

The complaint

Mr W complains that The Prudential Assurance Company Limited (Prudential) unfairly reduced the value of his deferred annuity pension plan, provided incorrect information and caused delays in paying his benefits resulting in losses. He would like compensation for the losses and inconvenience caused.

What happened

Mr W had a with profit deferred annuity pension plan with Prudential taken out in 1985. He began making enquiries about taking his benefits in August 2022. But says valuations and benefit statements could only be provided by post which caused delays. Mr W says he was concerned when the transfer value of his plan fell by around £54,000 *“overnight”*. Prudential said this was due to a change in annuity rates. Mr W said there had been *“no big change at this time”* and that he’d been misled by it providing incorrect valuations. He said a with profit plan was supposed to smooth out returns and not be exposed to a *“massive and unexpected reduction”*. He asked what the plan’s final bonus was. Prudential said it would need to be calculated. He said that was ridiculous as it must know what the final bonus was in order to provide a transfer value.

Mr W asked Prudential to pay his tax-free cash and transfer the balance of his plan to another provider to purchase an annuity in January 2023. But says it still took a contribution from his bank account in February 2023. It said it could only make payments by cheque sent in the post due to the age of the plan. Mr W was concerned about the security aspects of this. There were delays in sending the cheques and he says it provided inaccurate updates and failed to return his calls. Due to the delays, he says the annuity rate secured with the new provider was lower than it should have been.

Mr W had raised various complaints with Prudential about these issues. It sent a final response letter in December 2022, accepting it had caused delays and that it would assess any financial loss caused. It paid Mr W £325 in compensation for the distress and inconvenience caused. It sent a further final response in January 2023 in respect of the fall in annuity rates, paying a further £300 in compensation for distress and inconvenience.

Mr W raised further complaint points on 26 February 2023, which Prudential acknowledged. But when he didn’t hear further, he referred his complaints to our service. We asked Prudential to respond, and it issued a final response in July 2023. This upheld most of the complaints but not the one about the sudden fall in the plan value. It apologised for the various service failings, delays, and for not keeping Mr W updated. And for the delay in repaying the contribution incorrectly taken, which was refunded with interest. It said it had made errors in issuing valuations previously and in providing correct valuation information to the annuity provider. It said it would address any losses caused by this. It said that it wasn’t possible to provide information about final bonuses as this required complex manual calculations, which wasn’t *“standard practice”*.

Prudential said if it hadn’t caused a delay Mr W would have received a higher tax-free cash sum payment, which with interest added was a further £1,313.39. And it paid an additional £250 in compensation for the distress and inconvenience caused, to give £875 in total. But it

said the plan value had been checked and was correct as it wasn't based on a fund value but on the capital value of the deferred annuity promised. It said the value arrived at was based on conversion factors which included prevailing annuity rates. It said as annuity rates had increased the capital cost of providing the "fixed income" had reduced and an adjustment had been made to the conversion factors used on 5 September 2022, which explained why the "transfer value dropped".

Mr W didn't think the compensation offered was adequate. He said the issue around the lower annuity rate due to delays still hadn't been resolved and the failure to provide correct information had prevented him from making properly informed decisions. He said whilst his plan was a deferred annuity the bonus element was dependent on the underlying fund value and there was no justification for the large reduction and the value should be independently calculated.

Mr W now asked our service to consider his complaint and our investigator looked into it. He said he didn't think Prudential needed to do any more than it already had.

Our investigator said Prudential had made errors and caused delays, but the £875 compensation paid was fair and in keeping with awards our service would make in similar circumstances. He said the payments made in respect of the incorrectly taken contribution and the delay in paying Mr W's tax-free cash were fair. And that Prudential had now received details from the annuity provider and had offered to pay Mr W a further £5,958.65 in respect of the reduced annuity rate and missed income payments. He said this appeared to reflect what the position should have been but for the delays. But was favourable to Mr W as our service would normally allow a notional deduction for tax purposes, which Prudential hadn't applied. In terms of the queries about the final bonuses, our investigator said we couldn't tell Prudential to change how it operated, but that its explanation wasn't unreasonable, and it didn't need to provide advance notice of changes to bonuses.

Our investigator said our service couldn't check the plan value as we weren't actuaries. But that Prudential had explained that whilst the transfer value had reduced by around £54,000 the pension income this would secure (on the standard assumptions used) had increased from £25,903 to £26,027. And that it had also explained that further bonuses would only be added if they would increase the benefits already guaranteed under the plan. He said Prudential had also advised Mr W had paid around £139,217 in contributions and the transfer value on 6 September 2022 was £449,149, which it said was a fair return. He said with profit funds were heavily regulated by the FCA and that he was satisfied that any reduction in value was due to market conditions.

Mr W disagreed. He said he'd paid around £150,000 in contributions. And it's claims about the return being fair showed a misunderstanding of the terms of the policy. And it wasn't for Prudential to decide the rate of return because the guaranteed annuity had to be paid, which had increased each year based on the annual bonuses of the with profit fund. He said the drop in value hadn't been explained and the plan was complex, and not well understood "even by Prudential".

Our investigator asked Prudential about this. It agreed that Mr W had actually paid £151,784 in contributions and apologised for understating these. It said as a deferred annuity contract the reduction in the "equivalent transfer value does not impact the guaranteed pension under the policy". It said the conversion calculation used to provide the cash equivalent or transfer value was correct and was based on the adjusted pension including previous bonuses and the actual retirement date. And the transfer value was also the policy's "share of assets in the With Profits Fund" and the same calculation basis was used for all policies of this type not just for Mr W's. Our investigator said this was a clear explanation that Prudential should have provided sooner, but he still didn't think it needed to do anything further.

Mr W still didn't think the reduction in transfer value in September 2022 had been properly explained. He said the "*minimum guaranteed annuity was just that*" and the policy had always been expected to provide a better return. He said Prudential had quoted a minimum pension of £30,548 had the policy run until the original retirement date in March 2024 but had only quoted £27,509 in February 2023, which was too low, resulting in a lower transfer value than should have applied.

As Mr W doesn't agree it has come to me to decide.

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 am not upholding the complaint.

Prudential did make errors and caused delays and I understand the concern and frustration this has caused Mr W. But having carefully considered all the points he's made I think it has fairly addressed the issues caused by delays and errors and has put him back into the position he should have been in. The outstanding issue is his main complaint point, the value attributed to his plan for transfer purposes. However, I don't think this was unfair. I'll explain why.

Prudential perhaps could have provided more detailed explanations sooner than it did. But as he has said these are relatively complex plans. Which didn't provide for a fund value but for a certain level of pension at the selected retirement age. Which as Mr W says, could be increased by the addition of bonuses. But that means, any fund or transfer value quoted was only ever a cash equivalent of the current cost of providing the deferred annuity offered.

Prudential calculated this value on request and on annual statements using various factors it reviewed from time to time. With prevailing annuity rates being very important in this. If rates fell, then the transfer figure quoted would rise. If they rose the transfer value would fall, because the cost of buying the pension the policy promised had reduced. And as long as the transfer value quoted was sufficient to purchase the pension income the policy provided for at the time, it would be fair.

A further consideration is whether any reduction applying to the deferred pension in the event of early retirement was reasonable. Mr W has said there were no early retirement penalties and the revised pension quoted by Prudential was too low. But I don't agree as I think the documents sent to him did make it clear that reductions would apply in the event of early retirement.

From the December 2022 statement, the plan provided for a guaranteed minimum pension of £23,447.74. To which bonuses of £7,100.63 had been added, giving a total of £30,548.37 at the selected retirement age in March 2024. This assumed contributions of around another £6,000 would be paid. The statement makes it clear that the guaranteed pension and the annual bonuses added would only be payable if the plan continued until March 2024 and if taken earlier there would be a reduction.

In earlier valuations Prudential quoted the minimum pension at £25,903 on 2 September, and £26,027.98 on 6 September 2022. On 3 February 2023 the figure was £27,509. That's an increase of around £1,606 over this period. It's an oversimplification to divide this by the number of days or weeks involved because several factors are influencing the calculation. But it is roughly £10.50 a day and I'd expect the scale of the reduction to become smaller the

closer the original retirement date became. But taking the benefits thirteen or so months early as Mr W did, suggests a reduction of around £3,000, as 2 February 2023 valuation reflects.

I asked Prudential about this. It confirmed that the guaranteed deferred annuity only applied at the original selected retirement date. And if benefits were taken before then an “*early retirement factor*” would be applied which would also reflect the reduced contributions paid. Mr W’s plan had two elements and it said the factors applicable for retirement in February 2023 were around 0.9045 for one and around 0.917 for the other. Applying these factors does explain the reduction from the £30,548.37 to around £27,500.

This may seem like a significant reduction, but is the standard factor applied across this type of policy, so I can’t say it’s unreasonable. And it’s likely the factor was based on expected investment returns and annuity rates back in the 1980’s when both were higher than has subsequently proved to be the case.

In terms of the transfer value offered relative to the reduced pension calculated this doesn’t seem unreasonable. It’s equivalent to an annuity rate of around 5.8%. And Mr W was able to secure a superior rate of around 6.27% with another provider, even with the delays in Prudential processing his benefit claim. It has already paid compensation to reflect the even higher annuity rate that was lost due to the delays. That means he has actually secured more in pension benefits than the adjusted pension the policy provided for.

In terms of entitlement to terminal and final bonuses I understand that it’s frustrating that Prudential can’t provide a breakdown of these. But for this type of policy the with profit fund was effectively underwriting the deferred annuity the plan offered, which is converted to provide the transfer value. As noted above, investment returns overall have been generally lower than was typically expected when Mr W took out the plan in 1985. And whilst annuity rates have increased from historical lows in recent years, they are still considerably lower than they were in the 1980’s and the cost of meeting even the adjusted pension was therefore greatly higher. How pension providers run with profit funds and pay bonuses is subject to a considerable amount of regulatory oversight and there is no evidence that Mr W has been treated any differently than any of Prudential’s other customers.

So, I don’t think Prudential has treated Mr W unfairly in respect of the value of his benefits and the transfer value it paid. It did cause delays and made some errors, and it has apologised for this. I think the compensation it has already paid has put him back into the position he should have been in. And I think the compensation paid for the distress and inconvenience he’s been caused is also fair. So, I can’t uphold his complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr W to accept or reject my decision before 19 July 2024.

Nigel Bracken
Ombudsman