

The complaint

Mrs O says The Royal London Mutual Insurance Society Limited (Royal London) is responsible for providing her with incorrect information about the value of her pensions. She says this means she will receive about a third less than she'd been planning for in retirement.

What happened

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

In summary, Mrs O took out two personal pensions in 1989 with a predecessor of Royal London. The plans featured Guaranteed Annuity Rates (GAR) which promised an income paid at a specified rate of the final plan values. One of her plans received contributions for a period when she'd been contracted-out of the State Earnings-Related Pension Scheme (SERPS). Her chosen retirement date was February 2023, when she reached 60.

Royal London sent Mrs O regular statements showing how her funds were performing and providing illustrations of what benefits might be payable based on certain assumptions. These were that:

- Her income would be an annuity which would increase annually with the retail price index (RPI).
- Her investments would grow by [X%] over an assumed rate of inflation of [Y%].
- In the event of her death, a spouse's pension of 50% would be payable.

I've seen an illustration produced on 1 June 2018 for her larger pension plan. This showed with the GAR she could've expected an annuity of £5,280 per year at retirement. Similar projections were provided for her smaller plan, which was about a quarter of the value.

In July 2018, Royal London wrote to Mrs O explaining that, due to the pension scheme rules, she now had to decide whether to keep the GAR or give it up. This was called the GAR Exchange Scheme. It produced illustrations of the retirement income she could've expected to receive with or without the GAR to help her choose. The illustrations included options for keeping the GAR or exchanging it for a one-off increase to her pension fund.

Ultimately Mrs O decided to retain her GAR. But in bringing her complaint she said her decision in 2018 had been based on information provided by Royal London which was fundamentally flawed, which she didn't discover until 2021.

After looking at Royal London's online portal in February 2021, Mrs O was concerned to find that her projected pension annuity income had fallen dramatically since 2018 from £5,280 to £3,800. She wrote to Royal London on 6 February 2021 expressing concerns about what she'd found. Her message wasn't dealt with properly. She chased a response on 1 July 2021.

Royal London investigated Mrs O's concerns and responded to her on 26 August 2021. It confirmed the illustrations in its annual statements had been wrong. This had been the case prior to 2020. Instead of the projections being based on an annuity that increased with RPI,

the figures were for level annuities. So, there was a mis-match between the numbers provided and the stated assumptions on which they were based.

Royal London also informed Mrs O the methodology used for its annual statements was different to that used to provide illustrations on its online portal. It acknowledged the potential for this cause confusion.

Finally, Royal London set out why it believed the information Mrs O had received in 2018 about the GAR exchange scheme had been correct. It set out how in this instance the stated assumptions provided in the documents matched the figures in its calculations.

Royal London offered Mrs O £500 as a goodwill gesture in recognition of the errors with its annual statements prior to 2020.

Mrs O wasn't satisfied with Royal London's response. On 13 September she challenged its conclusions and said her real concern was that she now found herself in the position she'd receive tens of thousands of pounds less in retirement than she'd been expecting.

Royal London responded to Mrs O on 12 November 2021. In summary it said:

"Having looked again at your concerns I can understand that you may conclude that the GAR pension amounts quoted provide a reduced income for you. However, when looking at the Annual Statements, I have confirmed that 'pre-2020' the Statements 'commented' on one type of annuity, but the figures quoted related to another type of annuity. This anomaly was rectified in 2020."

"That said, it must always be remembered that any annuity values quoted by Royal London in any Annual Statements or pension option packs are only illustrations and are not guaranteed. I have explained that the annuity basis used for calculating values differs across the separate documents. Therefore, the values quoted do not necessarily align with the annuity amounts quoted in the plan terms and conditions."

"The provision of pension annuity values for illustrative purposes is exactly that. The pension options pack states that if you wish to consider payment of a 'Lifetime Pension' you should contact our offices for more information. The information within our documents is also issued to form the basis of a discussion as to what actual pension annuity option best meets a plan holder's requirements. As my response outlines, a different GAR annuity basis will produce a different pension income outcome."

Mrs O wasn't content with Royal London's response. She brought her complaint to this Service and suggested a variety of remedies, which essentially would've meant Royal London honouring the annuity values from her annual statements prior to 2020, based on the assumptions she'd been informed about including annual RPI increases and spouse's pension.

An Investigator considered Mrs O's case but didn't uphold it. He agreed Royal London had made a serious error, and over an extended period of time. He found the flawed information it had given Mrs O was used for her pension planning and that she couldn't have known it was wrong. And that it had a duty of care to provide customers with accurate and fair communications.

However, the Investigator also noted that a benefits illustration wasn't a guarantee. And ultimately she didn't have an entitlement to the inflated annuity figures which were based on an error made by Royal London. He also considered its offer of £500 to put things right was reasonable.

Mrs O disagreed with the Investigator's findings and conclusions. She said:

"...from my perspective, I do not feel that £500 is fair compensation for the poor level of service I have received. There are some mistakes, such as, for example, an extra zero being added to a bank statement giving someone another hundred thousand pounds, which would be obvious to the customer. In my case, the complexity of pensions means this was never going to be possible. Please note that it's only because I checked online that this came out in the first place. I would also add that this mistake was compounded over decades."

Mrs O suggested that in light of Royal London's ongoing error over many years, another remedy would be to refund her a percentage of the annual fees it had charged her.

As both parties couldn't agree with the Investigator's view, Mrs O's complaint has been passed to me to review afresh. I issued my provisional decision in March 2023. Neither party has provided any new evidence or arguments, and as such I see no reason to depart from my initial findings and conclusions.

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 Mrs O's complaint, but not to the extent she'd like. I'll explain why.

I've considered the extensive regulation around transactions like those performed by Royal London for Mrs O. 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 3, which requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- 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 Royal London. As such, I need to have regard to them in deciding Mrs O's complaint.

Firstly, it's clear Royal London are responsible for a serious error. It is also unacceptable that it failed to communicate with Mrs O at the point of discovery of the problem with its annual statements, where there was a mis-match between the figures it was presenting and the

statement of assumptions that were said to underpin these. Instead it appears Royal London left Mrs O to discover the discrepancy.

In bringing her complaint to this Service, Mrs O thought that because it had taken so long for Royal London to uncover its mistake it should compensate her by making good much of what she considered was the shortfall in her pension provision. She noted:

“The mistake they made was over nearly the whole life of the pension. Given this error was only revealed at the point I start to receive my pension, I’ve had no time to make alternative financial plans for my retirement.”

I find elements of Mrs O’s argument have merit, but I don’t agree with the entirety of her position. I think most people pay more attention to their pension provision as they get closer to retirement. So I think it’s more likely than not she did factor in what she was being told by Royal London in its annual statements into her retirement planning for several years.

While its clear Royal London’s pension illustrations were just projections and not guaranteed, it seems to me reasonable for customers to be able to view a pattern of these over several years as an indication of what might be achievable. And as a basis around which to do some broad planning. Of course, that is subject to the various necessary cautions and caveats provided in such documentation, such as uncertainty around market performance and notes about underpinning assumptions made.

The problem for Royal London is that it provided a mis-match between its illustration figures and the underpinning assumptions these were based on. Apparently it had been making this error for decades. So while I think Mrs O would’ve understood matters such as investment risk. I don’t think she could’ve known about its error, which had the effect of reducing the value of the annuity type she thought she would be able to secure by around a third of its value. This is significant, with the revelation coming at the end of her working life.

On the other hand, I don’t think Royal London should be expected to honour the incorrect quotations it provided prior to 2020. That’s because the values shown on those statements weren’t something to which Mrs O was ever entitled.

Further, I have to consider what would’ve happened had Mrs O been provided with proper information by Royal London about her pension provision. It’s not clear that she was taking financial advice. I don’t know what income in retirement she was aiming for. Her provision seems to have been limited. I don’t know what her overall household position was. Would she have been in a position to increase contributions to achieve the income she wanted? And of course, she’s had the benefit of more disposable income in the absence of making any additional contributions. Mrs O hasn’t responded on these matters.

While I understand Mrs O’s argument for the reimbursement of a portion of the fees Royal London has charged her over the years for its service, I’m not persuaded that provides an appropriate lens through which to view what’s happened to her. It seems the significant element of the service it provided has been satisfactory. One small element of its communications has gone wrong, albeit over an extended period. Mrs O has suffered a substantial loss of expectation and I think that is where any remedy should focus.

In terms of handling Mrs O’s complaint, I find that the explanations that Royal London provided to Mrs O in August and November 2021 about what had happened appropriately detailed. These were sufficient for her to understand what had gone wrong. I note however, that Mrs O had first raised her concerns in February 2021 – so it clearly took too long for it to get to grips with her case.

When I'm considering a complaint like Mrs O'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 Royal London's actions was greater than just a minor inconvenience or upset. It's clear to me that this was the case here.

Royal London offered Mrs O £500 for the problem with its annual statements. I don't think this is sufficient. In particular I note the scale of the expectation loss caused by the incorrect pension statements it sent Mrs O for perhaps decades, something that has and will impact her retirement planning over a long period of time; the fact it failed to communicate with her about the problem as soon as it had been discovered; and the significant length of time it took to get to grips with her complaint.

Putting things right

I require The Royal London Mutual Insurance Society Limited to increase its award to Mrs O to £1,500 for the distress and inconvenience she's been caused by the things it got wrong.

My final decision

I'm partially upholding Mrs O's complaint for the reasons I've set out. I now require The Royal London Mutual Insurance Society Limited to put things right in the way I've directed.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 1 May 2023.

Kevin Williamson
Ombudsman