

The complaint

Mr V complains that Aviva Life & Pensions UK Limited has failed to treat him fairly when calculating the value of his accrued pension benefits.

What happened

Mr V holds pension savings with Aviva. Those pension savings are held in a with-profits fund that is designed to provide an annuity at his retirement. But Aviva also provides policyholders with an equivalent transfer value for these annuity amounts. These are calculated by reference to standard factors based on the annuity type and details about the policyholder.

In 2016 Aviva amended one of the factors that was used in these calculations to remove any reference to the gender of the policyholder. But Aviva says that these changes created an error in its system. As a result the transfer values that it automatically calculated were too large, and any quotations needed to be manually handled. Aviva says that it resolved the error in July 2019 and quotations it issued after that date were correct.

Mr V received a quotation of his pension benefits in July 2018. That quotation failed to be performed manually so the quotation Aviva sent was higher than it should have been. At that time Aviva told Mr V that the transfer value of his pension savings was £93,952.29.

Mr V was told that the transfer value of his pension benefits had fallen to £70,548.08 in March 2021. That valuation was much lower than the one he'd previously received. So Mr V complained to Aviva and asked for an explanation of the fall in value.

Aviva explained the processing error that was present in the transfer value quotation he'd received in 2018. It said that error meant that the transfer value was around £10,000 higher than it should have been. And it said that the remaining difference arose as a result of changes in annuity rates and the final bonus that was being added to plans such as was held by Mr V. It confirmed to him that the most recent quotation was correct and the amount to which he was entitled.

Mr V wasn't satisfied with what Aviva had said so he brought his complaint to us. The complaint has been assessed by one of our investigators. She didn't think that Mr V was entitled to receive the higher transfer value. And she thought that Aviva had explained how changes to the final bonus had affected the value of Mr V's pension benefits more recently. But she did think that the incorrect information Aviva had given Mr V in 2018 had led to a loss of expectation. So she asked Aviva to pay Mr V £300 as compensation.

Aviva accepted what our investigator had said. But Mr V didn't agree with the assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr V and by Aviva. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

The pension plan that Mr V holds with Aviva is designed to provide him with an annuity when he retires. Any premiums he paid secured an amount of annuity that was based on rates that took into account Mr V's age at the time. Regular bonuses were accrued on these benefits, and a final bonus might be added when the policy terminates.

At the outset of the plan, a guaranteed amount of annuity was offered. This was then supplemented over the years by the addition of further guaranteed bonuses. Those bonuses cannot be removed once added. So at times they can place something of a strain on the assets of the plan and thus Aviva will tend to be conservative in their calculation. So a further balancing aspect is required – the final bonus. Final bonus rates are regularly reviewed and are not guaranteed but are designed to reflect the difference between what is already guaranteed and the asset share of the policy.

But Aviva also provided its policyholders with the ability to transfer an equivalent cash value of their pension savings to another provider. The annuity amounts were converted to give a transfer value using "cash option factors" that were dependent on the policyholders age and the features of the annuity. Since 2006 Aviva says it has applied a discretionary enhancement to these factors so they provided better value for money for the policyholder. The cash option factors are linked to the current annuity rates. But that does mean that, although the underlying annuity value might remain the same, the equivalent cash value might change in line with any variation in annuity rates. So, in recent times as annuity rates have improved, cash values will have naturally fallen although the annuity value that Aviva would pay remains the same.

In 2016 Aviva altered one of the factors that was used in these calculations so that the gender of the policyholder was no longer taken into account. But that change was incorrectly added to its system and as a result the automated quotations were incorrect - the transfer values that were being quoted were too high.

The quotation system was fixed in July 2019, so quotations issued after then would show the correct transfer value. But around that time Aviva also made changes to the final bonus rates that were added to these pension plans. Generally that resulted in the final bonus rates being reduced across all the policies although there were variations depending on the year when the benefits were purchased and so some policies were affected more than others.

When Mr V received a quotation of his pension savings in July 2018 Aviva failed to process that quotation correctly. It sent him the result produced by its quotation system rather than the manual calculation it should have performed. So the transfer value that Aviva quoted to Mr V was around £10,000 higher than it should have been. Mr V didn't take any further steps at that time to put his pension into payment, but he no doubt took note of the transfer valuation that Aviva provided to him.

Mr V next received information about the value of his pension benefits from Aviva in March 2021. By then two things had happened. Aviva had implemented the correction to its quotation system so there was no need to manually calculate the transfer values following the change to the gender factors in 2016. And, as I explained earlier, Aviva had made some changes to the expected final bonus that would be added to pension policies such as the one held by Mr V.

From all the information that has been provided to me it appears that the quotation Aviva provided to Mr V in March 2021 was a fair and accurate representation of the pension benefits he held with the company. Part of the reduction was as a result of Aviva's normal business practices and its assessment of the value of Mr V's pension savings. And, bearing in mind what I said earlier about how I would intend to put things right, whilst some of the reduction arose from the error Aviva present at the time in the quotation system I cannot conclude that Aviva should be expected to honour the higher quotation that Mr V had received in 2018.

Ultimately the transfer value that Aviva provided to Mr V in 2021 was a correct representation of the value of the pension benefits to which he was entitled. Mr V didn't ask for his pension to be put into payment (or be transferred to another provider) in 2018 – if he had done so I think it more likely than not that Aviva would have noticed the error and corrected the quotation at that stage. And I haven't seen anything that makes me think Mr V has made any irrevocable decisions on the basis of the incorrect quotation. As has been shown from the adjustments made to the final bonus amounts in 2019, the values that Aviva quoted were not guaranteed and so could change at any time – so I think it would have been unsafe for Mr V to make any irrevocable decisions on the basis of valuations that were not guaranteed.

I have no doubts that Mr V suffered a great deal of disappointment when he found out that the transfer value of his pension savings was much lower than he had previously been told. But I don't think that he was ever entitled to receive the higher amount that was derived from the error in Aviva's quotation system. And I think that Aviva acted entirely within its normal and reasonable business practices when it altered the value of the final bonus that was being added to Mr V's plan in 2019.

But I think it is right that Aviva acknowledges the mistake it made in 2018, and the undoubted upset that this has caused to Mr V. Aviva has agreed to pay Mr V £300 in respect of that trouble and upset. I have considered the amount of that payment carefully. And having done so I have concluded that the amount Aviva has agreed to pay is fair and reasonable in the circumstances.

Putting things right

Aviva should pay Mr V £300 to reflect the distress and inconvenience he will have been caused following the explanation that the equivalent cash transfer value he'd been quoted in July 2018 was significantly overstated.

My final decision

My final decision is that I uphold a part of Mr V's complaint and direct Aviva Life & Pensions UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 10 July 2023.

Paul Reilly
Ombudsman