

The complaint

Mr F's complaint is about the trivial commutation lump sum that he was paid by Pension Insurance Corporation plc (PIC). He says he wasn't aware his pension had been transferred to PIC. And he believes the value calculated and paid was incorrect.

Mr F has also said that PIC used an incorrect National Insurance Number which led to problems reclaiming the tax paid on the pension paid out.

What happened

Mr F's complaint was considered by one of our investigators. He sent his assessment of the complaint to Mr F and PIC on 7 December 2023. The investigator didn't think that the complaint should be upheld. In summary, he said it was the Trustees of Mr F's former pension scheme that had arranged a full buy-in with PIC. And that we didn't have jurisdiction to consider decisions made by those Trustees. He said if Mr F wanted to complain about the decisions made by those Trustees he would need to contact them directly.

The investigator said the policy arranged by the Trustees was to pay Mr F a set amount of £840.99 a year from the scheme's normal retirement date of 65, subject to revaluation to that age as defined in the policy schedule.

The investigator said the differing valuations for the plan Mr F had been provided with reflected that Mr F was taking the benefits early. He said the current value was based on various different factors including amongst others, prevailing market economic conditions, demographic assumptions, expected future interest rates and the underlying value of assets held by PIC. The investigator noted that Mr F had referred to the 10-year Gilt rate not changing much between the various valuations he'd received. But he said the value paid out wasn't based only on the 10-year Gilt rate, and so on its own it wasn't inconsistent with the valuation decreasing.

The investigator said whilst under the terms of the policy PIC was required to pay the defined yearly amount from retirement age onwards, the trivial commutation lump sum value wasn't guaranteed and was subject to market influences. He said he wasn't persuaded that the decrease in the valuation was due to anything other than market volatility over which PIC had no control. And he didn't think PIC had acted in error by reducing the lump sum's valuation.

The investigator said PIC had confirmed the National Insurance number it had on its files was the one supplied to it by the previous scheme administrators/HR department. The investigator said he had no reason to doubt this, however that if the number wasn't correct it would be reasonable for PIC to update its records with the correct National Insurance number, and issue new tax documents to assist Mr F in reclaiming any tax that is due to him.

Mr F didn't agree with the investigator's findings, and therefore the complaint was passed to me for a final decision.

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've come to the same conclusions as the investigator, and largely for the same reasons.

As the investigator explained, the decision to buy the annuity policy was made by Mr F's former pension scheme's Trustees. That scheme was an occupational pension scheme and we have no powers to consider complaints about the Trustees' decision to buy the annuity. As the investigator said, Mr F would need to contact the Trustees in the first instance if he is unhappy with that decision. If he disagrees with its response The Pensions Ombudsman (a different organisation), may be able to consider the matter.

I realise that Mr F has concerns about the apparent significant fall in the value of his plan comparing the sum paid out to him against its former value in the occupational pension scheme. However when the Trustees bought the annuity they were in effect exchanging the value of the money built up in that scheme - a capital value that could rise and fall with the value of the underlying investments – with a guaranteed future stream of income payable from age 65. The cost or value of that future stream of income can change over time depending on a number of factors, including interest rates, which in turn affect other variables, for example gilt rates which Mr F has mentioned. Mr F is also taking that future stream of income as a lump sum in one go (rather than as an income over time), and a lot earlier than was originally planned. So all these factors will result in a significant reduction in the value payable.

Mr F is also concerned that the value paid to him fell by over £2,000 within a few weeks despite, he says, little movement in 10-year gilt rates. The valuation was based on a number of factors – gilt rates was one of them, but that wasn't the only variable. Annuity rates can be used to help value a future stream of income. Annuity rates moved during the period between the valuations that Mr F is concerned about and in the direction consistent with a reduction in the capital value. So I don't think that reduction in value appears suspicious. And overall, I've seen no persuasive evidence that the value paid to Mr F was incorrect.

Mr F has also said PIC used an incorrect National Insurance Number which has resulted in him having problems reclaiming tax. My understanding is that a single letter at the end of the number was different, and Mr F knows the correct letter. PIC had said it had inherited this National Insurance number from the previous scheme. As the investigator said, if Mr F needs new documents from PIC it should assist him and provide clarification if required. But I think whether or not it did provide the incorrect number any error, if there was one, was fairly minor, and should be able to be resolved with HM Revenue and Customs. Just because a business has made an error doesn't necessarily mean that it follows that I would award compensation. Normal nuisances occur in everyday life, and I'm not persuaded compensation is appropriate in the particular circumstances here.

My final decision

Accordingly, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 29 February 2024.

David Ashley
Ombudsman