

The complaint

Mr C is unhappy at the explanation given by Prudential Assurance Company Limited about why a transfer value of his pension fund in 2020 was lower than he'd been quoted in 2017.

What happened

Mr C has a deferred annuity policy which resulted from his membership of a defined benefit (final salary) occupational pension scheme (OPS), which he left in 1996. When his OPS was wound up, the scheme trustees purchased benefits matching his entitlement from Prudential. So his policy provides him with a guaranteed income at retirement in line with the benefits from his OPS.

Periodically since 2011 Mr C has requested a cash equivalent transfer value (CETV) of his pension, although so far he hasn't actually transferred. In January 2016 the value was given as just under £103,459. Mr C asked for another CETV in August 2017 which at that time was given as just over £125,629. But in January 2020 when he requested his sixth CETV the value was given as just under £96,249 which is 23% lower than the previous quote. Mr C wasn't happy the valuation appeared to have fallen and wanted to know what Prudential was doing to recoup the loss.

Prudential explained the valuations depend on a number of factors such as mortality and there was a major revaluation in 2019. But they were satisfied the figures Mr C had been given were correct. So Mr C brought his complaint to this service.

One of our investigators considered the complaint but didn't uphold it. He explained the method of calculating the CETV was commercially sensitive but he was satisfied it had been done in line with the relevant rules and guidance so he couldn't say Prudential had done something wrong.

Mr C still felt he hadn't received a satisfactory answer about why the value had fallen when his other investments had recovered after the impacts of Brexit and the pandemic. He feels he's "lost" in excess of £30,000. So he asked for an ombudsman to issue a final 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'm not going to uphold it. Let me explain why.

It seems this complaint has arisen from a fundamental misunderstanding by Mr C of how his policy works. I think the increase in valuations from January 2016 to August 2017 led him to assume that his policy valuation was based on investment performance and would continue to rise over time if effectively managed. But that may not be the case as Mr C doesn't have his own individual "pot" of money held with Prudential.

When Mr C's OPS was wound up, the trustees purchased individual policies for the scheme members which aimed to match the benefits they'd be entitled to if they'd remained deferred members of the OPS. A CETV shouldn't be viewed as a fund valuation statement. It's calculated by working out the lump sum that will be required to provide an equivalent pension to the scheme pension at Mr C's retirement age. This lump sum is then reduced (discounted) depending upon how far the member is from retirement. The calculation methodology hasn't been disclosed as it's commercially sensitive, but the scheme will make various assumptions regarding investment growth rates, as well as the age profile of the scheme membership, benefits promised, rates of inflation and scheme liabilities. The scheme funding position may also be taken into account and this could be affected by recent transfers out and the performance of the scheme's underlying investment assets.

There is no guarantee a CETV will be higher in the future than the most recent figure, which is why a CETV is only guaranteed for a period of time, usually three months after which it has to be requoted. The calculations no doubt became more complex due to the impact of market volatility following the pandemic. I've listened to the discussion Mr C had with our investigator and he clearly understands the relationship between the cost of providing defined pension benefits and rising life expectancy but that's only one of the factors which a CETV calculation will involve. For example predicted future rises in inflation generally cause CETVs to fall.

Pension freedoms legislation has led increasing number of people to transfer away from defined benefit schemes meaning their pension is under their own control and they can use the money as they wish. But this involves giving up valuable guaranteed benefits and becoming dependent on investment performance which leaves them at risk of the fund being depleted. Mr C told the investigator he thought Prudential was trying to save money by reducing the CETV, so he'd receive less. But providers may enhance CETVs to encourage members to transfer, so reducing their ongoing liabilities. Or conversely if a high number of members choose to leave a scheme CETVs may be reduced to protect the interests of the remaining members.

As the investigator said, Mr C may find a current CETV to be lower or higher than the ones he's received previously. But he should be reassured that he's actually lost nothing at all, as he remains entitled to those guaranteed benefits unless he transfers, regardless of any external factors which may affect investment performance. Which is why the regulator's position is that a transfer out of a defined benefit pension scheme is rarely in a consumer's best interests.

While I can't provide Mr C with the information he'd like which is an exact explanation of why the CETV in 2020 was lower than 2017, I've seen nothing to suggest Prudential has done something wrong or treated him unfairly.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 11 March 2022.

Sarah Milne
Ombudsman