benefits were being paid to – it was still Mrs G who was the beneficiary of his funds should Mr G die.

Also, whilst I appreciate that potentially tax-free lump-sum death benefits in a personal plan felt important - and Mr G might have thought it was a good idea to transfer the BSPS to a personal pension because of this - the priority here was to advise him about what was best for his retirement provisions. A pension is primarily designed to provide income in retirement. And I don't think Pi Financial explored to what extent Mr G was prepared to accept a different retirement income in exchange for different death benefits. Mr G was only 50 years old and in good health. So, an obvious drawback with a personal plan's death benefits is that the amount left to pass on – to anyone – may be substantially reduced as the pensioner starts to withdraw his or her retirement income. To this end, if Mr G had lived a long life there could be nothing left at all in his personal pension plan. In contrast, his DB pension was for life and the spouse's pension was for life.

Although I've questioned the ability to forecast an early retirement whilst still only 50, there's no real doubt that retiring at around 55 was at least discussed – Pi Financial's defence of this complaint is effectively predicated on this. The adviser should have therefore additionally known that a healthy male retiring in his mid would likely have many years ahead in which he would be drawing down his pension funds thus leaving very little left to pass on to anyone.

Also, at 50 years old, a modest 'term' life insurance policy may have still been a reasonably affordable product for Mr G if he really did insist on leaving a lump-sum (rather than an annual pension) legacy for Mrs G, or indeed anyone else such as their two children. It also doesn't appear that Pi Financial took into account the fact that Mr G could have nominated a beneficiary, such as his children or wife, of any funds remaining in his other (TATA) DC scheme. I accept that at the time this DC pension was in its infancy, but both he and his employer were making significant contributions every month, thus adding to the total. Therefore, to this end, Mr G already had plenty of options ensuring part of his whole pension wouldn't 'die with him'.

So I don't think different death benefits available through a transfer to a personal pension justified the advice to transfer away to a personal pension plan. I think this objective, listed as it was in the suitability report, was no more than a generic comment and not meaningful to Mr G's situation.

Flexibility in his pension arrangements going forward

I've taken into account that Mr G approached Pi Financial for advice because of the uncertainties he faced with the BSPS. He clearly didn't want to enter the PPF.

However, I think it's important to specifically focus for a moment here on Mr G's comparatively young age by pension standards. As I've said, he was only 50 and in good health and Mrs G was quite a bit younger. The evidence I've seen here is that Mr G had only referred to the possibility of retiring at 55, which was clearly aspirational rather than definite. In fact, he himself was dubious as to whether he could achieve this with the financial resources he had. They had two children, one of which was still only 16 and financially dependent. Although the older child was 21, Mr and Mrs G were still clearly financially supporting them in their career ambitions going forward. I've noted Mr and Mrs G's mortgage was also still being paid down although they were clearly making good progress in eliminating it completely. Put another way, I think Mr and Mrs G still had some of life's uncertainties to navigate in the years ahead.

In my view, this underscores that any formal retirement plans, viewed from the age of just 50, were still subject to refinement and change. The adviser should have known this. There was still over 14 years left to when Mr G would be actually contemplating retiring if using his NRA of 65. And even if I did use the age of 55, there's simply no way he should have been advised to irreversibly move away from a DB scheme just yet. Doing so involved an investment risk and would likely mean lower overall financial benefits at retirement. Whilst I'm sure, like most people, Mr G probably wanted to stop working as early as possible, I think what he told the adviser should have been treated as general retirement aspirations on his part. In reality, what I think Mr G wanted was to retire as early as possible and 'bridge the income gap' until reaching his state pension age. He speculated that he might need around £2,200 per month, but he also said this might be more than he needed if his older son's career took off. So, again, there was still some uncertainty about his retirement hopes.

By comparison Pi Financial's analysis was, in my view, quite bland as it didn't really incapsulate what Mr G's circumstances were. It said that if retiring at 65, Mr G could expect an annual pension of around £20,480 with the existing DB scheme. As I've said earlier, I think the retirement figures quoted for an age 55 retirement contained some errors in this case, so I can't rely on the ones quoted - and Mr G would have seen actuarial reductions if retiring early. However, it certainly isn't unreasonable to say that by retirement, Mr G could have built up a meaningful DC fund in his new pension after he and his employer had been contributing for quite a few years. We know Mrs G also had her own deferred DB pension. However, I don't think all these things were considered enough, with a view to keeping his DB scheme rather than just transferring out.

Actually, I don't think there's anything showing Mr G's overall pension entitlements wouldn't have met his and Mrs G's anticipated requirements, without any need to transfer away from the DB scheme. The £20,480 were BSPS figures, but that doesn't really matter because current members were being given similar estimates about the new scheme (BSPS2) at around the very time this advice was being sought. I don't think Pi Financial adequately explained these things to Mr G as its advice simply focussed on him transferring away and into a personal pension arrangement to obtain flexibility which I don't think he needed.

I therefore think Mr G's circumstances here were much more aligned to him transferring to BSPS2 and retiring from that when he felt he was ready to do so. All the evidence pointed to him still being able to potentially retire earlier than 65 if he felt he really needed to. Doing this from the position of BSPS2 was possible – there would have been an actuarial reduction involved, depending on his age at the time. But because he also had a smaller 'second' DC pension, and Mrs G had a small pension, this supported that general strategy in my view, even if he may have had to work a little beyond 55.

As an alternative, I think the adviser could have also looked at various scenarios which incorporated retiring early from the BSPS2 with accurate annual pension figures at certain ages. It should have additionally taken into account his DC pension and also Mrs G's circumstances. This would have allowed Mr G to assess whether retiring early – and if so, when – was possible. But retiring completely at 55 is relatively young in my experience, so there may have even been the opportunity for the adviser to tell Mr G that his hopes were unrealistic at 55 with his resources. But that's not to say he might not have been able to achieve a retirement quite close to his preferred age and still remain in a DB scheme. However, I think this was quickly discounted by the adviser who focussed solely on him stopping working at the comparatively young age of 55.

Concerns over financial stability of the DB scheme

I can understand that when Mr G met with Pi Financial he may have been concerned about the overall financial stability of the BSPS pension. Lots of his former colleagues at the time were considering transferring out of the scheme and he may have worried that his pension could end up in the PPF. If the scheme did end up moving to the PPF, I think the adviser should have explained that this was not as concerning as Mr G thought. He was still unlikely to match, let alone exceed, the benefits available to him through the PPF if he transferred out to a personal pension plan. I don't think that this was properly explained to him. So, I don't think that these concerns should have led to Pi Financial's recommendation to Mr G to transfer out of the DB scheme altogether.

I've also seen no evidence that Mr G had either the capacity or desire to exercise control over his funds. With his DB scheme, Mr G was being offered the opportunity to transfer to the new BSPS2. It's true there were some differences in this scheme when compared to the original BSPS, but it remained a DB scheme nonetheless and was run for him by trustees. I think he would have found the complexity, scale and responsibility of managing around £383,000 of transferred funds to be onerous in the years ahead. What I've seen tends to show Mr G would have required ongoing financial advice and support, all of which would cost him money which his DB scheme didn't require from him.

Suitability of investments

Pi Financial recommended that Mr G invest his funds in a personal pension. As I'm upholding the complaint on the grounds that a transfer out of the DB scheme wasn't suitable for Mr G and I don't think he would've insisted on transferring out of the scheme if clear advice had been given to him, it follows that I don't need to consider the suitability of the investment recommendation. This is because he should have been advised not to transfer and so the investment in the new funds wouldn't have arisen if suitable advice had been given.

I've also considered that anything Mr G has done with his transferred funds since the transfer has only been made possible by Pi Financial's unsuitable advice.

Summary

I don't think the advice given to Mr G was suitable.

Pi Financial ought to have advised him against transferring out of his DB scheme. He was giving up a guaranteed, risk-free and increasing income within the BSPS2 and by transferring to a personal pension, the evidence shows he was likely to obtain lower retirement benefits as a result of transferring.

I also don't think there were any other particular reasons which would justify the transfer and outweigh this. Better death benefits were cited as being a rationale for transferring. But as I've shown, I think the benefits in the BSPS2 were much more suited to Mr G's situation and if he really wanted to pass on a financial legacy to someone, he had plenty of other options which the adviser seems not to have discussed.

Pi Financial entered into this advice by assuming Mr G's mention of an early retirement at 55 was completely fixed. However, the implication that Mr G was certain to retire early wasn't borne out by the evidence and he was still only 50 years old. The adviser focussed wholly on transferring away, instead of assessing whether Mr G might meet his broad retirement objectives by becoming a member of BSPS2. He could have also joined that scheme and waited until his plans were clearer before irreversibly transferring to a personal plan.

So, I don't think it was in Mr G's best interests for him to transfer his DB scheme to a personal pension when he had the opportunity of opting into the BSPS2. I also don't think that it was in his interest to accept the reduction in benefits he would have faced by the scheme entering the PPF. Doing this wouldn't be offset by the more favourable reduction for early retirement. By opting into the BSPS2, Mr G would have retained the ability to transfer out of the scheme nearer to his retirement age if he really needed to. The annual indexation of his pension when in payment was also more advantageous under the BSPS2.

On this basis, I think Pi Financial should have advised Mr G to opt into the BSPS2.

I have considered, given the circumstances of the time, whether Mr G would have transferred to a personal pension in any event. I accept that Pi Financial disclosed some of the risks of transferring to Mr G, and provided him with a certain amount of information. But ultimately it advised Mr G to transfer out, and I think Mr G relied on that advice.

I'm not persuaded that Mr G would have insisted on transferring out of the DB scheme, against Pi Financial's advice. I say this because Mr G was an inexperienced investor and this pension accounted for most of his retirement provision at the time. So, if Pi Financial had provided him with clear advice against transferring out of the DB scheme, explaining why it wasn't in his best interests, I think he would have accepted that advice. In my view, this is what should have happened.

In light of the above, I think Pi Financial should compensate Mr G for the unsuitable advice, using the regulator's defined benefits pension transfer redress methodology.

Putting things right

A fair and reasonable outcome would be for the business to put Mr G, as far as possible, into the position he would now be in but for Pi Financial's unsuitable advice. As I've said, anything Mr G has done with his transferred funds since the transfer has only been made possible by Pi Financial's unsuitable advice.

I consider Mr G would have most likely opted to join the BSPS2, rather than transfer to the personal pension if he'd been given suitable advice and compensation should be based on his normal retirement age of 65, as per the usual assumptions in the FCA's guidance. Pi Financial should use the benefits offered by BSPS2 for comparison purposes.

Pi Financial 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.

Pi Financial should use the FCA's BSPS-specific redress calculator to calculate the redress. A copy of the BSPS calculator output should be sent to Mr G and our Service upon completion of the calculation.

This calculation should be carried out using the most recent financial assumptions in line with 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 Mr G's acceptance of my final decision.

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

- calculate and offer Mr G redress as a cash lump sum payment,
- explain to Mr G before starting the redress calculation that:
    - their 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 their redress prudently is to use it to augment their DC pension
- offer to calculate how much of any redress Mr G receives could be augmented rather than receiving it all as a cash lump sum,
- if Mr G accepts Pi Financial's offer to calculate how much of their redress could be augmented, request the necessary information and not charge Mr G for the calculation, even if he ultimately decides not to have any of their redress augmented, and
- take a prudent approach when calculating how much redress could be augmented, given the inherent uncertainty around Mr G's end of year tax position.

Redress paid to Mr G as a cash lump sum will be treated as income for tax purposes. So, in line with DISP App 4, Pi Financial 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 Mr G'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.

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.

This pension at the time represented nearly all of Mr G's retirement provision. I believe the uncertainty and worrying impact of this unsuitable advice caused him significant distress and inconvenience. I therefore also order Pi Financial Ltd to pay an additional £300 to Mr G.

My final decision

Determination and money award: I am upholding this complaint and I now direct Pi Financial Ltd to pay Mr G the compensation amount as set out in the steps above, up to a maximum of £160,000.

Recommendation: If the compensation amount exceeds £160,000, I also recommend that Pi Financial Ltd pays Mr G the balance. I would additionally recommend any interest calculated as set out above on this balance to be paid to Mr G.

If Mr G accepts my final decision, the money award becomes binding Pi Financial Ltd.

My recommendation would not be binding. Further, it's unlikely that Mr G can accept my decision and go to court to ask for the balance. Mr G 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 Mr G to accept or reject my decision before 3 October 2023.

Michael Campbell
Ombudsman