

The complaint

Mr H complains that he was given unsuitable advice by BeaconIFA Limited ('Beacon') to transfer the benefits from his defined benefit (DB) scheme with British Steel ('BSPS') to a personal pension.

What happened

In March 2016, Tata Steel UK Ltd 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 pension benefits, one of which was a transfer to the Pension Protection Fund ("PPF") – the PPF is a statutory fund designed to provide compensation to members of defined benefit pension schemes when their employer becomes insolvent. The BSPS was closed to further benefit accrual from 31 March 2017.

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 H's employer would be set up – the BSPS2.

In October 2017, members of 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 22 December 2017.

Mr H met with Beacon in October 2017 for advice as he was worried about his pension. Beacon recommended him to transfer his BSPS benefits to a personal pension and Mr H followed this recommendation.

In 2022 Mr H complained about the advice he was given as he says he is unsure whether this had been suitable for him.

Beacon rejected his complaint and subsequently one of our investigators considered Mr H's complaint and upheld it. He thought Mr H had been given unsuitable advice and asked Beacon to compensate Mr H accordingly. The investigator recommended Beacon should calculate redress using the Financial Conduct Authority's ('FCA') redress methodology for DB transfers which was in place at the time and pay Mr H an additional £300 for the trouble and upset this matter had caused him.

Beacon disagreed with the investigator on his findings on suitability but offered to carry out a loss calculation and pay the recommended £300. The calculations showed Mr H had not suffered a financial loss.

Mr H rejected the payment of £300 and wanted to wait for the introduction of new redress guidance by the FCA in April 2023. In May 2023, Beacon carried out calculations again which showed no loss and offered £500 if the complaint could be resolved informally. Mr H didn't accept this offer.

The complaint has now been passed 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.

During the course of this complaint Beacon have said they now are willing to accept this was unsuitable advice. As the suitability of the advice is not in dispute any longer, I will focus in this decision on the redress method.

The aim is to put Mr H back in the financial position he would have been in at retirement had he remained in the BPS. Beacon carried out a calculation using a specific BPS calculator provided by the FCA which is what I would expect them to do in the circumstances.

The calculator uses economic and demographic assumptions to calculate how much a consumer needs in their pension arrangement to secure equivalent BPS retirement benefits that they would have been entitled to under either BPS2 or the PPF (as uplifted to reflect the buy-out), had they not transferred out.

If the calculation shows there is not enough money in the consumer's pension arrangement to match the BPS benefits they would have received, the shortfall is the redress amount owed to the consumer. If the calculation shows there is enough money in the consumer's pension arrangement, then no redress is due.

The BPS calculator has been developed by actuaries and is programmed by the FCA with benefit structures of the BPS, BPS2 and PPF (including the impact of the subsequent buy-out) and relevant economic and demographic assumptions which are updated regularly. This information can't be changed by firms.

The calculator also makes automatic allowances for ongoing advice fees of 0.5% per year and product charges of 0.75% per year which are set percentages by the FCA.

Putting things right

The calculation was valid for three months, so has now expired. For this reason I ask Beacon to update the calculations for Mr H 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>.

Beacon should use the FCA's BPS-specific redress calculator to calculate the redress using the most recent assumptions. A copy of the BPS calculator output should be sent to Mr H and our Service upon completion of the calculation together with supporting evidence of what Beacon based the inputs into the calculator on.

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The calculations should be based on Mr H ending up in the BPS2 if he had not transferred his DB pension and that he would have retired at age 65.

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

- calculate and offer Mr H redress as a cash lump sum payment,

- explain to him before starting the redress calculation that:
 - his 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 his redress prudently is to use it to augment his DC pension
- offer to calculate how much of any redress Mr H receives could be augmented rather than receiving it all as a cash lump sum,
- if Mr H accepts Beacon's offer to calculate how much of their redress could be augmented, request the necessary information and not charge Mr H 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 H's end of year tax position.

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

I also consider it fair and reasonable for Beacon to pay Mr H a sum of £300 for any upset the uncertainty about his pension provisions caused him.

Mr H should co-operate with Beacon and provide them with any information they need to complete their calculations.

My final decision

I uphold this complaint and require BeaconIFA Limited to carry out the loss calculations and pay Mr H any due compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 3 November 2023.

Nina Walter

Ombudsman