

The complaint

Mr S complains that The Prudential Assurance Company Limited (Prudential) set up annuities for him that he didn't want and didn't sign up for. He's unhappy that Prudential won't allow him to have a cash value for these annuities as the money is rightfully his.

What happened

Mr S had three pension policies with Prudential and in February 2007 he enquired about taking his benefits. Mr S asked if it was possible to surrender all of these policies for a straight cash settlement.

Prudential responded shortly after to say the purpose of the plans were to provide a pension or a pension and a cash lump sum. It said it cannot be surrendered for a cash payment. Prudential said under separate cover it had issued him quotations of the current benefits available under each plan and if he wished to start taking his benefits he could send back the completed forms.

In November 2007 Mr S sent back the completed paperwork for the three plans, having selected to take tax free cash, a yearly 3% escalating income paid monthly and a 100% spouse's pension on each. Mr S signed to say he had read and understood the income options.

More recently Mr S complained to Prudential, saying he'd never signed up for an annuity. And that he now wanted to cash in the plans. Prudential responded providing Mr S copies of the forms he completed to take out the annuities and it explained that he couldn't cash in his plans. Prudential said that whilst legislation does now allow for annuities under £10,000 to be paid as a lump sum in certain circumstances, this was not mandatory and Prudential does not do this. It said it was committed to the terms and conditions of the annuities Mr S had setup.

Mr S had also complained that he was a smoker but Prudential hadn't paid him an enhanced annuity. Prudential responded to say that within the forms he was provided with in 2007, there was a section to tell them about any medical conditions that Mr S had. But Mr S didn't specify any medical conditions when completing his retirement forms. Prudential said it didn't provide enhancements for lifestyle conditions such as smoking but Mr S was provided with information about the open market option and he could have contacted other providers who may have offered this. But instead Mr S completed the retirement forms with Prudential to take his benefits with it.

Our investigator looked into the complaint but didn't think Prudential had done anything wrong. He said that Mr S had been provided with documentation at the time showing that he was taking out an annuity on a number of occasions. With reference to cashing in the annuities the investigator explained that only annuities valued under £10,000 could be cashed in and this legislation wasn't mandatory.

Prudential told us that at the time of taking his benefits, the funds used to purchase each of the annuities was over £10,000. However, legislation did allow pension funds to be taken subject to the total value of the pots, but Mr S's three policies took him over this limit. If Mr S hadn't wanted to take an annuity, his only other option at the time would've been to take drawdown. However, his combined fund was too small to meet Prudential's minimum limit for allowing drawdown. And this would've been the same for other providers as well.

In response to the investigator's view Mr S continued to say that the evidence didn't show that he had signed up to an annuity. He says he never signed anything to say he wanted or accepted annuities and he wasn't told that his policies were being converted into annuities. He asks why he was never contacted and given any help when taking out his pensions. Mr S values his annuities at under £10,000 and Prudential won't tell him what the value of them is. Mr S also says the paperwork he's received recently sometimes makes mention of annuities and other times personal pension. He also wants to know why Prudential didn't offer him an enhanced annuity.

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 appreciate that Mr S is a lay person when it comes to pensions and annuities and these can be difficult to understand. However, for the reasons I'll explain this does not mean Prudential has done something wrong. Mr S continues to say that he didn't sign up for an annuity. However, I understand he has been provided with all of the information Prudential holds in relation to his plans – and this clearly shows he signed up for annuities.

Put simply an annuity is what a pension fund becomes when a customer decides to take their benefits from a pension in the form of payments spread across their lifetime. The pension policy and its fund is converted into a yearly amount which is payable for life. Often this is still referred to as a pension, or a pension in payment. But across the forms Mr S completed the word annuity is used in a number of places. And the forms he completed were just part of the information he would've received before taking his benefits.

Furthermore, in 2007 prior to Mr S taking money from the plans, Prudential had told Mr S he couldn't surrender the plans as a cash settlement, only as a pension or a pension and a cash lump sum. It then sent Mr S retirement packs for all of his plans that set out his options and provided more generic information about pensions and annuities. The retirement forms required Mr S to sign to say he had read and understood his income options. Mr S selected his income choices and signed the three forms to say he understood these. The income options were to take an annuity, an income for life.

Mr S says he didn't receive the information such as the Key Features Document that would've been part of the retirement pack. However, I can see he received the forms that were part of the pack as he has signed them and sent them back to Prudential. So I think it is likely as the documentation was sent as part of a pack that he would've received the other information as well as the forms. And Mr S signed to say that he understood the options he'd selected. If he hadn't understood them or hadn't received any information about his options, he ought to have asked then for more information.

To take his benefits or to start receiving money from his plan Mr S had to give Prudential instructions about what he wanted to do. Prudential provided Mr S with the paperwork and his options were essentially restricted to taking payments spread out over his lifetime (an

annuity). He could do this with Prudential or other pension providers. Mr S filled in the forms making his selections about what he wanted to do. He chose to take an income increasing each year, a tax-free cash lump sum and a spouse's pension on each plan. Mr S signed to say he agreed he'd understood the income options he'd selected, on the forms in various different places the word annuity was used. This is where Mr S signed up for an annuity.

So the evidence shows that Prudential gave Mr S the required information about his pension and his income options (the annuities) and he selected his preferred options and signed to say he'd understood his choices. He then received the payments for a number of years. If Mr S didn't think he'd signed up for an annuity I'd say it would've been reasonable to question then, what these payments were for?

Prudential had given Mr S the standardised information required and he chose to take his benefits without seeking financial advice and signed to agree he'd understood his choices. So I can't hold Prudential responsible for Mr S's choices or lack of understanding. Prudential did what was required of it as a pension provider and administrator of Mr S's pension plans.

Mr S has also said that Prudential should've provided him with an enhanced annuity because he was a smoker. But Prudential didn't offer enhancements for smokers, so this is why it didn't offer him that.

So in conclusion of this issue, Prudential hasn't done anything wrong here.

Mr S now wishes to cash in his annuities and receive what is rightfully his, as he says it is his money. However, he invested his money in a pension with Prudential and used this money to buy three annuities from Prudential. So the money he invested was spent when he bought the lifetime annuities.

In 2014 legislation changed and pension providers can now allow customers to cash in their annuities if they are under £10,000. Prudential has said it has chosen not to take up this legislation. Prudential has not valued Mr S's annuities as it says it doesn't allow them to be cashed in, so it doesn't have a valuation process. However, it has confirmed that Mr S' fund used to purchase the annuities for each plan was over £10,000 when they were taken out in 2007.

Having considered the circumstances of this case, I don't think Prudential is being unfair or unreasonable in not offering Mr S a cash-in value for his annuities. Mr S agreed to take out a contract with Prudential for three annuities payable for life in 2007. He has received the benefit of these annuities for nearly 13 years now. Each annuity increases annually and if Mr S dies before his wife, his wife will continue to receive the annuity for her lifetime. The values of these annuities are not so small that they wouldn't provide any benefit to Mr S and his wife. And it's possible that even now, as they are escalating annuities with a 100% spouse's pension, that they could be worth over £10,000 in any event. So I think Prudential's stance that they are committed to pay the annuities agreed to in 2007 is fair in these circumstances.

I appreciate that Mr S will be disappointed with my decision but having considered all the evidence provided, Prudential has acted fairly and reasonably and in line with the relevant legislation.

My final decision

For the reasons explained above I do not uphold this complaint and make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or

reject my decision before 22 October 2020.

Simon Hollingshead
Ombudsman