DRN-4524713

The complaint

Mr C complains that his St. James's Place Wealth Management Plc (SJP) adviser failed to inform him about the relationship between the Cash Equivalent Transfer Value (CETV) of his former Defined Benefits (DB) pension scheme benefits and rising interest rates. He said that if his adviser had told him about this relationship sooner, he would've transferred his benefits sooner and benefited from a higher CETV. He therefore felt he'd been provided with incorrect advice.

What happened

Mr C had benefits in a former DB scheme that he wanted to transfer, take tax-free cash from and then use to purchase an annuity. He also had a number of defined contribution (DC) pensions which he wanted to use in the same way. He discussed all of his pensions with SJP on many occasions.

On 1 August 2019, Mr C's former DB scheme benefits had a CETV of £222,360.

On 21 February 2020, the CETV was £234,944, guaranteed until 21 May 2022: "*unless the Trustees decide to reduce transfer values.*"

According to SJP's file notes, the following calls or meetings relevant to this complaint took place:

26 February 2020: The file note recorded that Mr C still intended to transfer the benefits from his former DB scheme, take the maximum tax-free cash and purchase an annuity. And that he also wanted to take the maximum tax-free cash from his other pension arrangements and invest the remaining funds into the same annuity purchase. The note said that Mr C felt that his state pension and the potential annuities would provide sufficient regular monthly income to meet his needs. And that he'd be left with considerable tax-free cash which he could invest or use to top up his pension.

4 June 2020: The file note recorded that Mr C wanted to know how markets were doing and what his adviser felt. The adviser said he thought it might be a little early to purchase an annuity. And Mr C felt that things weren't likely to become any clearer until July. So they agreed to wait to see how matters developed.

26 June 2020: The file note recorded that as Mr C was approaching his 67th birthday, he wanted to take the maximum tax-free cash from his DB pension and then take the residual pension. It was noted that SJP needed to arrange for the DB pension provider to provide Mr C's full pension details and the required forms for completion.

29 June 2020: The file note recorded that the following action needed to be taken:

"Advise [DB pension scheme name] that [Mr C] wishes to draw his reduced pension from his birthday on [date] after taking maximum tax-free cash. We are not asking for alternative options purely his entitlement to pension so there should be no one-off fee to do so".

19 August 2020: The file note recorded that the adviser recommended that, in order to meet Mr C's target total net annual income, he should draw all of his DB pension and not take any tax-free cash. It also provided a rationale for this recommendation.

The notes further recorded that Mr C was adamant: "*despite [the adviser's] protestations*", that annuity rates were at the lowest levels for the last 50 years, that he wanted to use his tax-free cash to buy an annuity. And asked SJP to obtain an annuity quote including a widow's pension of 2/3rds guaranteed for both 5 and 10 years.

25 September 2020: The file note recorded that Mr C now wanted to transfer his DB pension. And then take tax-free cash and purchase an annuity on the same terms as his other pension arrangements, with 3% annual escalation. It also noted that SJP would need to investigate how to do this. And that it could take a couple of months.

27 October 2020: The file note recorded that despite SJP's recommendation to draw his pension from his DB scheme and to use drawdown to produce the necessary income he required, Mr C remained adamant that he didn't want to be invested in the stock market. And that he was very unhappy with his DB pension and wanted to maximise his tax-free cash from it and then purchase an annuity with the remaining monies.

The note further recorded that the adviser said he couldn't make a recommendation to transfer the DB benefits into an annuity. But that Mr C still wanted this to happen. The adviser agreed to review the situation based on Mr C's requirements, rather than his own recommendations. And took an action to see if SJP could justify the DB transfer Mr C wanted.

25 November 2020: The file note recorded that Mr C asked his adviser if he felt annuity rates would improve if he waited a little longer. The adviser said that as he felt interest rates were as low as they'd been for the last 50 years, they could only go up. But that it was "*anyone's guess*" as to when that would happen. The adviser also noted that annuity rates were likely to improve as Mr C got older. Or if his health worsened. He also said that they would improve with an increase in interest rates.

24 February 2021: The file note recorded that Mr C asked for an update on the market generally and its potential effect on annuity rates. His adviser gave his opinion on this.

The file note also recorded that Mr C's strategy was to wait until around June 2021 and then to purchase an annuity using the three DC pension funds after taking maximum tax-free cash. And then, if possible, at the same time to do the same with his DB pension. It also recorded that Mr C didn't want to pay the one-off charge for requesting a second CETV within 12 months of the first request. As such, SJP agreed to use the existing CETV after deduction of maximum tax-free cash as a guide to the likely annuity it would provide.

As Mr C's adviser wasn't licensed to provided DB pension transfer advice, SJP discussed Mr C's case within the business. It said that although his adviser felt that Mr C should retain his DB scheme benefits, Mr C still wanted advice on a potential alternative to taking or retaining those benefits.

On 9 August 2021, SJP carried out a financial review for Mr C. And on 11 August 2021, it took an action to request a further CETV once the anniversary of the existing CETV had passed.

On 19 October 2021 the CETV was £230,028, guaranteed until 18 January 2022.

17 November 2021: The file note recorded that the adviser discussed the DB pension with

Mr C in general terms. And that the adviser had noted that the pension fund had been 28% underfunded in 2018, with the employer making additional contributions to try to reduce the deficit by 2024. The note also stated that Mr C's DB pension had increased by a little over 7% in the last 12 months, even though the CETV had reduced by approximately £14,000 to £230,000.

17 January 2022: The file note recorded that Mr C was pleased that his pension funds had increased recently, enhancing his tax-free cash availability, but that he was still keen to buy an annuity.

9 February 2022: The file note recorded that this meeting was held to discuss the various annuity options available to Mr C and how he wished to proceed. It said he would first take tax-free cash from his DC pensions. Then buy an annuity with the rest of his DC funds. And that he would then look to transfer his DB benefits and do the same.

The note recorded that Mr C's preference was for a level annuity as he felt it would provide him and his wife with a high level of income in the early years. SJP took an action to get up-to-date annuity quotes given the recent 0.25% increase to the bank rate. It also recorded that the adviser might have to: *""sub-contract" the [Scheme name] final pension transfer to pension transfer Specialist*".

15 March 2022: The file note recorded that the adviser told Mr C that his chosen provider had increased its rates by approximately 15% since the previous annuity quote. The adviser also noted that Mr C's DC pensions had probably dropped in value by about 6%. And said that it was likely that interest rates would be increased again the following week. He said this would probably have a positive effect on annuity rates. The notes also recorded that SJP discussed with Mr C whether he should wait to see if interest rates rose further.

SJP provided Mr C with further updates about base rate changes and the changing annuity rates on 11 April 2022, 7 June 2022, 28 June 2022, the end of August 2022 and 5 October 2022. It took actions to continue to check how any interest rate changes impacted the annuity rate Mr C could obtain.

11 April 2022: The file note recorded that if interest rates went up, annuity rates also improved. The notes also recorded that the adviser tried to provide Mr C with reasons why his DC fund values had changed.

7 June 2022: The file note recorded that SJP took an action to check whether the CETV of Mr C's DB pension was sufficient to allow it to accept the transfer.

15 June 2022: The file note recorded that Mr C was becoming concerned that, as his DC fund values decreased due to market conditions, the tax-free cash he could get was also reducing. And that although annuity rates were increasing: "*At some stage he's got to draw a line under it and decide*".

28 June 2022: the file note recorded that Mr C discussed his DB pension with his adviser. And that he instructed SJP to request an up-to-date CETV once it became available free of charge. Mr C accepted that the CETV would take some time to produce.

17 August 2022: The file note recorded that SJP told Mr C that it was waiting for an up-to-date CETV before further action could be taken. Once it received that, it would have three months to arrange for a recommendation about whether the DB transfer could proceed.

SJP said that it recommended in August 2022 that Mr C purchased an annuity using his DC pensions. And that Mr C took enhanced tax-free cash and used the balance to purchase the annuity.

2 November 2022: The file note recorded that annuity rates with Mr C's chosen provided had decreased. And that SJP told Mr C that this was probably caused by political intervention. SJP also said that it was likely that interest rates would be increased the following day and that this indicated that an increase in annuity rates would follow. SJP took an action to review annuity rates. The note also said: *"[Mr C] was quite happy with the above situation and did not raise the question of his [DB Scheme name] currently.*" The file note further recorded that the 2021 CETV was lower than the SJP minimum of £300K.

4 November 2022: The file note recorded that SJP reaffirmed that no pension transfers and resulting annuity purchases should be made until it was aware of Mr C's chosen provider's latest annuity rates following the recent interest rate rise. And the result of the autumn statement at the end of this month and investment market's reaction to it. It also noted that SJP told Mr C that it was unable to recommend the transfer of the benefits in his DB pension as the CETV was less than £300,000. SJP suggested that Mr C spoke with his DB scheme to discuss the possibility of transferring funds directly to his chosen annuity provider so he could buy an annuity. It also told Mr C that he might need to approach a local financial adviser to assist him with this process.

SJP sent an information request and letter of authority to Mr C's DB scheme on 7 November 2022.

On 23 November 2022, Mr C had an annual review with SJP. It told him that his DB scheme would be providing a benefits update as well as a CETV, but that this could take some time to come through.

On 7 December 2022, SJP told Mr C that annuity rates had increased. It also noted that it was likely that there'd be another interest rate rise the following week. They agreed to hold back on purchasing the annuity until after the next interest rate meeting.

On 24 February 2023, Mr C's received a new CETV for his former DB benefits. This was £173,346, guaranteed until 23 May 2023.

On 16 March 2023, Mr C spoke with SJP to discuss why his CETV had decreased so drastically in value. SJP told him that the performance of this pension wasn't linked to stock market performance, but interest rate increases. It also said CETVs were calculated using strict guidelines. And that when interest rates increased, the amount required to buy equivalent pension benefits reduced. SJP also noted that annuity rates had increased quite substantially over the last few months due to the hike in interest rates.

On 22 March 2023, Mr C again discussed potentially taking tax-free cash and then buying an annuity with the benefits from his DB pension. SJP said it would provide advice on this matter if it could. And if it couldn't, it would look for someone in Mr C's location who could help him.

On 27 March 2023, SJP asked for the name of a local DB specialist who could assist Mr C. It then obtained Mr C's agreement to provide the name it'd been given with his details.

I understand that Mr C met with the DB specialist at the end of April 2023. Then on 25 April 2023, Mr C raised a complaint with SJP. He said that having met with the DB specialist, he was very concerned that he'd lost over £50K from his total pension and over £14K from his tax-free cash. He felt that if SJP had advised him that the CETV of his DB pension would reduce when interest rates rose, he'd have taken action to avoid losses sooner.

Mr C signed a letter of engagement for an abridged advice service on 26 April 2023. SJP provided Mr C with abridged advice on 7 June 2023. It didn't recommend that he transferred the benefits from his DB scheme.

SJP issued its final response to the complaint on 27 July 2023. While it offered Mr C £150 in recognition of the time it'd taken to provide him with a complaint response, it didn't think it'd done anything wrong regarding the CETVs. It acknowledged that it would've been a shock for Mr C to see the February 2023 CETV fall against the previous CETV from October 2021. But said that interest rates were just one of the things which would affect the CETV. And that it was never possible to know what any future CETV would be, as it was impossible to know the details of future CETV calculations.

SJP said that there were strict regulations on transferring the benefits from a DB scheme and that the amount of the CETV was just one of many factors which had to be taken into account when considering potential advice to transfer the benefits from a DB pension. And that when Mr C had taken abridged advice, the adviser had concluded that she couldn't advise him to transfer the benefits from his DB pension. It said this advice was likely to have been the same with a higher CETV.

Unhappy with SJP's response, Mr C brought his complaint to this service. He said that although he now understood that his CETV had decreased due to the rise in interest rates, SJP hadn't advised him of this in the past. And that if it had, he'd have taken steps to mitigate his losses.

Mr C told this service that he had transferred the benefits from his DB pension into tax-free cash and an annuity since making his complaint.

SJP told this service that Mr C had never been keen to request a further CETV as this would cost him money and take some time to produce. It also felt that the speed with which interest rates increased in 2022 couldn't have been foreseen. And that there would've only been a little time, if any, depending upon whether Mr C's former DB scheme continued to provide CETV quotations, to mitigate against the reduction in his eventual CETV figure.

Our investigator didn't think the complaint should be upheld. He didn't think that SJP had acted unreasonably by not telling Mr C about the relationship between the CETV of his pension and interest rates.

Mr C didn't agree with our investigator. He felt his adviser had a responsibility to warn him about this increase in interest rates. If he had warned him, he felt he could've taken further action to mitigate potential losses.

As agreement couldn't be reached, the complaint has come to me for a review.

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.

Having done so, I'm not going to uphold it. I agree with our investigator that SJP did nothing wrong. I know my decision will be disappointing for Mr C. I'll explain my reasons for it.

The core of Mr C's complaint is that if SJP had advised him sooner that his CETV would decrease when interest rates increased, he'd have taken steps to mitigate his losses.

I first considered Mr C's objectives.

Mr C's objectives

From what I've seen, Mr C wanted to maximise both the tax-free cash he could take from his pensions, and the amount of the annuity that he could purchase with his remaining funds.

The amount of tax-free cash he would receive was dependent on the value of his DC pensions. And would also depend on his CETV if he decided to transfer the benefits from his DB scheme. But the amount of annuity he would receive would be based on the annuity rates he could achieve.

Annuity rates would change for a variety of reasons, but – ignoring other changes - they would improve if interest rates went up. Counter to this, Mr C's DC funds would potentially reduce if interest rates went up, depending on market sentiment. His CETV would also change over time.

Mr C now understands that his CETV was likely to go down if interest rates went up. In this event, annuity rates would also be likely to go up. So Mr C would potentially be able to obtain a similar amount of pension, but would perhaps achieve a lower tax-free cash amount from his DB pension. The reverse is also true. Put simply, Mr C's objectives – to maximise both tax-free cash and the amount of pension he could buy – were impossible to achieve at the same time from his CETV.

I've gone on to consider what SJP told Mr C and whether it should've advised him differently.

SJP's advice to Mr C

I've noted quite a lot of detail about the advice SJP gave Mr C between 2020 and 2023 above. I've done this because I consider this demonstrates that SJP fully understood what Mr C was trying to achieve. And because I'm satisfied that it shows that SJP took reasonable steps to ensure that Mr C was aware of what might happen to interest rates, and therefore was in an informed position to make his own decision about when to buy an annuity with his DC pension funds. I'm also satisfied that SJP considered whether it would be beneficial for Mr C to transfer the benefits from his DB scheme so that he could also take tax-free cash and buy an annuity with those funds.

I say this because the file notes show that while Mr C initially planned to take his pension from his DB scheme, he seems to have decided by 27 October 2020 that he now intended to transfer the benefits from his DB scheme, take tax-free cash and then buy an annuity with the remaining amount. SJP made it clear to Mr C that it couldn't make the recommendation he wanted.

The 25 November 2020 file note shows that Mr C and his adviser discussed whether annuity rates would improve if he waited a little longer. The adviser felt that as interest rates were as low as they'd been for the last 50 years, they could only go up. And that this would improve annuity rates. But he couldn't be sure when that would happen. He also noted that annuity rates were likely to improve as Mr C got older, or if his health worsened.

I can also see that SJP discussed the changing value of the CETV with Mr C. I say this because the 17 November 2021 file note recorded that the adviser had noted that the CETV had fallen by around £14K, despite the value of Mr C's DB pension increasing over the same period.

We now know that interest rates changed significantly, and quickly, over the period Mr C was considering his options. But as they hadn't changed for a long period, I'm not surprised that Mr C's adviser wasn't able to tell him when they'd start to increase. From what I've seen, SJP gave Mr C reasonable advice based on what it did know – that is, interest rates had been historically low for some time, so if they did change, they were likely to increase. And if they did increase, annuity rates would improve.

The file notes also show that SJP kept a careful eye on interest rate changes and their impact on annuity rates. And kept Mr C informed about what had happened and what they thought might happen next. I also consider that the 15 June 2022 file note also shows that Mr C was aware that although annuity rates were increasing, the tax-free cash he could get was reducing.

From what I've seen, this led to Mr C achieving much better annuity rates from his DC funds than he would've achieved if he'd bought his annuity earlier.

Moving back to the crux of Mr C's complaint – that SJP should've told him that his CETV would fall if interest rates rose – I can see that on 7 June 2022, SJP took an action to check whether the CETV of Mr C's DB pension was sufficient to allow it to accept the transfer. But the file notes from June 2022 through to November 2022 show that Mr C wasn't in a hurry to get a new CETV. He didn't want to pay for one, so was happy to wait until another free one could be obtained. The file notes further recorded that the 2021 CETV was lower than the SJP minimum of £300K. And that SJP told Mr C that it couldn't recommend the transfer of the benefits in his DB pension as the CETV was less than £300K.

Mr C feels that if SJP had advised him that the CETV of his DB pension would reduce when interest rates rose, he'd have taken action to avoid losses sooner. But I can't agree, for a number of reasons.

First, I don't consider that anyone could've known for certain when and if interest rates would rise. Therefore I think it's unreasonable for Mr C to consider that if he'd know that his CETV would decrease, he would've taken action sooner.

In any event, Mr C's complaint is based on him having been able to access his October 2021 CETV of £230,028, which was guaranteed until 18 January 2022. As I noted earlier, SJP did make Mr C aware that his CETV had reduced when it spoke to him on 17 November 2021. There's no record that Mr C asked any questions about why this might've been the case. And there's no indication that Mr C was interested in seeking a DB transfer at this point.

In fact, the file notes show that it wasn't until 9 February 2022 that Mr C confirmed to SJP that he first wanted to take tax-free cash and buy an annuity with his DC pensions. And then look to transfer his DB benefits and do the same. At this point, his October 2021 CETV had already expired. So even if he'd known about the link between CETVs and interest rates, he'd either have had to pay for a further CETV, or wait until the next free one was available.

A CETV represents the expected cost of providing a member's benefits within a DB scheme. The CETV is a value determined on actuarial principles, which requires assumptions to be made about the future course of events affecting the scheme and the member's benefits. In certain circumstances, a CETV may be reduced.

As Mr C now knows, the calculation of CETVs does heavily depend on interest rates. But that's by no means the only factor influencing those values. And I agree with our investigator that it would've been impossible for SJP to know exactly what the CETV of Mr C's plan would be until that value was actually provided by the scheme administrator.

Even if SJP had more directly linked changes in interest rates to changes in Mr C's CETV in

November 2021, I'm not persuaded that he would've been able to obtain the October 2021 value. I say this because Mr C's SJP adviser wasn't authorised to provide DB transfer advice. So it would've taken some time to obtain the advice Mr C would've needed. And in any case, the advice may not have allowed Mr C to transfer his DB pension. I say this because when SJP did provide Mr C with abridged advice, it was unable to recommend the transfer. I acknowledge that Mr C did, ultimately, transfer his DB pension. But I'm not persuaded that he could've achieved such a transfer before the October 2021 CETV expired.

I acknowledge that Mr C still feels that his adviser had a responsibility to warn him about the potential impact of interest rate changes on his CETV. But, as I've detailed above, I'm not persuaded that if it had, it would've made any difference. In any event, I'm satisfied that the evidence shows that SJP took reasonable steps to put Mr C into an informed position about the options he had to meet his objectives. Therefore I can't fairly agree with Mr C that SJP provided him with incorrect advice.

While I understand that it would've been upsetting for Mr C to see a much lower CETV, he didn't have to transfer his DB scheme benefits. They would've remained the same. And from what I've seen, SJP's informative advice about potential changes in interests rates led to Mr C achieving better annuity rates than he would've otherwise obtained. Therefore I don't uphold the complaint.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 15 February 2024.

Jo Occleshaw
Ombudsman