DRN-3316742

The complaint

Mr M complains about the way The Prudential Assurance Company Limited dealt with the calculation and payment of his benefits when he came to take his personal pension, and about the poor service provided.

What happened

Mr M took out a personal pension in the late 1980s. His pension was made up of three different plans. His normal retirement date ("NRD") was recorded as 31 July 2020, when he would be 65, and the policy included a 10% guaranteed annuity rate ("GAR"). The pension was originally provided by a different provider but that firm was bought out by Prudential.

Prudential told Mr M it would maintain the terms that applied to the pension when it was taken out.

In June 2020 shortly before Mr M reached his retirement age, he began the process of accessing his pension benefits. He expected to receive his tax-free cash (TFC) lump sum and the first payment of his annuity, which included his 10% GAR, soon after.

Mr M was unhappy with the way Prudential dealt with this process and complained about a number of issues, including that:

- Prudential didn't provide the annuity – this was paid by another firm, but he had never agreed to this;
- payment of the TFC lump sum and the first payment of his annuity was delayed;
- he wasn't paid the correct amount of TFC;
- the final bonus applied to his fund was incorrect; and
- he was treated poorly and experienced poor service throughout the process.

Mr M first complained to Prudential on 23 June 2020. He received a final response letter in December. Prudential said the pension had been calculated correctly but there was a short delay in payment of the first annuity payment. It said Mr M hadn't suffered any loss but paid a small amount of interest to reflect the delay. Prudential accepted there had been some poor service and paid Mr M compensation of £500 for this.

When Mr M referred the complaint to this service our investigator didn't think it should be upheld. He said the payments Mr M received were correct and he hadn't suffered any financial loss. He agreed there had been some poor service but said the £500 paid by Prudential was fair.

Mr M remains unhappy and has requested an ombudsman's decision. He has provided detailed comments on the issues he's concerned about. I won't set them all out in full, but they include:

- Prudential has not complied with its duties set out in the FCA's Handbook, in particular that information it provides must be clear, fair and not misleading;
- the crux of the complaint is that Prudential only started the process in June 2020 and should have done this much earlier to ensure his pension benefits were paid correctly and on time;

- he did suffer a financial loss and the payment of £500 is nowhere near enough to reflect the harm caused to him;
- he paid fees for over 20 years for Prudential to provide his pension but he was forced to take an annuity from a different firm;
- the payments were not calculated correctly, they were paid late, and the information provided about them was unclear and misleading.

He is looking for a much higher compensation payment.

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.

Mr M has raised concerns about whether all of the information has been taken into account when investigating his complaint. I have considered everything we have received from both Mr M and Prudential carefully but won't set out everything in detail; I will focus on the key points. When reaching my conclusion I've taken into account Prudential's duty to provide information that is clear, fair and not misleading, together with its general duty to treat customers fairly.

Mr M has raised a number of issues and I will deal with each in turn.

The lump sum payment and first annuity payment were late

Mr M received his lump sum payment on 4 August 2020. Prudential has explained that his NRD of 31 July was a Friday; it started the process on the next working day, which was Monday 3 August and made the payment on Tuesday 4 August. That's in line with its normal timescales of two working days, so there was no delay. I'd expect there to be some processing time to pay the lump sum and I think this is reasonable.

There was a short delay in Mr M receiving his first annuity payment. Mr M received this on 15 August 2020 when it should have been paid on 1 August. Between Prudential and the annuity provider, a calculation was carried out to see if Mr M suffered a financial loss as a result. This compared the payment made on 15 August with the correct payment date of 1 August, with the provider backdating the payment to the earlier date. There was no financial loss other than the fact Mr M didn't have the use of the money during that short period. Prudential calculated interest on the funds at 8% for that period and paid this to Mr M. That's in line with what I would direct it to do, where someone has been deprived of the use of their money.

The amount of TFC lump sum wasn't right

The usual limit for a TFC lump sum is 25% but Mr M had a protected entitlement on his policy and was entitled to take 33.43% of the total fund value. His fund value at the date when he decided to take his benefits was £111,746.85. So, he expected to receive £37,356.97 (33.43% of that value) but only received £37,224.01. He would like to be paid the difference of £132.96.

I appreciate why Mr M might consider he's received the wrong amount. But Prudential explained why he didn't receive £37,356.97. The TFC entitlement on a pension is not a set percentage and will change as the value of the fund and other factors change. The calculation is based on a number of factors, including the lifetime allowance in the year someone takes their benefits, the growth in the fund and the protected TFC cash at that date. Because he had a protected entitlement, the calculation also took into account the fund value as at the date when the relevant changes to tax allowances came into effect as well as his NRD.

So Mr M didn't receive exactly 33.43% of his fund value at NRD due to the various factors Prudential needed to consider when calculating how much it could pay him. From what I've seen, Prudential's calculation was reasonable.

The final bonus calculation

Prudential hasn't provided the calculation showing how the final bonus was reached. Bonus calculations would not be carried out for an individual and would be done for anyone taking their pension benefits at that time. Annual and final bonus calculations are carried out by the fund's actuaries in accordance with the FCA's requirements. Prudential has also explained there was a decrease in the final bonus quoted because Mr M switched two of his plans to cash on 23 June 2020, meaning at the date of final settlement there was no further bonus to be added on these plans. Mr M questioned whether he had agreed to that. I've listened to a recording of the call where this was discussed and he agreed to it after asking some questions and being given information about making the switch.

Although Mr M has questioned the calculation I haven't seen any evidence to suggest the final bonus paid was incorrect.

Mr M was also concerned that the final bonus wasn't actually paid to him. He says he received a table showing the values of the three plans and the bonuses were listed in a separate column. When those bonuses were added to the values he says the total should have been around £132,000.

Prudential has confirmed the correct bonus was included in the payments to Mr M. The bonuses were set out separately in the table sent to him but the total fund value included these bonuses; they were listed separately so he could see how much the bonuses were. And in the call recording I listened to, he asked about this and it was explained to him. So he knew at that point (23 June 2020) that the bonuses were already included in the total value – they would not be added to it. The information could have been clearer but I'm satisfied the correct position was explained to Mr M.

The annuity is not paid by Prudential

Prudential isn't paying the annuity itself. That's because it made a decision to stop providing annuities. It's not for me to tell Prudential how to arrange its business. What I can do is consider whether Mr M has suffered any loss as a result the way Prudential arranges things. What Prudential has done is arrange for the annuity to be paid by another firm on its behalf. Provided Mr M receives the annuity he's entitled to, then he's in the same position he would be in if Prudential were paying the annuity itself.

Prudential has made an arrangement which allows it to maintain the pension plans like the one Mr M has. Mr M is not any worse off – the annuity is simply provided by a different provider. I understand all Prudential customers who hold a similar pension contract to Mr M are treated the same – if their pension entitled them to an annuity then this would be fulfilled by the other firm (unless they decided to take their pension fund elsewhere). So I don't think Mr M has been treated unfairly or differently from other customers in the same position.

Mr M is unhappy that Prudential received a fee from the other provider as part of its agreement with them. This wasn't taken from Mr M's pension fund. So, it hasn't deprived him of any of his pension; it's an entirely separate arrangement.

Poor service

Prudential has acknowledged that it made a number of errors, such as sending the wrong information to Mr M. There were times when he had to wait a long time on the phone and there were delays with various parts of the process. And when Mr M complained, Prudential didn't deal with the complaint within the set timescales.

I appreciate the situation was very frustrating for Mr M. It's right that Prudential should compensate him for the distress and inconvenience he was caused. He had to contact Prudential a number of times during the process and, as I've said, often had to wait on the phone before speaking to someone. But he did receive the lump sum payment a few days after his NRD. And, although there was a delay starting the annuity payments, this was a short period of a couple of weeks. I've explained why I don't think he suffered a financial loss as a result of that. I know he then had to wait some months to receive the final response to his complaint. But taking into account the impact on Mr M and the time period involved I'm satisfied £500 is a reasonable amount to acknowledge the distress and inconvenience caused.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 4 August 2022.

Peter Whiteley
Ombudsman