

The complaint

Mr B has complained that Hargreaves Lansdown Asset Management Limited (HLAM) has not separated his self invested personal pension (SIPP) accounts in drawdown.

He believes having beneficiary drawdown and personal drawdown arrangements held within one account will result in greater tax liabilities than if they were kept separate.

He would like the assets to be split out into two separate accounts.

What happened

Mr B inherited a SIPP from his late wife which was invested with HLAM. This SIPP has been in beneficiary drawdown since 2020 with the income taken from it being tax free.

In July 2023 Mr B made a flexible access drawdown request on his personal SIPP, which was also invested with HLAM. The request he made was for £200,000 of specific nominated assets to be transferred into drawdown, with £50,000 being taken as a tax free cash lump sum.

The balance of £150,000 was made up of a single company's shares worth c£147,500 and Short Term Money Market units worth c£2,500.

Mr B had expected that HLAM would establish a new personal drawdown account in his name and transfer the shares and units into it, leaving the beneficiary account held separately.

On 25 July 2023, however, HLAM transferred both holdings into the beneficiary SIPP he had inherited. It then identified the values of both holdings at the date they were combined, and then applied the percentage split at that date to how it would split values in the future.

HLAM calculated that c68.5% of the value was within the Inherited beneficiary SIPP and the remaining c31.5% related to his personal flexible access drawdown SIPP.

Mr B was unhappy with this arrangement and complained to HLAM on 4 August 2023. The essence of his complaint derives from the fact that the income drawn from an inherited beneficiary SIPP would be tax free whilst any income drawn from his personal drawdown SIPP would be taxed. Mr B believed that by combining the two within one SIPP account may result in him having an additional tax liability, depending upon how he takes the income in future. He stated:

Mixing the two together and using an arbitrary value split at outset to determine future fund values (Beneficiary SIPP and Personal Drawdown SIPP) is completely inappropriate and unfair. The net effect of this, because of the arbitrary percentage split at outset 68.5%/31.5% means that the arbitrary value HL ascribes to my Inherited SIPP effectively absorbs 68.5% of the excess drop in value of my [single company]. shares when compared to the actual value of the shares held in my Inherited SIPP.

HLAM responded to Mr B's complaint on 24 October 2023, not upholding his complaint. It explained that establishing two SIPP accounts in the way he had asked for was not a service that it provided, and that the process it operated to all clients was the same that it had followed in his case.

When addressing Mr B's complaint, HLAM pointed out:

...there aren't any regulations which set out how a company must administer multiple drawdown arrangements. The way we breakdown the two differing pension arrangements involves working out the proportion each arrangement makes up of the total fund when the second (and any subsequent) arrangements are created and then treat the investments as being separate to the arrangements, so the arrangements rise & fall in value in the same proportion.

It went on to say:

Please note that the proportions would be recalculated if anything changed the value of one more than the other, e.g. taking income from only one arrangement.

Unhappy with HLAM's response to his complaint, Mr B brought it to this service.

Our Investigator reviewed all the evidence provided and formed the view that the complaint should not be upheld. Mr B was unhappy with this and so the complaint has been passed to me to make 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.

Having done so, I have reached the same conclusion as our Investigator and do not uphold this complaint.

I can appreciate that this will be disappointing to Mr B, so I will explain how I have reached my conclusion.

Firstly, I think it's important to reflect upon the role of this Service. Our role is to impartially review the circumstances of a complaint and make a decision on whether a business has made errors or treated a customer unfairly. Where it has, we expect a business to compensate a customer for any financial loss and distress and inconvenience they have suffered as a result.

In the circumstances of this case, the key element is whether or not HLAM has acted incorrectly when holding both the beneficiary and personal drawdown funds within a single SIPP account – and I don't think it has.

I note Mr B's concern about the use of what he referred to as *an arbitrary value split* and the effect this may have upon his potential tax liabilities.

HLAM has provided evidence to show that this split is by not arbitrary and based upon the individual values of the beneficiary and personal drawdown assets when they are first joined in the SIPP wrapper. It has also explained that its systems are able to ringfence the beneficiary funds to protect the tax free element. Consequently, it said;

When [Mr B] elects to take any income, he can specify that he wants it to come from the beneficiary arrangement to ensure it is paid tax-free, and our system will track this. As [Mr B]

exhausts the tax-free element, the percentage split will change accordingly until the remaining funds are all attributed to the taxable element.

From this, I'm satisfied that HLAM's approach to managing multiple drawdown accounts is able to track and manage the tax liabilities that are appropriate for both the beneficiary account and Mr B's own personal SIPP benefits, so I can't see that it has done anything wrong here.

Furthermore, as HLAM has also stated, there are no regulations which dictate how an organisation must administer multiple drawdown arrangements. It has said that the process it uses is the result of a business decision – and it is not the role of this service to tell HLAM, or any other business, how to run its operations. We can only assess whether customers have been treated fairly or unfairly by those business decisions.

Consequently, I find that it's fair and reasonable to decide that HLAM has acted correctly and not treated Mr B unfairly when taking the approach it has.

My final decision

For the reasons explained above, I do not uphold Mr B's complaint.

Hargreaves Lansdown Asset Management trading as Hargreaves Lansdown does not need to take any action to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 25 September 2024.

Bill Catchpole
Ombudsman