DRN-5000798

The complaint

Mr and Mrs B complain that NKT Financial Solutions Limited gave them unsuitable advice which resulted in having to pay unnecessary charges.

NKT is an appointed representative of The Online Partnership Limited who are responsible for NKT's advice and answering this complaint.

What happened

Mr and Mrs B approached NKT for advice in 2018. Mr B had recently retired from work and Mrs B had no income. Their only income at the time was Mr B's state pension of around £8,476 a year. The couple was looking for the most tax efficient and flexible additional income from pensions and investments to cover their monthly outgoings until 2024 when Mrs B would receive her state pension. The couple was looking for an overall monthly income of £1,800. Their attitude to risk was assessed as moderately cautious.

NKT advised:

- For Mr B to consolidate his two existing pensions (one with Zurich with a value just under £12,000 and one with Royal London with a value of just under £215,000) into a new pension plan with Royal London which allowed flexible income release.

-Take his tax-free cash lump sum of around £56,000 and invest £20,000 each into stocks and shares ISA for him and Mrs B.

-Invest the remainder of the tax-free cash lump sum into a general investment account with the intention to fund Mr B's ISA in the next tax year.
-Take £800 per month tax-free from the ISAs and £375 per month from the Royal London pension as income. The income from the pension and Mr B's state pension would fall within Mr B's personal tax allowance so he would not have to pay any income tax on this either.

NKT took an initial advice charge of 2.5% of Zurich's transfer value and of the sums paid into the two ISAs and Mr B's general investment account. No initial advice charge was taken for the internal transfer from Mr B's Royal London pension to a plan that allowed flexible access.

Mr and Mrs B complained in 2023. They are unhappy that the tax-free cash lump sum was withdrawn from the pension and reinvested in different products. They think Mr B could have simply accessed his tax-free cash in stages from the pension and the additional advice charges for paying into different products could have been avoided. They say leaving the tax-free cash in the pension would have given them more flexibility to reduce the income when needed and possibly preserve some tax-free cash for when it was required at a later stage.

The Online Partnership rejected the complaint and said NKT's advice had been suitable. One of our investigators reviewed the complaint and also found the advice given by NKT was suitable. Mr and Mrs B disagreed and so the complaint was referred to me for an ombudsman's 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 decided to not uphold this complaint.

NKT's advice met Mr and Mrs B main objective of receiving tax efficient and flexible income. The funds continued to be invested in a tax-efficient manner and the couple was able to withdraw the additional income they required without having to pay income tax. The investment fund chosen in the ISAs and investment account also was in line with the couple's moderately cautious attitude to risk.

It's likely that Mr and Mrs B could have taken tax-free cash in stages from the pension directly. This wouldn't have been more tax-efficient or flexible than the solution recommended by NKT. And taking a mix of tax-free cash and income every month from the Royal London pension plan likely would not have been as straight forward as Mr and Mrs B envisage. Once Mr B had taken the whole of his tax-free cash lump sum the remainder of his pension was crystalised and access to income would have been fairly easy. However, if Mr B was taking tax free cash on a monthly basis, each month a proportion of his funds would have to be crystallised which can be a more formal and onerous process with a traditional large pension provider. NKT say each time forms would have needed to be completed with Royal London which I think is reasonable to believe. Mr and Mrs B also complained that their investments plummeted at some point. However, any money in the pension was also invested and was similarly exposed to investment risk.
I carefully considered whether the additional advice charges for the use of the ISAs and set up of an investment account made NKT's recommendation unsuitable. However, I don't believe this to be the case. Mr B couldn't flexibly access benefits from his existing pensions, so the consolidation of his two existing pensions into a new pension plan was required to meet Mr and Mrs B's objective of flexible access. I don't think it would have been unreasonable for NKT to base their initial advice fee on the whole investment amount (around £227,000). Instead Mr and Mrs B only paid a fee on the investments in the ISAs and investment account and the smaller Zurich pension value.

I acknowledge that Mr and Mrs B say they were already paying NKT an ongoing advice charge on the pension, so they wouldn't have had to pay additional fees if the advice had been to take tax free cash and income from the Royal London income release plan. I haven't seen evidence that Mr B was already paying an ongoing advice charge on his Royal London pension before the advice was given. However, even if this was the case, the client agreement clearly set out which services were covered by the ongoing advice fee and I don't consider that the advice in 2018 which involved consolidating pensions and setting up a new income release arrangement for Mr B would be covered by this. So I think Mr and Mrs B likely always would have had to pay fees for this advice.

The charges Mr and Mrs B had to pay for NKT's recommendations were clearly set out and I can also see that there were regular reviews about their circumstances and changes were made (for example when Mr B took on some part time work and therefore income drawdown from the pension was stopped in 2019 or when the ISAs decreased in value and it was agreed to switch funds).

In summary, I think the advice given to Mr and Mrs B in 2018 was suitable.

My final decision

I don't uphold this complaint.
Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B and Mr B to accept or reject my decision before 6 May 2025.

Nina Walter
Ombudsman