Case study: Pensions

INVESTMENT ADVISER RECOMMENDS INAPPROPRIATE PENSION PLAN TRANSFER WHICH LEADS TO COMPLAINANT'S LOSSES

Themes: Pension plan; defined benefit trust; retirement annuity trust; investment adviser.

This complaint relates to a pension plan that the complainant believed had lost value due to an investment adviser's advice to transfer the pension benefits into a different structure.

In May 2015, Mr C met with an investment adviser who indicated that it would be beneficial for Mr C to transfer his pension, which was structured as a 'defined benefit trust', into a new structure, a 'retirement annuity trust'. In May 2016, Mr C left his employment and received a benefits statement for his pension. Mr C again contacted the investment adviser who looked into transferring Mr C's pension into a retirement annuity trust and requested Mr C to complete a risk profile questionnaire which would confirm his risk attitude level. The investment adviser than sent Mr C a financial planning report based on the information provided and Mr C authorised a transfer of his pension benefits into the new structure.

In October 2020, the investment adviser wrote to Mr C confirming that, as of December 2020, they would no longer offer investment advice. Mr C made a complaint to the investment adviser as he believed the investment adviser had failed to make it clear what benefits he was forfeiting when transferring his pension to the new structure. Mr C also believed the investments in his new pension were performing poorly. He feared he would be charged fees if he relinquished the investments, which he now felt he had to do due to the poor performance. He wanted the financial adviser to refund the commission they had received when providing the investment advice to Mr C. The investment adviser offered Mr C £2,000 in compensation as a goodwill gesture but maintained that they had provided Mr C with adequate information for him to make an informed choice regarding his pension transfer. Mr C did not accept this offer and referred his complaint to CIFO.

CIFO investigated and noted a discrepancy within the transfer documentation completed by the investment adviser regarding Mr C's planned retirement age and annual income which had recently changed. CIFO also noted that the investment adviser's report indicated concerns and mentioned Mr C should retain his original defined benefit pension structure but ultimately recommended the transfer because Mr C was insistent and required a substantial capital withdrawal and more flexible death benefits. CIFO found that the investment advice Mr C had received did not clearly inform Mr C of the implications and risks of transferring his pension benefits from a defined benefit trust. CIFO also found that, based on the investment adviser's advice, Mr C had not benefited from the transfer. Therefore, CIFO upheld the complaint and recommended the investment adviser compensate Mr C for the losses he incurred in line with the UK standard pension review methodology. A total of approximately £450,000 was calculated, however the investment adviser settled the complaint directly with Mr C at CIFO's statutory limit of £150,000. CIFO is unable to compel financial service providers to pay compensation above CIFO's statutory limit.