DRN-3882072

The complaint

Mr B 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.

Lighthouse Advisory Services Limited is responsible for answering this complaint and so to keep things consistent, I'll refer mainly to "Lighthouse".

What happened

In March 2016, Mr B's 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 B'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 B 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 Lighthouse 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 B was 54 years and 11 months old and was married. He was described as having a medical condition currently preventing him from working. Mrs B was currently caring for him.

- Mr B had previously accrued over 36 years' worth of service with BSPS but had left a short time the company previously on a redundancy package. He and Mrs B were said to be living off the redundancy payment in the meantime, but this was due to run out in a few short months. Mr B was receiving around £719 per month in state benefits and as his current care giver, Mrs B was receiving around £268 per month in benefits.

- The cash equivalent transfer value (CETV) of Mr B's BSPS was approximately £894,144. The normal retirement age (NRA) was 65.

- Mr and Mrs B lived in a home valued at around £180,000 with no mortgage outstanding. They had no other significant assets or liabilities.

Lighthouse set out its advice in a suitability report on 13 December 2017. In this it advised Mr B to transfer out of the BSPS and invest the funds in a type of personal pension plan. Lighthouse said this would allow Mr B to achieve his objectives. Mr B accepted this advice and so transferred out. In 2022 Mr B complained to Lighthouse about its advice, saying he shouldn't have been advised to transfer out to a personal pension. Lighthouse didn't agree it had done anything wrong.

Mr B referred his complaint to the Financial Ombudsman Service in May 2022. One of our investigators looked into the complaint and said it should be upheld. In response, Lighthouse said it hadn't done anything wrong and was acting on the financial objectives Mr B had at the time.

As the complaint can'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 Businesses ('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 Lighthouse'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, Lighthouse should have only considered a transfer if it could clearly demonstrate that the transfer was in Mr B's best interests.

I've used all this information we have to consider whether transferring away from the BSPS to a personal pension was in Mr B's best interests. In particular, I have also carefully considered the final response letter from Lighthouse. I've carefully considered too, the various other responses made to the points contained within our investigator's view.

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

Financial viability and introductory issues

Our investigator referred in his 'view' letter to critical yield rates. These were also referred to in Lighthouse's transfer analysis and suitability report. 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.

The critical yield comparison was a requirement from the regulator at the time when advising clients on DB transfers. Our investigator pointed out that the critical yield required to match the benefits of the BSPS at the NRA of 65 was 8.22%. This would normally tend to demonstrate that transferring away from the DB scheme was unlikely to be financially viable. This is because reaching this level of annual growth outside the scheme year-on-year would be very difficult to achieve. In my view, it would be highly unlikely.

I can say this because the regulator's upper projection rate at the time was 8%, the middle projection rate was 5%, and the lower projection rate was 2%. But this hadn't been updated for some time and in 2017 we were in the midst of very low interest rates and low bond yields so I think that realistically growth projections could have been even lower. I've also seen, for example, that the fund provider which was being considered by Lighthouse here issued low / mid / high growth assumptions that were -1.7%, 1.3% and 4.2% respectively. Another growth assumption used in the suitability report offered -0.49%, 2.44% and 5.37% respectively. Lighthouse had assessed Mr B's attitude to risk as being low-medium and I noted he'd never bought any shares in his life or managed his own pension funds.

However, in this case, I don't think the critical yield comparison really takes us anywhere other than demonstrating the inherent value someone could be giving up by transferring away from a guaranteed pension for life, in what were clearly challenging economic times. I say this because I think it was very clear from the outset that Mr B wasn't going to realistically wait until the NRA of 65 to start accessing his DB pension scheme. In fact, retirement was imminent for Mr B. He'd already stopped working and he was suffering from a medical condition which seemed to mean paid employment was off the agenda, at least in the short-term. Mr B was receiving state benefits associated with his health challenges and Mrs B was also receiving a carer's allowance in benefits. And to make a living over the last year, which required an income of around £2,000 per month, they'd been supplementing this state support with Mr B's redundancy payment.

The same critical yield issue applies to comparisons with the PPF. The critical yields benchmarked against the PPF would have been generally lower than the BSPS, but our investigator still concluded Mr B shouldn't have ever been advised to transfer to a personal pension arrangement because even reaching the PPF critical yields wasn't sustainable in the longer term: at the NRA of 65 he'd be worse off in financial comparison terms. So, on financial viability grounds, if suitably advised, the investigator concluded that Mr B would have probably opted not to transfer to a personal pension arrangement. It simply wasn't worthwhile.

But again, I return to Mr B's particular circumstances. These were that he wasn't ever considering taking his pension benefits at the NRA. In fact, he was insistent upon a retirement at the age of 55 which was only a few weeks away for him. This was mainly due to his health and the fact he had no major sources of income other than state benefits at the time. So, as our investigator pointed out, he needed to start drawing a pension (early). And in his case, the benefits for a 55-year-old taking more or less immediate retirement were slightly higher in the PPF as opposed to the BSPS2. I explain more about this later.

As regards other issues related to financial viability, I can see the transfer analysis document (usually referred to as a "TVAS") of 24 November 2017 said that for the age of 55 *"in order to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing* [BSPS] *scheme at retirement the estimated Fund Required, also known as the Capital Value"* was £1,198,163. This related to retiring and taking a tax-free lump sum. If not taking a lump sum then the figure was even higher; £1,540,031.

To reiterate, these figures are found in Lighthouse's own analysis based on data the regulator required businesses to refer to at the time. I accept they related to the BSPS rather than the PPF, but Lighthouse didn't list the PPF values. However, because these figures are substantially above Mr B's CETV, they represent, in my view, a revealing window into the value of the guaranteed pension Mr B could be giving up by transferring away to a personal plan, rather than a similar DB scheme such as the PPF that was on offer here.

However, it seems to me the adviser portrayed some other figures about this which I think were misleading. It said, for example, that the fund required to buy a pension was only £619,933 whilst Mr B's CETV was much higher than this. But in my view it was wrong to portray Mr B's options in this way. What the adviser was describing here was a pension which had *no* spouse's pension, *no* increases in payment and *no* guarantee at retirement. In short, it was a much *inferior* pension to the one he already had and the options he had going forward.

I've also considered some projections Lighthouse used to help show that if he transferred out to a personal plan, the funds could last Mr B well into retirement. But I think most of these were based on growth projections which were high and likely based on past performance. It's also fair to say these were not comparing like-with-like. What Lighthouse was showing Mr B were comparisons with plans which lacked the guarantees and benefits of a DB scheme.

Of course, in this case and according to Lighthouse, its recommendation that he should transfer out to a personal pension was not based on the financial comparisons with his current scheme. Rather, Lighthouse said Mr B 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.

<u>*Other needs and objectives*</u>

Lighthouse recommended a transfer to a personal pension plan based on what it said were Mr B's wider objectives. What the adviser was trying to do was show that Mr B had a need for a flexible income, rather than a fixed one as provided by a DB scheme. But overall I don't think any credible case for a flexible income was made out by the adviser. The case for this was predominately based on the implication that Mr B might want to take a different income at certain points in the future and this might be influenced by his receipt of benefits until his and Mrs B's state pensions kicked in at the ages of around 66 and 67 respectively.

The suitability report and other documents give a flavour of what issues Mr B considered to be important to his pension thinking at the time:

- Mr B wanted immediate retirement which meant accessing his benefits at the age of 55.

- He was concerned about the uncertainties of that time, around the BSPS.

- With access to his pension, Mr B wanted to establish an annual income which would help cover all his living expenses and spending of around £2,000 per month. From what I've seen this included essential and discretionary spending on a month-to-month basis.

- Mr B also wanted to use part of his pension tax-free lump sum allowance to fund any future spending events (unspecified) such as potential gifts to adult children and / or holidays. He also he wanted to establish an 'emergency' contingency fund in savings of around £20,000.

- He wanted his tax-free pension lump sum to be enough to occasionally dip into for income if that became necessary.

It doesn't seem to me that any of these objectives were unreasonable. Mr B's pension was large by the standards of most people and so given its size, I think these were realistic aspirations. However, I think it's fair to categorise the adviser's thinking by saying their rationale for transferring Mr B away from a DB scheme was mainly based on the flexibility and control this offered to him. I have therefore considered these issues in turn.

- *Retiring early and 'flexibility'*

I've made the assumption that Mr B wasn't going to return to paid employment in the short term. He may not even have been contemplating returning to work at all but the records from the time don't really offer a view on this. So, we know he was not working at the time and he needed care from Mrs B, but the longer-term prognosis is unclear.

But even if I were to consider that Mr B's retirement plans were fixed in that he wasn't ever likely to return to paid employment, I think Lighthouse should have assessed the possibility of achieving his retirement goals whilst being a member of a DB scheme rather than transferring away, irreversibly, to a personal pension arrangement. The options Mr B faced were to move across into the new BSPS2 and we know he'd already made this selection, if only as a precaution whilst seeking financial and pension advice. His other option was to move into the PPF and he could still make that choice providing he did so before the deadline I've mentioned at the beginning of this decision.

Early retirement under the BSPS2, and indeed the PPF, were therefore still viable options for Mr B. Retiring early from either scheme would have meant Mr B's pension benefits would have been somewhat different to those he'd have got if he had been able to work until the NRA of 65. I've noted the adviser referred to this as a "penalty" but I don't think this is representative or fair. Taking benefits from either scheme at the age of 55 meant he would be accessing his pension earlier and for longer, so Mr B wasn't being penalised, he was just taking money out well ahead of the NRA. I think this could have been explained much better by the adviser as it could have unduly influenced Mr B.

Lighthouse's analysis set out what he might get by opting for either the BSPS2 or PPF and accessing the benefits straight away, at 55. There were some minor differences in the annual pension figures and the tax-free lump sums depending on whether you read the TVAS or the suitability report. I think this was probably because some of the analysis was carried out before Lighthouse fully understood the details of the emerging BSPS2. However, these minor variances don't fundamentally change anything. What the analysis was broadly saying was that if Mr B remained with his BSPS2 choice, then he'd be able to start drawing an annual pension of around £18,000 and also receive a tax-free lump sum of around £120,000. For the PPF, the figures were slightly higher although I note these were set out in the TVAS which pre-dated the suitability report by around 3 weeks. Nevertheless, Lighthouse calculated that as a member of the PPF scheme, Mr B's annual pension would be around £21,000 and his tax-free lump sum around £140,000. So, I think it's fair to say that if given the choice and had it properly explained to him, Mr B would have probably wanted to move into the PPF as he was slightly better off by doing so.

This all means that I've seen nothing explaining why Mr B wouldn't want to continue membership of a DB scheme – in this case I'm saying this was the PPF - and to use that scheme in exactly the way it was originally intended. If all he needed in retirement income was around £24,000 per year, I think the adviser should have pointed out that this seemed achievable given the potential PPF income I have set out above and the other state benefit income he and Mrs B could call upon.

There was no indication the benefit payments would be discontinued, at least for the time being and so I think it's important to remember that the adviser couldn't possibly say whether the benefits would cease, and if so, when. In fact, the adviser said this about Mrs B in the suitability report, *"she is your carer so will receive that benefit long-term"*. So, if anything, I think the adviser was basically factoring-in benefit payments continuing for a long time. There's no further evidence this feature of Mr and Mrs B's overall income was really discussed in detail or what the rules might be if Mr B's income or 'wealth' reached certain levels. But in any event, the documents from the time of this advice say that the benefits reappraisal was not being made until the following year.

So, I don't think there's anything showing Mr B's annual income from both the PPF and his benefits entitlement, wouldn't have fairly easily met their anticipated future income requirements, without any need for him to transfer away from a DB scheme. The benefits amounted to almost £12,000 per year and the PPF income was around £21,000 per year. The tax-free lump sum would have also covered off Mr B's other objectives such as building an emergency fund and they had no big outstanding liabilities such as a mortgage. So, I think 'flexibility' was poorly defined. It sounded good but it didn't really have any relevance to Mr B's situation. In my view, he would have easily been able to achieve what he wanted to with his pension by moving to the PPF.

I think Lighthouse also promoted to Mr B that he could access more tax-free cash if he transferred to a personal pension plan. It said he'd be able to access 25% of his pension as a lump-sum and then use the remaining funds more flexibly and in a personal pension the lump-sum would be much higher.

But again, this needed a careful explanation. It's usually the case that more tax-free cash can be accessed from a personal pension when compared against a DB scheme; this is because the values and benefits of the two schemes are calculated differently. But Lighthouse should have been telling Mr B at the time that extra tax-free lump sums being removed from a personal pension, clearly from the age of 55 in his case, also came with consequences in that the amount left for his later retirement years would obviously decrease. I also can't see there was a need for substantially more tax-free cash. As I've said, 2017 was a period where a low interest rate environment had persisted for many years so the interest on cash was poor and there were no specific large-scale purchases on the horizon for Mr and Mrs B; they seem to me very much like people who had a modest and sensible approach to money.

Overall, I think 'flexibility' would have sounded positive to Mr B. However, I can't see that he and Mrs B required flexibility in retirement in the way the adviser suggested. In any event, flexibility was poorly defined by Lighthouse. I've seen nothing that showed Mr B required changing how his retirement benefits ought to be paid at the point he was seeking the advice.

- *Control of the funds*

In essence, this is an extension of the above points I've made. However, I've also seen no evidence that Mr B had either the capacity or desire to exercise control over his funds. Mr B was being offered the opportunity to transfer to the new BSPS2 or the PPF. It's true there were some differences in these schemes when compared to the original BSPS, but they remained DB schemes nonetheless and were run for him by trustees.

I accept that Mr B may have had a basic understanding of pensions but there's no evidence he was an experienced investor. This was a very large amount of money so I think he would have found the complexity, scale and responsibility of managing over £894,000 of his own transferred funds from his DB scheme to be onerous in the years ahead. What I've seen tends to show Mr B would have required ongoing financial advice and support, all of which would cost him money which his DB scheme didn't require from him. He simply didn't have the experience to personally manage the funds.

- *Death benefits*

Death benefits are an emotive subject. When asked, I think 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 B died.

Mr B was married so I think the value of these benefits were most likely underplayed because the spouse's pension provided by the PPF, for example, would have been useful to Mrs B if Mr B predeceased her. I think his wife would have found this benefit a source of comfort and security. Lighthouse didn't really record many details about Mrs B's financial situation. But there's certainly no evidence she had a meaningful pension of her own as the only record we have is of a very small defined contribution pension totalling £4,700. If she had any other pension then I'd have expected this to be comprehensively explained and used to back up the advice for Mr B to leave his DB scheme.

I therefore don't think Lighthouse made the real value of this benefit area clear enough. The death benefits were substantial in both the BSPS2 and the PPF; they were guaranteed and they escalated – they were not dependent on investment performance, whereas the sum remaining on death in a personal pension was.

I think the adviser probably discussed with Mr B that he'd be able to pass on the value of a personal pension, potentially tax-free, to anyone he nominated. So, the lump sum death benefits on offer through a personal pension was probably made to look like an attractive feature to him. But whilst I appreciate death benefits are important to consumers, and Mr B might have thought it was a good idea to transfer 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 Lighthouse explored to what extent Mr B was prepared to accept a different retirement income in exchange for different death benefits.

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 B had lived a long life there could be much less left in his personal pension plan. I accept Mr B had a health condition which was no doubt a worry for him and Mrs B. But the full details of this medical condition weren't really established and the adviser certainly didn't use this as a rationale for transferring due to the different death benefits available to Mr B. Retiring at 55 is still early. The adviser should have therefore additionally known that a male even with a health condition – such as the one Mr B had at the time – might still have many years ahead in which he would be drawing down his pension funds thus leaving less to pass on to someone.

If moving to the PPF rather than transferring to a personal pension plan, I still think Mrs B would have been financially well protected if something unexpected had happened to Mr B. I say this because she'd have an income of around half his annual pension for the rest of her life and in due course she'd have her own state pension. There was no evidence Mr B's life expectancy was so short as to make these assumptions unreasonable; one document even said his health was "average". If moving to the PPF and taking a lump sum, I think it's fair to point out that Mr and Mrs B would initially have a substantial six-figure sum in savings – so I think it's credible to say that even if Mr B's health did become very concerning, or he died well ahead of his life expectancy, then Mrs B would still likely have had access to a significant lump sum as well as an ongoing spouse's pension.

Overall, in this case I don't think different death benefits available through a transfer to a personal pension justified the likely decrease of retirement benefits for Mr B. I think this objective, listed as it was in the suitability report, was no more than a generic comment and not meaningful to Mr B's situation.

- *Concerns over financial stability of the DB scheme*

It's clear that Mr B, like many employees of his former company, was concerned about his pension. His former employer had recently made the announcement about its plans for the scheme and Lighthouse said he lacked trust in the company. He may well have heard negative things about the PPF and Lighthouse said he could have more control over his pension fund.

So, it's quite possible that Mr B was also leaning towards the decision to transfer because of the concerns he had about his employer and a negative perception of the PPF. However, it was Lighthouse's obligation to give Mr B an objective picture and recommend what was in his best interests.

By the point of the advice being delivered details of BSPS2 were known and it seemed likely it was going ahead; Mr B had even provisionally elected this at the point of the advice. So, I think this should have alleviated any concerns about the scheme moving to the PPF.

However, I think that Lighthouse should have reassured Mr B that the scheme moving to the PPF wasn't as concerning as he might have originally thought. As I have shown, the benefits available to Mr B through the PPF were actually more than the BSPS2 in his case and so would have provided a significant portion of the income he would have needed at retirement. And although the increases in payment in the PPF were lower, the income was still guaranteed and was not subject to any investment risk. So, I don't think that these concerns should have led to Lighthouse's recommendation to Mr B to transfer out of the DB scheme altogether.

Suitability of investments

Lighthouse recommended that Mr B 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 B 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 to remain in a DB scheme and so the investment in the new funds wouldn't have arisen if suitable advice had been given.

Summary

I don't think the advice given to Mr B was suitable. He was giving up a guaranteed, risk-free and increasing income within the BSPS2 or the PPF.

Because of Mr B's situation, the PPF was the better choice for him from a financial perspective. He was also sure he wanted to access his pension more or less straight away and there was a possibility that he wouldn't be working again any time soon.

Mr B didn't need income flexibility in the way Lighthouse implied. His retirement objectives appeared sustainable without transferring away from a DB scheme; by doing so he'd be incorporating a market risk which I don't think he was comfortable with and it simply wasn't necessary. I don't think there were any other particular reasons which would justify the transfer and outweigh this.

I therefore think Lighthouse ought to have advised him against transferring out of his DB scheme for these reasons and his circumstances here were much more aligned to him moving to the PPF.

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

I'm not persuaded that Mr B would have insisted on transferring out of the DB scheme, against Lighthouse's advice. I say this because Mr B was an inexperienced investor and this was a large pension which accounted for almost all of his retirement provision at the time. So, if Lighthouse 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.

I'm also not persuaded that Mr B's concerns about the PPF were so great that he would have insisted on transferring his pension, knowing that a professional adviser, whose expertise he had sought out and was paying for, was advising him on this course of action.

In light of the above, I think Lighthouse should compensate Mr B 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 B, as far as possible, into the position he would now be in but for Lighthouse's unsuitable advice. I consider Mr B would have most likely opted to join the PPF, rather than transfer to the personal pension if he'd been given suitable advice and compensation should be based on an early retirement age of 55. I have explained in the decision why this is.

To be clear, Lighthouse should use the benefits offered by the PPF for comparison purposes.

Lighthouse must 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.

Lighthouse should use the FCA's BSPS-specific redress calculator to calculate the redress as if he'd joined the PPF. A copy of the BSPS calculator output should be sent to Mr B and our Service upon completion of the calculation together with supporting evidence of what Lighthouse based the inputs into the calculator on.

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 B'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, Lighthouse should:

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

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

Where I uphold a complaint, I can award fair compensation of up to £170,000, 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 £170,000, I may recommend that the business pays the balance.

My final decision

<u>Determination and money award</u>: I am upholding this complaint and I now direct Lighthouse Advisory Services Limited to pay Mr B the compensation amount as set out in the steps above, up to a maximum of £170,000.

Recommendation: If the compensation amount exceeds £170,000, I also recommend that Lighthouse Advisory Services Limited pays Mr B the balance. I would additionally recommend any interest calculated as set out above on this balance to be paid to Mr B.

If Mr B accepts my final decision, the money award becomes binding on Lighthouse Advisory Services Limited.

My recommendation would not be binding. Further, it's unlikely that Mr B can accept my decision and go to court to ask for the balance. Mr 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 Mr B to accept or reject my decision before 27 November 2023.

Michael Campbell
Ombudsman