

The complaint

Mr H says Scottish Widows Limited is responsible for providing him with incorrect information about the value of his pension income. He says this led him to take decisions about his retirement based on flawed information which will have serious consequences for his future. He wants it to honour the annuity quotation he accepted.

What happened

There's broad agreement about what happened in this case.

Mr H took out a personal pension with Scottish Widows in 1988, which had the benefit of a guaranteed annuity rate (GAR). The normal retirement age for the plan was age 60. He paid monthly contributions throughout the lifetime of the policy. During the period his personal pension plan was running he increased his regular contributions. It is established that this element of his payments didn't attract a GAR.

In January 2022 Mr H received a pack from Scottish Widows confirming his retirement date was approaching and encouraged him to think about his options. Over the next few months he was in regular contact with it to understand how much his benefits would be worth at his retirement date.

Mr H had a call with a Scottish Widows retirement consultant to discuss how to take his pension benefits on 28 April 2022. During this call, he was informed about different annuity options, and it agreed to send him the quotes and illustrations discussed.

Mr H received the quotations on 7 May 2022, confirming what he'd been told on the phone. There was some to and fro to obtain further quotes, for example to show the effect of making a final balancing contribution on the figures. After this he made a decision to accept a proposal where he'd receive tax-free cash (TFC) of around £48,000 and an annual income of about £13,800 which would be paid monthly in arrears.

Mr H completed the necessary paperwork and returned this along with a cheque for his final premium. Scottish Widows received this on 24 May 2022. Mr H turned 60 on 25 May 2022 and says he gave up his job on the presumption he'd be receiving an annuity of nearly £14,000. Unfortunately matters didn't unfold as he expected.

On 13 June 2022, Mr H received a letter from Scottish Widows confirming a BACS payment had been made for the TFC he'd been anticipating. However, it also informed him an annual annuity had been set up with an income of just over £11,000 per annum. He immediately contacted Scottish Widows to query why the annuity amount had changed.

Scottish Widows called Mr H back on 21 June 2022, and confirmed the reason his annuity was less than he'd expected was because the quote it sent him had applied a GAR to his whole pension pot, this had been an error. The element of his fund which related to increased contributions didn't benefit from such.

Mr H was very unhappy about what had happened. He expected to be paid the annuity on the quote. And he raised a formal complaint. Scottish Widows sent its final response to him on 11 August 2022. It confirmed the error it had made in the quotation he'd accepted. It said it wouldn't be honouring the incorrect quotation. It apologised for raising his expectations and offered to pay him £400 for the distress it had caused.

Mr H didn't accept Scottish Widows offer and he brought his complaint to this Service. An Investigator considered his case but didn't uphold it to the extent he wanted. The Investigator acknowledged the significant impact on his expectations and plans caused by its error, but concluded that ultimately he hadn't been entitled to the higher payment.

In light of the circumstances of the complaint, the Investigator recommended Scottish Widows should increase the payment for the trouble and upset it had caused to £750. Mr H disagreed.

As both parties couldn't agree to the Investigator's view, Mr H's complaint has been passed to me to review afresh and to provide a decision. This is the final stage of this Service's dispute resolution 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.

Where there's conflicting information about what happened and gaps in what we know, my role is to weigh the evidence we do have and to decide, on the balance of probabilities, what's most likely to have happened.

I've not provided a detailed response to all the points raised in this case. That's deliberate; ours is an informal service for resolving disputes between financial businesses and their customers. While I've taken into account all submissions, I've concentrated my findings on what I think is relevant and at the heart of this complaint.

I'm upholding Mr H's complaint, but not to the extent he'd like. I'll explain why.

I've considered the extensive regulation around transactions like those performed by Scottish Widows for Mr H. The FCA Handbook contains eleven Principles for businesses, which it says are fundamental obligations firms must adhere to (PRIN 1.1.2 G in the FCA Handbook). These include:

- Principle 2, which requires a firm to conduct its business with due skill, care and diligence.
- Principle 6, which requires a firm to pay due regard to the interests of its customers.
- Principle 7, which requires a firm to pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

So, the Principles are relevant and form part of the regulatory framework that existed at the relevant time. They must always be complied with by regulated firms like Scottish Widows. As such, I need to have regard to them in deciding Mr H's complaint.

Firstly, it's clear Scottish Widows are responsible for a serious error.

It's concerning Scottish Widows doesn't seem to have had a system in place to identify the significant variance between the quote Mr H had accepted and the annuity it went on to establish for him without further discussion. Instead it appears to have left him to discover the discrepancy.

In supporting its position Scottish Widows provided this Service with statements Mr H had received in prior years. These had been calculated on the correct basis and it says would've shown him roughly what level of annuity he could expect. For example in 2021 it projected an annuity worth between £9260 and £10,100. I think the point it makes here is that the period of his raised expectations was relatively brief.

In responding to the Investigator, Mr H summarised his position in the following terms:

"...I phoned Scottish Widows eleven times from around January to May this year [2022] for explanations, quotations and answers. I looked at every single option available to me before I settled on the quotation for £13,795 and as far as I am concerned, I am entitled to this amount because I based living the rest of my life on this figure and that cannot be taken lightly otherwise the rest of my life is ruined."

Elements of Mr H's argument have merit and I think most people would react to what happened in a similar fashion. He'd done his due diligence over several months. Although Scottish Widows made clear the status of the quotes it provided, for example that they were subject to change due to market fluctuations, this wasn't the source of the problem that emerged. And it reinforced the error it made on a number of occasions.

In these circumstances, aside from the caveats Scottish Widows provided about the quotations, it wasn't unreasonable for Mr H to have been making his retirement plans on the basis of the pattern of information it had given him. Anyone would be shocked to find that the income they would actually receive for retirement was about 20% less than they had been led to believe.

Having said this, I don't think Scottish Widows should be expected to honour the incorrect quotations it provided in 2022. That's because the annuity values shown on those letters weren't something to which he was entitled. He hasn't actually suffered financial detriment.

Mr H has confirmed if he'd received the correct quote at the time, then he would've considered taking a reduced lump sum and increased his annuity. I think it's highly likely he would've taken his benefits when he reached 60. I say this because his policy included a valuable GAR and that would've been lost had he not taken an annuity with Scottish Widows on the normal retirement date of his policy.

The Investigator looked into the possibility of unwinding Mr H's annuity, presumably to understand if he could've taken less TFC and increased his annuity. But Mr H told him he'd already used his TFC to pay siblings in relation to an agreement linked to family inheritance matters.

Mr H has suffered a substantial loss of expectation and I think that is where any remedy should focus.

Putting things right

When I'm considering a complaint like Mr H's I think about whether it's fair to award compensation for distress and inconvenience. This isn't intended to fine or punish a business – which is the job of the regulator. But when something's gone wrong, recognition of the emotional and practical impact can make a real difference.

We're all inconvenienced at times in our day-to-day lives – and in our dealings with other people, businesses and organisations. When thinking about compensation, I need to decide that the impact of Scottish Widows' actions was greater than just a minor inconvenience or upset. It's clear to me this was the case here.

Following discussions with Scottish Widows in May 2022 Mr H thought he had all the information he needed to take a decision about his retirement. Based on what he'd been told he retired only to find that the annuity to be paid was 20% than he expected.

Scottish Widows made a serious mistake in its calculations and left Mr H to discover this. While it apologised after he complained, explained what had happened and offered him £400 in recognition of the things it had got wrong, the Investigator thought in the circumstances it should increase this payment to £750.

I think the Investigator's recommendation is fair. I require Scottish Widows Limited to pay Mr H £750 for the distress and inconvenience he's been caused by the things it got wrong.

My final decision

For the reasons I've already set out, I'm upholding Mr H's complaint, but not to the extent he'd like. I now require Scottish Widows Limited to put things right in the way I've directed.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 16 June 2023.

Kevin Williamson

Ombudsman