

## The complaint

Mr C complains that The Prudential Assurance Company Limited (Prudential) has failed to provide him with accurate information regarding his pension values and hasn't explained how they undertook their calculations. He feels this may have led to an incorrect valuation which would mean he has suffered a financial loss.

## What happened

Mr C holds a pension with Prudential which is a conventional with-profits plan, originally arranged with Scottish Amicable in the mid 1980's. The sum assured was set at £70,000. A benefit of the policy is that it provides a Guaranteed Annuity Rate (GAR) when retiring between the ages of 60 to 75. Additionally, a Guaranteed Minimum Retirement Fund (GMRF) is part of the policy features. When quoted it assumes payments continue at the same amount, includes any already added regular bonuses but doesn't include any potential final bonus.

The chronology of the background was set out in the investigators view. The information provided is not disputed and so for clarity I have set it out again in the background of this complaint.

Prudential issued an annual statement to Mr C on 8 March 2022. It stated the transfer value on 7 March 2021, was £111,434.33, and the GMRF was £116,676.75, a regular bonus of £201.41 had been added making the GMRF on 7 March 2022 £116,878.16. The transfer value on 7 March 2022 was quoted as £120,465.06. A change of £9,030.73 over the year.

The statement explained:

*"What's a final bonus?"*

*We might add a final bonus at the time of death or when benefits are paid out, but it's not guaranteed. We might not pay you a final bonus if investment returns have been low over the time your money has been invested."*

*And went onto say "Your transfer value:*

*This is the amount we would have paid if you'd transferred your plan on your statement date. The amount isn't guaranteed. "*

*Another part stated, "Based on assumptions we've made, your final plan value on 30 November 2034 could be £171,000.00." and "We can't guarantee this is the income you'll get. When you come to take your pension income it could be worth more or less than this." Under the section "Assumptions we've used" it stated: -*

*"The law says that, when we illustrate what you might get back from your plan, we have to base it on some assumptions. We've assumed that:*

- *You'll retire on 30 November 2034 aged 75.*

- *The value of the With-Profits Fund will grow by 3.17% each year, after adjusting for the assumed rate of inflation.*
- *We think the growth rate we use gives you a realistic idea of how the product and fund might perform, before allowing for the effect of charges.*
- *The assumed rate of inflation we use will be 2.50% a year.*
- *The amounts we've shown for the With-Profits Fund include all bonuses and any final bonus."*

A further valuation was issued on 6 May 2022, it quoted the final bonus as £52,057.03 and transfer value as £129,754.09.

On 10 June 2022, Prudential sent Mr C his 2021 bonus statement, it said:

*"This statement shows how much Regular Bonus we've added to your Plan. We may add a Final Bonus to your Plan on maturity or when a claim is made, but this isn't guaranteed and isn't shown in this statement." The 2021 bonus was declared as 0.10/0.25%, basic guaranteed minimum retirement fund as £60,182.80, previous regular bonus as £56,595.36, regular bonus added that year of £201.92 and total bonuses and benefits as of 31 December 2021 was £117,080.08.*

A further valuation was issued 7 October 2022, it quoted the final bonus as £37,017.27 and transfer value as £111,434.37. The pack issued also included projections for age 75 and included the following statements: -

*"The following figures show what pension income you might get in today's prices to give you an idea of what your pension could be worth when you're 75 They've been adjusted to allow for inflation (the rising costs of goods and services) at an assumed rate of 2.00% each year. "Actual values might be lower or higher than those shown, and your plan may pay back less than you've paid in. The projection is not a promise or guarantee and the figures are not minimum or maximum amounts.*

*"Assumed growth rates over term of the plan after allowing for the effects of inflation."*

*"The growth rates shown are an average based on all the funds you've chosen to invest in." "Your investment in the conventional with profit fund offers a specific guarantee and this projection makes allowance for its effect You should refer to your product literature or contact us for details of the specific guarantee that applies to this fund General statements and warnings elsewhere within this illustration may still apply to the displayed values, due to other fund selections or because of the other assumptions used in these calculations."*

*"The growth rates used in this illustration are reviewed on a regular basis. The timing of any reviews will mean the projections within this illustration may differ from those in any previous illustration you've received."*

On 22 November 2022, a retirement quote was provided to Mr C. The pension value was quoted as £79,362.53, final bonus as £53,172.90 and total including final bonus as £132,535.43.

The retirement quote said:

*"The total pension pot value shown above, which includes a Final Bonus, is the amount we'd have paid if you'd chosen to take your benefits with us or transferred to another provider on 22 November 2022. We've used this value to provide you an estimate of what you could get if you were to make no further contributions to your plan(s) between the valuation date and*

*the retirement date shown The value is not guaranteed and can still go up or down until you take your benefits.*

*As you're invested in the With-Profits Fund, this value includes any Final Bonus that would be payable on that date. There's more information on the enclosed 'Your pension value'. Please note that the value may differ from the value shown on the enclosed 'Your pension summary'. This is because the value above is as calculated on 22 November 2022 and includes current estimates of any relevant deductions or additions that may apply if you take your benefits on that date. The value in 'Your pension summary' is a current value and includes any Final Bonus but doesn't include any deductions that may apply when you take your benefits."*

On 5 December 2022, Mr C called Prudential to query the values provided. He felt the value should be higher and was unhappy it didn't include the final bonus, but the transfer value did. He asked for Prudential to honour the higher value or to explain the contradiction. Because Mr C expressed dissatisfaction during the call, Prudential treated his comments as a complaint.

On 31 January 2023, Prudential issued its final response letter, it supported Mr C's complaint on the basis that it had caused delays in the claim process. It said it was sending a cheque for £125 to apologise and would review the case in 30 days and, if Mr C had made a claim, it would calculate any financial loss caused by its delay. Prudential also explained that final bonuses were not guaranteed, and it would be sending further information within ten working days.

Mr C sent an email dated 7 February 2023. He acknowledged receipt of the cheque and commented that he hoped there would be a full explanation as to how terminal fund value was arrived at." *given the previously quoted guaranteed fund value and the terminal bonus which is stated as in excess of £50,000. This should give a value over £160,000 and not £132,535."*

Prudential responded and said:

*"We confirm that the guaranteed minimum retirement fund value of £116,878.16 quoted on the annual benefit statement is how much your fund will be worth when you reach your Selected Retirement Date (age 75).*

*The guaranteed minimum retirement fund value includes the sum assured and all the regular bonuses already added to the plan but doesn't include any final bonus. Final bonus is an additional bonus payable on death, transfer, or maturity. It isn't possible to calculate the final bonus for a plan at a future date. This can only be provided for a current date. The transfer value quoted on the annual statement as of 8 March 2022 was £120,465.06 including the final bonus of £43,243.87.*

*The transfer value quoted on the Retirement Option pack as of 23 November 2022 was £132,535.43 including the final bonus of £53,172.90.*

*We confirm that the current transfer value on 7 February 2023 is £133,211.72 including final bonus of £53,362.10."*

On 10 February 2023, Mr C responded by email stating that the letter did not answer his queries and raised some specific questions with Prudential regarding its calculations.

On 19 February 2023, Mr C brought his complaint to this service as he was very concerned Prudential may be understating the value of the plan by around £30,000, he said he needed

it to explain how it's arriving at the figures provided and ideally, he would like to view the Actuarial calculations involved.

On 8 March 2023, a further statement was issued by Prudential. It stated that the GMRF was £117,080.08 on 7 March 2022, a regular bonus of £0.00 had been added making the GMRF on 7 March 2023 the same. The transfer value on 7 March 2022, was £120,465.06 and for 7 March 2023 it was £133,549.87. A change of £13,084.81 over the year.

On 20 March 2023, a further valuation was issued by Prudential. It quoted the final bonus as £53,456.71 and transfer value as £133,549.87. A copy of the 8 March 2022 statement was enclosed.

On 29 March Mr C chased his earlier complaint as his specific questions had not been answered.

On 31 March 2023, Prudential issued a further final response letter. Over and above the complaint points already noted, Prudential understood Mr C was unhappy with the time taken to respond to his complaint and a failure to acknowledge his correspondence. Prudential partially upheld the new points, agreeing that it felt it had taken too long to respond to Mr C's queries. It paid a further £150 compensation directly to Mr C's bank account.

But it didn't uphold Mr C's complaint regarding the manner in which it quoted values to Mr C. It gave a detailed explanation of how values are calculated and pointed him to specific areas of his annual bonus statements in an attempt to help Mr C understand why it gave different values and quotations at different times, depending on the circumstances.

Mr C didn't accept the explanations and continued to ask for further clarity on how the figures were reached. On 27 April 2023, Prudential attempted again to answer Mr C's queries explaining that the final bonus is not guaranteed, payable on death, transfer or maturity at the time benefits are taken. It also explained that any figures quoted for annuities at age 75 were to give him an idea of what his pension could be worth, but the actual values could be higher or lower.

Mr C remained dissatisfied. He contacted this service to say he didn't feel he could take his pension until the complaint points were resolved and as such this meant he would be paying unnecessary mortgage interest.

On 2 May 2023, Prudential issued a further complaint response. It advised Mr C that it was satisfied it had covered all of the issues raised and could not support his continued complaint.

Mr C responded as he felt the information provided within Prudential's response of 27 April 2023 contained further information that raised more questions as to how the calculations were reached.

An investigator looked into matters for Mr C. He appreciated the information provided, by its nature is complex and he understood Mr C's frustrations, but he felt that Prudential had met all the regulatory requirements and had attempted a number of different ways to fully explain how it had reached its calculations and the basis for them. He understood Mr C had continued to query the calculations but ultimately, he didn't agree that the delay in claiming his pension and therefore the need to continue to make interest payments on his mortgage was Prudential's responsibility. So, he didn't ask Prudential to compensate him for this. He acknowledged there had been delays in providing information but felt the offers made by Prudential were fair and reasonable and so he didn't ask them to do anything further.

Mr C disagreed. He said although Prudential had offered multiple explanations and had failed to answer why the guaranteed minimum fund value plus the final bonus did not equal the transfer value. In not providing a simple answer to this question he was concerned Prudential was concealing information and as such asks for an ombudsman review.

### **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'm upholding Mr C's complaint but, I am supportive of the approach Prudential have already taken. And, having carefully considered the points Mr C has made regarding Prudential's failure to explain the background to their bonus decisions, I agree with the investigator and for broadly the same reasons. I appreciate Mr C will be disappointed, so I'll explain why.

I have summarised this complaint in far less detail than Mr C has done and, I've done so using my own words. I'm not going to respond to every single point made by all the parties involved. No discourtesy is intended by this; our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it - I haven't. I'm satisfied I don't need to comment on every individual argument to be able to reach what I think is the right outcome.

The level and nature of bonuses declared by Prudential on its with-profits fund is the result of a commercial decision taken by them acting on the advice of its Actuaries which impacts *all* policyholders invested in that fund. As a result, it is not within the remit of this service to either sense check Prudential's decisions or scrutinise their calculations.

But I think it's worth explaining about with-profits funds and how they are regulated. With-profits funds have historically attracted criticism for their complexity and perceived lack of transparency – it can be very difficult for policyholders to understand often complex and lengthy documentation and to be satisfied that they are receiving their proper entitlement under the terms and conditions of the particular product. But those difficulties do not necessarily mean that Prudential has done something wrong or is not acting in accordance with its regulatory obligations.

The industry regulator, the Financial Conduct Authority (FCA), recognises that with-profits fund providers have a considerable amount of discretion about how they operate those funds. So, the regulator has made providers accountable for the way in which these funds are managed.

The regulator's Principle 6 requires that regulated firms "...must pay due regard to the interests of its customers and treat them fairly". Furthermore, the Conduct of Business Sourcebook (COBS), and specifically COBS 20, contains specific rules and guidance for businesses on the operation of their with-profits funds.

COBS 20.2.1 states:

- (1) With- profits business, by virtue of its nature and the extent of discretion applied by firms in its operation, involves numerous potential conflicts of interest that might give rise to the unfair treatment of policyholders.

And COBS 20.2.3 states:

A firm must have good reason to believe that its pay-outs on individual with-profits policies are fair.

Prudential is accountable to the regulator for the way in which it operates its with-profits fund and the regulator monitors the management of with-profits funds. Businesses are required to appoint a with-profits Actuary and the regulator provides rules and guidance on their duties. An independent with-profits committee is also required – its remit is to protect the interests of the with-profits policyholders and to ensure that they are treated fairly. I am not aware of the regulator having any concerns about the operation of Prudential's with-profits fund at issue here.

The amount of bonus paid, if any, is determined by Prudential's investment objectives which are consistent with its regulatory obligations. That's to allocate bonus amounts as fairly as possible to all its investors in its with-profits fund with the aim of providing a competitive return at the end of the term. Similarly, the way Prudential applies the quotes and valuations at different points, are explained within the annual bonus statements. But I should explain it is not the role of this service to audit those decisions and assess the level of the bonus or when it applies. The responsibility for auditing Prudential falls on the regulator.

I have looked at the response Prudential has provided to Mr C and the annual bonus statements and although I can appreciate Mr C has been frustrated by what he sees as a lack of explanation I'm persuaded the information, although complex, has been provided. Further, the annual statements and the retirement pack either suggest or recommend Mr C seek independent advice. I haven't seen any evidence that he has done so in order to help him clarify the calculations.

Ultimately, as our investigator explained estimates and projections are just that, they are not intended to be wholly accurate quotations. The exact amounts Mr C would receive when claiming will be confirmed at that time. The way in which pension administrators are required to present information has changed over the years and I haven't seen anything to suggest Prudential hasn't been compliant with their regulatory requirements.

I appreciate Mr C wanted definitive figures and a breakdown of Prudential's calculations before realising his pension and in delaying his decision he has paid mortgage interest payments he feels he otherwise would not have made. But that I'm afraid is his decision and I can't hold Prudential responsible for that.

The customer service concerns were addressed by Prudential, and I find the compensation paid to be fair and reasonable in the circumstances of this complaint.

For all of these reasons I'm satisfied Prudential's resolution is fair and reasonable. I can't direct Prudential to disclose its calculations to Mr C as this could involve revealing commercially sensitive information and I don't consider that fair or reasonable. If Mr C has concerns about the management of Prudential's with-profits fund he can approach the regulator directly. Mr C is perfectly entitled to appoint an independent Actuary should he wish to do so, or he could also seek independent financial advice which may assist him with the options available to best suit his needs.

### **My final decision**

The Prudential Assurance Company Limited has already agreed to pay £300 to settle the complaint and I think this offer is fair in all the circumstances.

So, my decision is that The Prudential Assurance Company Limited should

- pay £300 to Mr C for the inconvenience of the poor customer service he received.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 27 July 2023.

Wendy Steele  
**Ombudsman**