DRN-4698626

The complaint

Mr R believes Canada Life Ltd (CLL) have acted unfairly by reducing the pension benefits he receives before he reached his state pension age.

What happened

Mr R retired from his previous employment in 2009, after 31 years of service, to start a new business. He was 51 years old at the time.

Mr R had accrued pension benefits in his employer's occupational pension scheme (OPS) and decided to start taking immediate benefits from this – he wanted the security and certainty of a regular income whilst his new business was established. After discussions with the administrators of his OPS, he chose a 'step down' policy which was set up with CLL, which allowed Mr R to draw a yearly pension of £11,812.08, reducing by £3,470.04 when he reached his state pension age (SPA). Mr R was happy with a reduction at this time because his state pension would more than make up the difference. The trustees paid £200,525.38 to CLL to secure a pension for Mr R on those terms.

At the time of taking out the pension, Mr R's SPA was 65, and the policy was set up to start making reduced payments when he reached that age, in August 2023. However, in the intervening years, the Government raised the SPA for men of Mr R's age to 66, meaning he'd only reach his SPA in August 2024.

CLL began reducing Mr R's pension when he reached his 65th birthday, because that was the SPA date when the policy started. Mr R was unhappy with his, thinking the reduction should start when he reached his actual SPA on his 66th birthday, so he complained to CLL.

However, CLL didn't uphold Mr R's complaint. They said his pension was set up on the basis that he reached his SPA in August 2023, and so that is when his pension payments would reduce – this having also been confirmed by CLL's actuarial department.

Mr R responded by suggesting CLL should consider the "Scheme Pension Personal Example", which was generated at the time the policy was set up, which simply says the 'stepdown' will occur on "[Mr R's] attainment of State Pension Age". There is no specific date mentioned. Accordingly, Mr R believed CLL should be bound to honour the strict wording here, which referred to an 'event', rather than a 'date'.

CLL responded, but their position remained the same. They referred to the policy schedule, which specifically says August 2023 is the date the stepdown will occur. They also explained that once an annuity has been set up, it can't be altered outside of the cancellation period.

Unhappy with this, Mr R brought his complaint to this service. He reiterated his belief that CLL should continue to pay his initial (higher) pension until his 66th birthday, when he now reaches his SPA. And he emphasised that he'd initially signed up for a pension that would reduce when he reached his SPA, and not a specific date – it was the 'event' that was important for him at the time. And he repeated his willingness to be paid proportionally less

in his ‘post-66’ years, to counter any extra CLL would have to pay to continue the higher pension between his 65th and 66th birthday.

But one of our Investigators, whilst appreciating Mr R’s frustration, essentially agreed with what CLL had concluded. He didn’t think they’d done anything wrong here – they’d set up the annuity as intended, and as such were required to make the payments as set out in the policy schedule.

Unhappy with this Mr R responded, expressing his frustration that he has been affected by something completely outside his control. He explained that he’d been diagnosed with a serious illness, and felt it was unfair CLL weren’t being asked to make an exception in his case – pay the extra amount for the year in question as it’s possible he may pass away many years before the date expected when the policy was calculated and set up.

He asked that an Ombudsman undertake a fresh review of his complaint, and so it’s been passed to me for that purpose, and to issue a Decision accordingly.

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.

First of all, I’d like to thank Mr R for providing the extra commentary that he has done. I can assure him that I’ve read and fully considered what he has told us. And I’m sorry to hear of his recent health diagnosis. However, I also don’t think CLL have done anything wrong here, and so I won’t be asking them to do anything further. I appreciate this will come as a great disappointment to Mr R, whose strength of feeling about this matter I recognise, so I’ll explain why I’ve reached that conclusion.

Before addressing Mr R’s complaint, I want to begin by considering the type of pension policy Mr R has. He was initially a member of his previous employer’s defined contribution (money purchase) occupational pension scheme (OPS). Mr R (or indeed any employee or scheme member) doesn’t own the benefits that will be used to provide his pension. It’s the scheme Trustees who own them. And Mr R would need to ask the scheme trustees to act on his behalf in arranging for him to take his benefits – which is what happened here.

Upon leaving his employment, Mr R almost immediately approached the trustees to ask about taking his benefits straight away, when still only 51 years of age. They prepared a quote of the benefits they calculated Mr R was entitled to - based on Mr R’s wish to be paid a higher yearly amount between then and his SPA, following which the yearly sum paid would be reduced.

The value of the protected and non-protected rights he’d accrued in the scheme at that time amounted to £200,525.38. And the scheme trustees calculated Mr R was entitled to an initial annual pension (at 51) of £11,812.08, reducing by £3,470.04 when reaching his SPA. This calculation was based on the SPA being Mr R’s 65th birthday, in August 2023.

The policy schedule, essentially confirming the above, also confirmed the policyholder was The Trustees or Administrator of the Scheme, the effective date was 20 October 2009, with a first pension payment to be made on 20 November 2009 in the sum of £984.34. And under the ‘Table of Benefits’ section, it confirmed an initial annual core pension of £10,719.36, plus protected rights of £1,092.72 (totalling £11,812.08), with a ‘stepdown amount’ of £3,470.04 starting on 19 August 2023 (as mentioned above, Mr R’s SPA at the time the application was made/policy schedule was created).

Put simply, these were the benefits the scheme Trustees had calculated and decided Mr R was entitled to – including the precise date on which the 'stepdown' would occur. And the scheme trustees paid the above sum - £200,525.38 – to CLL to purchase an annuity to secure Mr R's benefits, as described above.

I appreciate Mr R thinks there is an inconsistency in the documents produced at the time of the application, and that this supports his belief that CLL should only activate the 'stepdown' when he actually reaches his SPA in August 2024. And it's true that only one of the documents uses a specific SPA date – the Policy Schedule specifies the stepdown will occur in August 2023, whereas the 'Personal Example' only refers to the stepdown occurring upon Mr R's "attainment of State Pension Age". And I acknowledge Mr R believes this document better reflects his intentions at the time of the application – it was his intention/wish to secure higher payments until he started receiving his state pension.

However, in cases where there are discrepancies between documents provided by any pension business, we'd place most weight on what is contained in the policy schedule (as opposed to a personal example, or projection) as this sets out in detail what the business has agreed/contracted to provide, and on what terms. Here, that means CLL were obliged to provide the benefits as clearly and explicitly set out in the policy schedule – which is what they've done here.

I can understand why Mr R thinks a sensible solution would be for CLL to proportionally reduce his 'post-August 2024' payments to compensate them for paying him the extra amount he's asking for between his 65th and 66th birthday. And he questions why the annuity can't be altered to reflect that outcome.

In practice, however, it isn't as straightforward as that. Once an annuity has been set up, it can't be amended. When the benefits were calculated in 2009, by the scheme trustees, they would have been based on factors that existed at the time. As with all annuities, they would have taken account of relevant details about Mr R's age, his SPA at that time, and his particular intentions as regards the 'stepdown' and calculated precisely what his scheme 'value' was capable of funding. In other words, it was 'priced' on paying a higher income for a specific period of time, reverting to a lower amount after a specific date.

I appreciate that Mr R's SPA has changed in the interim period – something that could not have been predicted by any party involved in the calculation of benefits/setting up the annuity at the time. This is acknowledged by CLL and Mr R. But that doesn't alter the fact the annuity was set up (and 'priced') to pay specific amounts, on specific dates, and expecting to stepdown/reduce on a specific date too. The schedule makes that clear.

So, whilst I have considerable sympathy for Mr R's position, I can't fairly conclude that CLL have done anything wrong here. The annuity was set up in accordance with the Trustee's instructions and Mr R's wishes at the time (2009), and the terms of that annuity cannot now be 'unofficially' altered. And so because of what I've concluded above, I won't be asking them to do anything further in relation to this complaint.

My final decision

For the reasons explained above, I don't uphold Mr R's complaint against Canada Life Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 25 April 2024.

Mark Evans
Ombudsman