DRN-4483838

The complaint

Mr B complains that INTERESTME FINANCIAL PLANNING LIMITED advised him to transfer the funds held within his personal pension plan (PPP) into a Self-Invested Pension Plan (SIPP). Mr B says he suffered a financial loss as a result of InterestMe's advice.

What happened

On 14 November 2023, I issued a provisional decision about this complaint. In it, I set out the background to this complaint as follows:

"In 2018, InterestMe Financial Planning, advised Mr B to transfer the funds held within his (PPP) into a SIPP provided by a different pension provider. InterestMe recorded the following information:

- *Mr B was 54 years old, married and employed, earning around £2,500 a month.*
- *Mr B's PPP was worth around £23,600, the PPP did not allow drawdowns and its annual charge was 1%.*
- *InterestMe noted Mr B had a company pension and would like an income of around £2,000 per month when he retired at age 67, and would be reliant on the income from the funds to be transferred into the SIPP.*
- *Half of Mr B's funds held within the PPP were invested in a 'with profits' fund that had performed below market expectations in the previous five years. The other half of Mr B's funds were invested in a fund strategy that held a pre-determined range of his overall investment in equities and fixed-interest securities, regardless of market conditions. Mr B's PPP offered a choice of only two alternative funds.*
- *Mr B had a medium attitude to risk and InterestMe did not think the balance of funds held within his PPP were aligned to his attitude to risk.*
- *Mr B was interested in potentially higher returns from a discretionary fund manager ('DFM'), which could employ a more flexible investment strategy than a traditional with profits pension fund.*
- *InterestMe advised Mr B to invest the funds to be transferred into his SIPP into the 'InterestMe Core Total Return Balanced Portfolio' because of the opportunity for higher investment growth.*

The charges to be applied as a result of the advice and transfer were:

- *Initial Advisor fee – 3%, equating to £707.00.*
- *£150 annual SIPP administration ('pension wrapper') fee.*
- *Annual DFM investment charges of around 0.9%.*

- *0.75% annual ongoing adviser charge equating to around £170 for the first 13 years, taking Mr B to his anticipated retirement age.*

InterestMe acknowledged the fees for the new arrangement was higher than the charges applied through Mr B's PPP, but that the extra growth Mr B could expect outweighed this.

The transfer went ahead in April 2018. A few months later, in October 2018, InterestMe advised Mr B on the process of accessing tax-free cash from his pension to fund home improvements. He withdrew around £5,700, and incurred a charge of £145.00 plus VAT. Around this time, InterestMe recommended Mr B switch his funds into the 'InterestMe Wealth Balanced Portfolio', which carried the same DFM investment charge of 0.9%.

By August 2019, Mr B's pension was worth around £16,900. By 14 January 2021, Mr B's pension was worth £17,682. He made a further withdrawal worth around £6,250 from his pension in May 2021. By February 2022, the value of Mr B's pension had fallen to £11,372.93. Through his representative, Mr B complained InterestMe's advice to transfer his PPP into a SIPP was unsuitable. He said InterestMe 'promised' his funds would grow at a greater rate within the SIPP. Mr B complained InterestMe did not adequately assess his attitude to risk or his capacity to risk his funds. He also said InterestMe failed to explain the high costs and charges involved in the SIPP.

InterestMe said that, after speaking to Mr B directly, it thought he had withdrawn his complaint and did not issue a final response to it. However, Mr B referred his complaint to our Service to review through a professional representative and clarified he wanted our Service to consider it. One of our Investigators reviewed Mr B's complaint but did not uphold it. In summary, he said:

- *InterestMe was sufficiently clear the SIPP would cost more than remaining with Mr B's original pension provider and was likely to cost more than transferring his funds to a Stakeholder pension with a different provider.*

- *The potential for greater returns on the funds held within a SIPP was consistent with Mr B's desire for investment growth and there was no evidence to show Mr B's capacity for financial loss was affected by the transfer.*

- *The funds InterestMe recommended Mr B invest in were aligned to his risk appetite.*

- *Whilst Mr B's pension had not performed as he had hoped, this did not make InterestMe's advice to transfer his pension into the SIPP unsuitable.*

- *Mr B withdrew around half the transfer value of his SIPP within the first three years, reducing the potential for his remaining funds to grow.*

- *When InterestMe reviewed Mr B's risk appetite in 2022, his appetite to risk was reduced – reducing further the original growth anticipated at the time of the advice to transfer.*

Mr B, through his representative, did not accept our Investigator's opinion but did not give any reasons. So, this has come to me for a decision."

I went on to set out my provisional decision about Mr B's complaint and what I thought InterestMe should do to put things right. In summary, I thought InterestMe's advice to transfer Mr B's PPP into his SIPP with a Discretionary Fund Manager was unsuitable for Mr B. I went on to set out what I thought InterestMe should do to put things right.

Mr B accepted my provisional decision, but InterestMe did not respond. So, this has come back to me to issue 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.

Mr B accepted my provisional decision and InterestMe did not respond with any further comments for me to consider. So, I see no reason to depart from the findings and recommendation set out in my provisional decision, which I will set out here.

I agree with our Investigator that InterestMe's advice to transfer Mr B's existing PPP into his SIPP was suitable. However, I don't agree that its advice to invest in balanced funds via a DFM was suitable. I'll explain why.

I've considered the features of Mr B's existing PPP and how they compared with Mr B's objectives and needs going forwards.

It's clear Mr B was interested in growing his pension, so I think ensuring the wrapper charges were kept to a minimum would help him to achieve this.

The suitability report recorded the SIPP's charges were lower than the PPP's charges – the SIPP had a wrapper charge of £150 per year. This compares with the 1% charge Mr B was paying for his existing arrangement without an ongoing advice fee, so Mr Bs' previous PPP was significantly more expensive. Through the new arrangement, Mr B would incur the cost of ongoing advice but I don't think this was unreasonable, given he sought out advice and wanted to grow his pot. He took advantage of InterestMe's annual reviews and it transacted drawdowns for him – and I think it is likely Mr B would have chosen to receive ongoing advice had he transferred to another product, given I think it his existing pension was unsuitable.

As Mr B wanted to grow his pension, I think having a range of investment choices available would help him achieve this. From the information available, it seems Mr B's existing PPP had limited fund choices and its performance was not in line with market expectations. Whereas if Mr B transferred his pension to a SIPP, he would have a much wider range of investment choices. So, I think this would've met his needs. It also seems to me that Mr B would likely want some flexibility in his pension arrangements. For example, having the option of taking tax-free cash and leaving the remaining funds invested. Mr B's PPP did not offer any flexibility to drawdown income (which Mr B went on to do within a year of transferring his pension).

So, overall, I think InterestMe should have advised Mr B to transfer into the SIPP, because it provided him with flexibility, a wider choice of investments and cheaper running costs than his existing PPP. But I don't think it should have advised him to invest in funds in line with a low to medium risk appetite or opt for a DFM.

The cost of the DFM, at 0.9%, made Mr B's new arrangement significantly more expensive than his previous one. InterestMe said the DFM charge was justified as there was greater potential for investment growth. The suitability report set out the projected growth rate of Mr B's funds was far higher in the SIPP than his existing PPP – I've considered whether those projections were reasonable.

InterestMe recommended Mr B invest in the "Core Total Return Balanced Portfolio" provided by InterestMe Wealth which had a one year return of 8.23%. However, as InterestMe Wealth had only been running the fund for one year, it had simulated a five year performance estimate of 11.69%. This would understandably seem very attractive to Mr B. But I do not think it was fair or reasonable to base a long-term projection on a single year of fund performance, particularly when the projection was more than double the annualised growth rate shown on the fact find. I do not think the projected growth figures quoted in the suitability report gave a realistic picture of how his SIPP would perform with a DFM. And whilst the potential for higher growth was the main driver for Mr B switching his pension, I do not think the figures used to justify the recommendation of a DFM were justified.

Mr B had a relatively modest pension fund and I do not think there was any need for a DFM – the cost of the DFM was disproportionately high compared to the size on Mr B’s pension pot. I do not think Mr B had much capacity for loss and he would be reliant on this pension fund in retirement, as I will explain below. So, it was imperative for Mr B to keep costs down as charges erode any growth his relatively modest fund could achieve. Further, I think the projected growth rates InterestMe showed Mr B were unrealistic. For these reasons, I think a DFM was neither suitable nor necessary.

I do not think InterestMe’s assessment of Mr B’s attitude to risk as medium was credible. InterestMe has not provided documentary evidence to show it undertook a full assessment of Mr B’s attitude to risk in 2019 as it later did in 2021. InterestMe identified it was likely Mr B would still have a shortfall against the income he wanted in retirement. The fact find does not indicate Mr B would have any source of income, other than the state pension, at his anticipated retirement when he turned 67 years old. So, I think Mr B had limited capacity to take risk with this pension, given his circumstances at the time. And I think it would have been more appropriate to classify Mr B as a low to medium risk investor, given his limited capacity for loss and investment experience.

To conclude, I do not think it was appropriate to recommend a DFM for Mr B given his lower attitude to risk, modest pension pot and questionable projected growth rates. I think keeping the costs down to maximise growth was key here. So, I think suitable advice would have been to advise Mr B to invest in a regular fund in line with his low to medium attitude to risk fund.

Putting things right

Fair compensation

My aim is that Mr B should be put as closely as possible into the position he would probably now be in if he had been given suitable advice.

I think Mr B would have invested differently. It’s not possible to say precisely what he would have done, but I’m satisfied that what I’ve set out below is fair and reasonable given Mr B's circumstances and objectives when he invested.

What must InterestMe do?

To compensate Mr B fairly, InterestMe must:

- Compare the performance of Mr B's investment with that of the benchmark shown below. If the actual value is greater than the fair value, no compensation is payable.

- If the fair value is greater than the actual value there is a loss and compensation is payable.

- InterestMe should also add any interest set out below to the compensation payable.

- If there is a loss, InterestMe should pay into Mr B's pension plan to increase its value by the amount of the compensation and any interest. The amount paid should allow for the effect of charges and any available tax relief. Compensation should not be paid into the pension plan if it would conflict with any existing protection or allowance.

- If InterestMe is unable to pay the compensation into Mr B's pension plan, it should pay that amount direct to him. But had it been possible to pay into the plan, it would have provided a taxable income. Therefore the compensation should be reduced to notionally allow for any income tax that would otherwise have been paid. This is an adjustment to ensure the compensation is a fair amount – it isn't a payment of tax to HMRC, so Mr B won't be able to reclaim any of the reduction after compensation is paid.

- The notional allowance should be calculated using Mr B's actual or expected marginal rate of tax at his selected retirement age.

- It's reasonable to assume that Mr B is likely to be a basic rate taxpayer at the selected retirement age, so the reduction would equal 20%. However, if Mr B would have been able to take a tax free lump sum, the reduction should be applied to 75% of the compensation, resulting in an overall reduction of 15%. In my provisional decision, I asked InterestMe and Mr B to let me know if this was an unreasonable assumption but, as Mr B accepted my provisional decision, I see no reason to depart from this.

- Pay Mr B £150 for the trouble and upset caused by the unsuitable advice to invest in higher risk funds than he should have using a DFM. Mr B's pension provision is important to him, and I think this recognises fairly the distress and inconvenience caused to Mr B by the unsuitable advice given.

Income tax may be payable on any interest paid. If InterestMe deducts income tax from the interest, it should tell Mr B how much has been taken off. InterestMe should give Mr B a tax deduction certificate in respect of interest if Mr B asks for one, so he can reclaim the tax on interest from HM Revenue & Customs if appropriate.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
InterestMe Wealth's 'Core Total Return Balanced Portfolio'	Still exists and liquid	For half the investment: FTSE UK Private Investors Income Total Return Index; for the other half: average rate from fixed rate bonds	Date of investment	Date of my final decision	8% simple per year from final decision to settlement (if not settled within 28 days of the business receiving the complainant's acceptance)

Actual value

This means the actual amount payable from the investment at the end date.

Fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark.

To arrive at the fair value when using the fixed rate bonds as the benchmark, InterestMe should use the monthly average rate for one-year fixed-rate bonds as published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis. Any additional sum that Mr B paid into the investment should be added to the fair value calculation at the point it was actually paid in.

Any withdrawal from the portfolio should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if InterestMe totals all those payments and deducts that figure at the end to determine the fair value instead of deducting periodically.

Why is this remedy suitable?

I've chosen this method of compensation because:

- Mr B wanted Capital growth with a small risk to his capital.
- The average rate for the fixed rate bonds would be a fair measure for someone who wanted to achieve a reasonable return without risk to his capital.
- The FTSE UK Private Investors Income Total Return index (prior to 1 March 2017, the FTSE WMA Stock Market Income total return index) is made up of a range of indices with different asset classes, mainly UK equities and government bonds. It's a fair measure for someone who was prepared to take some risk to get a higher return.

- I consider that Mr B's risk profile was in between, in the sense that he was prepared to take a small level of risk to attain his investment objectives. So, the 50/50 combination would reasonably put Mr B into that position. It does not mean that Mr B would have invested 50% of his money in a fixed rate bond and 50% in some kind of index tracker investment. Rather, I consider this a reasonable compromise that broadly reflects the sort of return Mr B could have obtained from investments suited to his objective and risk attitude.

My final decision

For the reasons explained above, I uphold this complaint. I require INTERESTME FINANCIAL PLANNING LIMITED to put things right by doing what I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 27 December 2023.

Victoria Blackwood
Ombudsman