DRN-3947680

Financial Ombudsman Service

The complaint

Mr D has complained about the drop in value of his pension over the course of just a few days. He feels The Prudential Assurance Company Limited (Prudential) hasn't adhered to its 30-day guarantee period in relation to the pension's value.

What happened

Mr D held a Prudential Retirement Annuity Plan since 1982 into which he made regular premium payments.

He has said that when he checked the value of his pension on 31 August 2022 it was at around £90,000. However, by 5 September 2022 it had dropped to just over £82,000. Mr D queried this via telephone with Prudential on 6 September 2022 when it was explained to him that the drop in value was due to the change in annuity rates Prudential had implemented on 5 September 2022 brought on by the increase in interest rates.

Mr D explained to Prudential that he thought the policy was "untouchable", and no changes should have been applied to it. He stated the policy was risk free and not subject to market changes. And if he thought this wasn't the situation, he wouldn't have continued with it for all these years.

When Prudential looked into the complaint it was satisfied that the policy, despite being an old long standing one, was subject to the change in the annuity rates and this had been applied correctly. It also explained the reduction in the cash claims on these types of policies had affected a number of its customers.

Unhappy with Prudential's response Mr D brought his complaint to this service where it was assessed by one of our investigators. She was satisfied that Prudential had correctly applied the change. She also found that the 30-day guarantee value only applied from the point the policy was deemed to have been claimed which Mr D hadn't done at the point he had brought his complaint to us.

Mr D didn't agree with the assessment and remained of the view that the valuation of £90,000 that he saw at the end of August was an offer to him that Prudential should fulfil.

As no agreement could be reached the complaint has been passed to me to decide.

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 am not upholding the complaint.

There is no question whether the policy had a value of £90,000 on 31 August 2022. The issue for me to consider is whether that online value was effectively a "locked-in" value and whether it should have remained in place for 30 days.

It is normal business practice for a pension policy's value to be frozen or crystallised at the point the policyholder confirms they want to claim the policy, i.e. start to draw on their pension. Any other values of the policy up to this point are only indications. It would be nonsensical if any value of a policy at any point in time would constitute a locked in value or a crystallised value without confirmation that a claim was to be initiated. It therefore follows that if a policy remains in place and invested – which all pension policies are – it would continue to be subject to market fluctuations until a claim is started.

I think this would have been common knowledge so I think it's reasonable that Mr D would have known this. Also, the online page where Mr D would have seen the value doesn't state anywhere that the values were guaranteed. In fact, it was stated at the bottom of the online page under the heading of *Important Information* that the values were not guaranteed.
I therefore think it stands to reason that Mr D should have read it and had he done so he would have seen the values weren't guaranteed at that stage.

In my view Prudential made it clear the value wasn't guaranteed and the terms and conditions of the policy would have also explained that the value would only be guaranteed for 30 days from the point a claim was initiated.

The only way to "freeze" the value of the policy was for Mr D to inform Prudential via telephone or in writing that he wanted to start taking his pension monies. There was no facility to do this online so I can't accept that Mr D was mistaken into thinking that he had started the process online.

So overall I don't think Prudential has done anything wrong in not using the value of £90,000 as the crystallised value of the pension from which to take the annuity. This is because the value of £90,000 simply wasn't what the policy was worth on the days after Mr D saw the £90,000.

I have also considered whether the reason for the drop in value was a legitimate one. Prudential has said that when interest rates increased significantly it felt the need to increase the annuity rate used to convert guaranteed pension values into cash claims.

This resulted in reduction of around 11% in the value of the cash clams and this affected the majority of its customers.

While I appreciate this is disappointing this was a commercial decision that Prudential made and this service cannot challenge that. Also, it's worth noting that Prudential wasn't the only financial business to have taken such action around the same time.

I know Mr D seems to think that the change in the annuity rate shouldn't have been applied to his pension policy. But he hasn't provided a clear explanation of why this would be other than the policy was an old one. From the little information that has been provided about the policy I can see it was an annuity plan invested under a with profits basis. So, the value of the plan was always going to be subject to market fluctuations until it was claimed. So, despite what Mr D thinks any changes such as those that occurred in 2022 were always going to affect his plan.

Therefore, I am satisfied that Prudential has acted correctly in applying the change in annuity rates to Mr D's pensions. And I don't think it needs to do anything further.

My final decision

My final decision is that I don't uphold this complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D to accept or reject my decision before 25 April 2023.

Ayshea Khan
Ombudsman