

The complaint

Mr R has complained about the advice he received from Quilter Financial Services Limited ('Quilter') to transfer a defined-benefit ('DB') occupational pension to a personal pension. Mr R has also complained that he didn't receive the annual reviews that he was paying for.

What happened

Mr R approached Quilter for pensions advice in January 2020. He was in the process of moving home and he wanted to explore using his pension benefits to facilitate this. Mr R had two DB schemes; one of which ('DB scheme A') was made up of two periods of service and had a total cash equivalent transfer value ('CETV') of around £267,000 plus around £9,000 of additional voluntary contributions ('AVCs'). Mr R also had a deferred DB scheme with his current employer, ('DB scheme B') and a defined contribution pension that he and his employer were paying into.

Quilter noted that Mr R had a life-limiting health condition and he was interested in the higher death benefits transferring his DB schemes would provide. Mr R was still working and expected to retire at age 67, in around nine years' time.

Quilter recorded that Mr R and his wife, Mrs R, had some savings and investments. And while they had sold their home for £595,000, they had yet to find a new property and they were concerned they wouldn't have sufficient liquid funds to complete the purchase or pay for any new works if required. Quilter noted that Mr R thought he could take tax-free cash ('TFC') from DB scheme A to meet this need.

It appears that during the advice process, Mr and Mrs R made an offer on a new property at a higher price than they'd initially anticipated (£635,000), and they estimated that they required around £82,000 to cover the move, stamp duty and to repay an outstanding mortgage of around £11,500.

In March 2020 Quilter ultimately advised Mr R to transfer out of DB scheme A, take his full TFC entitlement to facilitate the purchase of his new home and to invest the remaining monies in a flexible personal pension in line with his 'balanced' attitude to risk. Quilter said the transfer would provide greater death benefits for his spouse. The recommendation letter explained that an ongoing advice service, which would be paid for by way of an ongoing advice charge ('OAC') of 0.5%, would be provided annually.

In August 2024 Mr R appointed a representative (a 'CMC') to make a complaint on his behalf about the advice he received from Quilter. The CMC said the advice to transfer out of the DB scheme was unsuitable for Mr R. While it acknowledged Mr R's illness, it said he was still working at the time of the advice (and is to this day) so there was no immediate need to transfer. It added that it appeared Quilter had simply transacted what Mr R had asked for rather than providing him with best advice. The CMC also said Mr R hadn't received the ongoing advice or annual reviews he'd paid for.

Quilter didn't uphold the complaint. It said the advice was suitable for Mr R because he was in poor health and he wanted to ensure his family were in the best financial position in the

event of his death. Mr R was also in the process of moving and wanted to be debt free. As such, transferring DB scheme A to a personal pension met those objectives as Mr R was able to use the TFC to facilitate the move and ensure the whole of his pension could be passed on in the event of his death. However, Quilter acknowledged that Mr R hadn't received the ongoing advice service so offered him a refund of the OACs plus a return to compensate him for this.

Mr R maintained the original advice to transfer DB scheme A was unsuitable so he referred the complaint to the Financial Ombudsman Service.

Our Investigator considered the complaint and ultimately found the advice Quilter provided to be unsuitable. He recommended that Quilter compensate Mr R for the unsuitable advice in line with the Regulator's guidance. The Investigator noted that Quilter hadn't provided Mr R with the ongoing advice service, which he'd paid for. However, he didn't think it would be fair for Quilter to compensate Mr R for this, given that his recommendation put Mr R back into the position he would've been in if his pension hadn't been transferred. The Investigator also recommended that Quilter should pay Mr R £200 for the distress and inconvenience caused.

Mr R accepted this but Quilter didn't agree the advice was unsuitable. It said Mr R's health at the time of the advice was his main reason for wanting to transfer. And Mr R wanting to ensure his pension benefits were passed on in the event of his death was a reasonable objective which transferring the pension to a personal arrangement met.

As no agreement could be reached, the complaint has been passed to me to make a 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.

I've taken into account relevant law and regulations, Regulator's rules, guidance and standards and codes of practice, and what I consider to have been good industry practice at the time. This includes the Principles for Businesses ('PRIN') and the Conduct of Business Sourcebook ('COBS'). And where the evidence is incomplete, inconclusive or contradictory, I reach my conclusions on the balance of probabilities – that is, what I think is more likely than not to have happened based on the available evidence and the wider surrounding circumstances.

The applicable rules, regulations and requirements

The below is not a comprehensive list of the rules and regulations which applied at the time of the advice, but provides useful context for my assessment of Quilter's actions here.

PRIN 6: A firm must pay due regard to the interests of its customers and treat them fairly.

PRIN 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

COBS 2.1.1R: A firm must act honestly, fairly and professionally in accordance with the best interests of its client (the client's best interests rule).

The provisions in COBS 9 which deal with the obligations when giving a personal recommendation and assessing suitability. And the provisions in COBS 19 which specifically relate to a DB pension transfer.

The Regulator, the Financial Conduct Authority ('FCA'), states in COBS 19.1.6G that the starting assumption for a transfer from a DB scheme is that it is unsuitable. So, Quilter should have only considered a transfer if it could clearly demonstrate that the transfer was in Mr R's best interests.

Having considered all of this and the evidence in this case, I've decided to uphold the complaint for largely the same reasons given by the Investigator. I'll explain why.

The transfer value comparator ('TVC') report, which Quilter was required to carry out by the Regulator, said that it would cost Mr R £512,521.05 to obtain a comparable level of benefits from an annuity provider. This meant that it would cost Mr R over £245,000 more than the CETV offered to him to replace the benefits he was entitled to at age 65 from DB scheme A. If Mr R took his maximum TFC entitlement, which Quilter advised him to do, this meant his pension monies would have to achieve annual growth of over 10% (known as the 'critical yield') to provide a fund of this size to replicate his DB scheme at retirement.

Given Mr R's recorded 'balanced' attitude to risk and the Regulator's middle projection rate of 5%, I think Mr R was very likely to receive pension benefits, from age 65, of a significantly lower value than those he'd have been entitled to from the DB scheme. So, I think Mr R was ultimately likely to be worse off as a result of the transfer.

Quilter says that Mr R wasn't reliant on this income in retirement, because he and Mrs R had other DB schemes to draw on, as well as their state pensions, which it considered met their basic income needs of £30,500. However, I'm not satisfied that Quilter made a reasonable assessment of Mr and Mrs R's retirement income needs, particularly as Mr R wasn't expecting to retire for up to another nine years so he didn't necessarily have a good understanding of what his income needs looked like. Quilter also didn't specify whether the £30,500 per year was net of tax. And it also doesn't appear to have taken account of the impact of inflation between the date of the advice and Mr R's intended retirement or how that would affect his needs thereafter. As such, it seems to me that Mr R could've been more reliant on the income DB scheme A provided in retirement to meet his basic expenditure than Quilter believed.

Quilter says Mr R needed to transfer DB scheme A in order to release TFC to help him move house. But I think Mr R had alternative ways of achieving this without risking his retirement income. I recognise that Mr R approached Quilter and was likely considering accessing his pension because he didn't want to take a mortgage to facilitate his house move. I can understand this, particularly in view of his age and health. However, Quilter wasn't there to simply transact what Mr R wanted, it had to make a suitable recommendation and act in his best interests.

Mr R had some savings – around £20,000 – he and Mrs R also had some investments which I accept they probably wouldn't have wanted to encash at this time due to the way the covid pandemic had started to affect investment markets. Given that they had decided to proceed with the purchase of a home that was more expensive than they had initially expected, Mr and Mrs R needed additional finance to proceed. But I don't think it was in Mr R's best interests to transfer DB scheme A and take the maximum TFC to achieve this. Instead, I think Quilter ought to have encouraged Mr R to explore taking a mortgage to bridge the gap. And if it had done so, I think Mr R would've been receptive to this.

In March 2020, mortgage interest rates remained low – Mr and Mrs R could've likely secured a five year fixed deal for under 3% given their extremely low loan-to-value. And by the time the fixed deal ended, Mr and Mrs R's endowment of between £12,000 and £16,000 would've matured and they also could've likely saved sufficient funds to repay the mortgage by this

time, given they told Quilter they were currently saving £850 per month. Mr and Mrs R would've also had the option to take one or more of their DB schemes early, using the TFC available to repay it. Mr R would've also been paying into his defined contribution pension for another five years and could've also taken TFC from this scheme. Ultimately, if Mr and Mrs R instead took a mortgage to help them complete their house move, they had a number of options to ensure they were in a position to repay it before they retired.

I don't think it was clearly in Mr R's best interest to transfer out of DB scheme A to facilitate a house move when he could likely obtain a small mortgage at favourable rates. And given that Mr R needed to achieve growth far in excess of any interest rate he would have had to pay for the mortgage to replicate the benefits he was giving up, I think Mr R would've understood the advantage of taking a small mortgage in these circumstances.

Quilter says Mr R's main concern was to ensure he was able to pass on any remaining pension funds on his death to his wife as a lump sum. And that this was of highest importance to him given he was in poor health. But I don't think it is plausible that this was Mr R's main reason for seeking advice from Quilter at the time. I recognise that Mr R did have a serious health condition and that he was likely thinking about how he could ensure his family were protected. But it's evident that Mr R didn't approach Quilter and ask it to facilitate the transfer of both of his DB schemes. If wanting to ensure all of his pensions would be inherited by his wife and children was Mr R's priority then I would've expected this to have been explored by Quilter at the time. It's also clear that Mr R was still working and he hoped he'd be able to continue working to age 67, so it doesn't appear he considered himself to be in such poor health that providing different death benefits was of the utmost importance. So, I'm not persuaded Mr R's state of health was his reason for seeking advice from Quilter. Instead, I think it was his house move, which he was in the middle of undertaking, and the finance gap that was anticipated, which led Mr R to approach Quilter for advice.

I also don't think that the different death benefits available as a result of transferring out of DB scheme A were worth giving up the guaranteed benefits it provided. While the CETV figure would no doubt have appeared attractive as a potential lump sum, the sum remaining on death following a transfer was always likely to be different. As well as being dependent on investment performance, it would've also been reduced by any income Mr R drew in his lifetime. However, the spouse's pension attached to his DB scheme was guaranteed and escalated in payment, so I think it could've been valuable to his wife in the event of his early death.

I appreciate that Mr R was likely still interested in providing for his family in the event of his early death, particularly in light of his health condition. And I accept that Quilter explored life insurance, which couldn't be obtained due to his medical history. But Mr R already had significant death benefits whilst he remained employed (approximately £225,000) and he still had the capacity to build further pension funds through his defined contribution scheme, which he could leave to his wife and children. Mr R also could've increased his pension contributions given his capacity to save (even if he took a small mortgage), which would've increased the value of the fund he could leave on his death.

Summary

Overall, I can't see persuasive reasons why it was clearly in Mr R's best interest to give up his DB benefits and transfer them to a personal pension, when this would result in lower overall retirement benefits. I think Mr R had alternative ways of achieving his house move without having to transfer out of the DB scheme. And I think Mr R would've agreed that it was in his best interest to take a small mortgage rather than use his pension to achieve this if the costs involved had been properly explained. I also haven't seen anything to persuade

me that Mr R would've insisted on transferring, against advice to remain in the DB scheme. So, I'm upholding the complaint as I think the advice Mr R received from Quilter was unsuitable for him.

OACs

As I'm recommending that Quilter should compensate Mr R by putting him back into the position he would've been in if he hadn't transferred out of the DB scheme, I'm not recommending that any OACs for the lack of ongoing advice should be refunded. However, the Investigator recommended £200 for the distress and inconvenience caused by the lack of service provided following the original advice and I think Quilter should also pay this sum to Mr R. This is to reflect that Mr R has undoubtedly been inconvenienced by the lack of service after accepting the advice in good faith to transfer out of his DB scheme.

Putting things right

A fair and reasonable outcome would be for Quilter to put Mr R, as far as possible, into the position he would now be in but for the unsuitable advice. I consider Mr R would have most likely remained in the DB pension scheme if suitable advice had been given.

Quilter must therefore undertake a redress calculation 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>.

As I understand it, Mr R is still working. So, compensation should be based on him taking benefits at his normal retirement age of 65.

This calculation should be carried out using the most recent financial assumptions in line with PS22/13 and DISP App 4. In accordance with the Regulator's expectations, this should be undertaken or submitted to an appropriate provider promptly following receipt of notification of Mr R's acceptance of the decision.

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

- calculate and offer Mr R redress as a cash lump sum payment,
- explain to Mr R 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 defined contribution pension.
- offer to calculate how much of any redress Mr R receives could be augmented rather than receiving it all as a cash lump sum,
- if Mr R accepts Quilter's offer to calculate how much of his redress could be augmented, request the necessary information and not charge Mr R for the calculation, even if he ultimately decides not to have any of his redress augmented, and
- take a prudent approach when calculating how much redress could be augmented, given the inherent uncertainty around Mr R's end of year tax position.

Redress paid directly to Mr R as a cash lump sum in respect of a future loss includes

compensation in respect of benefits that would otherwise have provided a taxable income. So, in line with DISP App 4.3.31G(3), Quilter may make a notional deduction to allow for income tax that would otherwise have been paid. Mr R's likely income tax rate in retirement is presumed to be 20%. In line with DISP App 4.3.31G(1) this notional reduction may not be applied to any element of lost tax-free cash.

Quilter should also pay Mr R £200 to compensate him for the distress and inconvenience caused by its failings.

My final decision

Where I uphold a complaint, I can make a money award requiring a financial business to pay compensation of up to £430,000, plus any interest and/or costs that I consider appropriate. If I consider that fair compensation exceeds £430,000, I may recommend that Quilter Financial Services Limited pays the balance.

Determination and award: I uphold the complaint. I consider that fair compensation should be calculated as set out above. My final decision is that Quilter Financial Services Limited should pay Mr R the amount produced by that calculation up to the maximum of £430,000 plus any interest on that amount as set out above.

Recommendation: If the amount produced by the calculation of fair compensation exceeds £430,000, I recommend that Quilter Financial Services Limited pays Mr R the balance plus any interest on the balance as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 6 February 2026.

Hannah Wise
Ombudsman