DRN-4257821

The complaint

Miss B complains about financial advice given by Profile Financial Solutions Limited ('Profile') to transfer her pension.

What happened

Miss B said that she was not given suitable advice by Profile to switch her pension to a new provider and had lost out.

Profile said it had provided appropriate advice on the switch, it did assess her personal and financial circumstances and her investment experience and attitude to risk. It monitored her pension and if appropriate recommended changes to investments. It had done this in 2022. It did not uphold the complaint.

The investigator said that the advice to switch suggested a similar attitude to risk in the new scheme investment and the charges were 0.73% including an ongoing adviser fee compared to 0.875 with the existing scheme so the new scheme had lower charges. The initial advice was 1.75% plus a fixed fee of £450. There was no comparison of the impact of the initial charge on growth but in a call Profile said it would be recouped over 6 or 7 months if growth in the new fund was a good as it had been in the last five years. Miss B had at least 10 years to recoup the charges as she was 45. Part of the reason for the switch was the range of funds as the current pension only offered one fund. Ongoing adviser charges were lower than with the old provider. Profile provided logs to show it attempted to provide these ongoing services and advised a change of fund in 2022. Drawdown was given as a reason but as she was only 45 there was no need and the old pension also confirmed the fund could have been moved to another policy when drawdown was needed. Given her circumstances at the time the investigator thought the advice was appropriate.

Miss B didn't agree. She said that she was not made aware that her pension would drop as much as it had.

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.

Miss B is represented but for ease I have simply referred to Miss B even though the representations may have been made on her behalf by her representative.

Miss B received advice to switch her pension in around 2017 into a personal pension. The Financial Regulator set out situations where such transfers would not be suitable. This included several situations where for example the new pension was more expensive. There was a loss of benefits on transfer, the new scheme did not match their attitude to risk or the new scheme had ongoing investment reviews and this was not explained, offered or put in place.

However the regulator also said it was important to consider the circumstances at the time.

Miss B was single, with children and a low income with very little financial capacity for loss. She was 46 at the time the advice was given with an annual income of between £10,000 and £40,000. The transfer value of the pension in spring 2017 was around £ 14,700 including around £3,000 of terminal bonus. She was in an Appropriate Personal Pension set up by a former employer that was no longer in existence. She was invested in a Unitised With Profits fund with a retirement date of 65.

I need to consider if the adviser should have simply put Miss B at ease about her existing pension rather than facilitating a switch. As it advised her to switch there needed to be reasonable potential for her to be better off to make the advice suitable. The potential to be better off needs to be enough to more than compensate for the risk that the consumer might end up worse off. For example if someone had a low attitude to risk, as was the case here, there would need to be greater potential for gain, without taking more investment risk.

I have considered the details of the new and old scheme and the review that was undertaken.

I can see that the new scheme costs were reported to be cheaper at 0.73% compared to the existing charges of 0.875%. Over time and even with similar investment performance in the new scheme the lower charges would benefit Miss B. The new scheme is a little cheaper, but the difference is not great (0.73 % vs 0.875% which is a difference of just 0.145%). But included in the new scheme cost is ongoing advice which cost 0.4%. It seems Miss B has received that service as an investment switch was advised

There were no special benefits in the old scheme such as enhanced tax free cash and it does not seem there was a market value adjuster applied to the amount transferred. So there were no special benefits that would be lost on transfer and which might have made the transfer less suitable.

The old scheme attitude to risk was cautious low/medium and the new was assessed as similar. It does seem that the investments in the new and old scheme were both cautious and might therefore be expected to deliver lower returns. That means that the potential to recoup the cost of advice and deliver hopefully better returns over time would mainly be delivered via lower costs with any better investment returns providing additional benefit. Based on past performance of the proposed new fund the adviser showed that over the 5 years prior to the date of the advice the new investment performed much better than her old scheme had. If that performance continued he said it would enable her to recover the cost of the advice for the switch within 6 or 7 months.

Based on this it does seem that there was potential to be better off due to the different investment returns and lower cost.

In reality the benefits Miss B could receive might be lower than expected. I note that Miss B complains about the fall in value of her fund. But just because a suitable investment does not grow as much as had been hoped does not mean the advice was unsuitable at the time.

The original advice listed reasons for the switch including flexibility such as drawdown. But as Miss B had more 20 years to retirement that was not relevant. It also referred to a wider range of funds but it seems post transfer she only invested in one, so it does not seem this was needed at that time. But this doesn't mean the advice to switch was unsuitable as there were other reasons to switch - such as reducing costs.

So on balance I think the advice was suitable. I say that because the new investment offered the opportunity of better investment returns (based on past performance) whether it actually did deliver those returns. Further the costs were lower and she received ongoing advice.

There there was a realistic prospect of recovering the costs of the advice to switch and achieve better growth in the future for a similar level of risk. For those reason I do think the advice was suitable so I am not upholding this complaint.

My final decision

I don’t uphold the complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Miss B to accept or reject my decision before 10 January 2024.

Colette Bewley
Ombudsman