DRN-4782326

The complaint

Mr D complained that the transfer value of his pension funds fell significantly after his selected retirement date (SRD) while managed by The Prudential Assurance Company Limited (Prudential).

He complained that Prudential's communications to him had been unclear and had led to him suffering a significant financial loss, for which he would like to be compensated. He has asked for the transfer value at his SRD to be honoured so that he can transfer his pension benefits to another provider.

What happened

Mr D took out a Prudential Personal Retirement Plan on 1 March 1985 into which he made regular monthly contributions of £100. The policy was established on a with profits basis with a guaranteed annuity if benefits were taken between the age of 55 and 75. Mr D's policy was set up with a scheduled retirement date (SRD) based on him taking a pension aged 65. The level of the guaranteed annuity was based upon contributions into the policy, his age at SRD and the market performance of the with profits funds.

On 18 October 2022, Prudential wrote to Mr D to remind him that his SRD was now approximately four months away and gave a current transfer value of his benefits as c£262,000, although it also said:

…this value isn't guaranteed. It's sensitive to changes in market conditions, which we regularly review

This letter also outlined his options for taking his benefits, including transferring them to another provider or taking a guaranteed annuity from Prudential.

Prudential wrote again on 11 January 2023 to remind him that he was approximately three months away from his SRD and tell him that he needed to make a decision about what he wanted to do. The transfer value of his pension was given as c£266,000.

Mr D assessed his options and decided to defer his SRD and continued to make his regular monthly contributions.

On 11 July 2023, Mr D complained to Prudential. He was unhappy with the fall in value of his policy from c£265,000 in March 2023 to c£228,000 in July 2023. He said he believed that Prudential had changed the basis upon which his benefits were valued from a fund basis to an annuity rate basis after his SRD had passed. If he had known this, he would have transferred his benefits to another provider at his SRD.

Prudential responded to Mr D's complaint on 11 August 2023 to state that:

We can confirm that the basis of your policy didn't change when you reached your specified date, the benefits can be taken at any time between the ages of 55 & 75. The policy still *remains in the With Profits Fund and will continue to attract bonuses, late retirement factors are used if benefits are taken after the selected retirement date*.

The letter also explained how the policy worked to provide a guaranteed level of income, saying:

Unlike most other types of pension, Prudential Personal Retirement Plans are annuity based as opposed to being fund based

Prudential wrote to Mr D again on 16 August to say that it had investigated his complaint and had found that it had caused a delay in him taking his benefits. It apologised, offered to undertake a financial loss assessment if he transferred his benefits and offered him £150 compensation in respect of his distress and inconvenience.

Mr D contacted Prudential on 9 September 2023, unhappy that it had not addressed his complaint about the fall in the value of his pension benefits.

Prudential responded to his complaint again on 9 October 2023. It apologised that the previous response had not adequately addressed his concerns, for which it awarded him a further £150 in compensation. It did not uphold his complaint about the drop in value of his benefits. It said:

What it is important to point out is that this is not a fund-based policy. This policy is a deferred annuity contract and a reduction in the equivalent transfer value does not impact the guaranteed pension under the policy.

It illustrated to him that the level of annuity income he could expect to receive had increased during the same period that the transfer value decreased. It explained that the type of policy Mr D had was designed to provide a guaranteed annuity on retirement. The current value of the funds quoted to him in annual policy statements were based upon the costs of providing this guaranteed annuity, rather than being based upon investments in underlying assets held in his name. As the cost of providing the guaranteed annuity changed on a daily basis, the current value also varied, and was based on the cost that day of providing the current guaranteed value of the annuity.

Mr D responded to this letter on 11 October 2023. He complained that he had never been told that his policy was annuity rather than fund based. He also felt that the significant fall in the transfer value of his policy was much larger than other historic movements in the value as interest rates had varied. He was also unhappy that he felt Prudential had changed the basis on which it had valued his benefits after he reached SRD and not taken into account the extra premiums he had made after his SRD, which he wanted it to refund to him.

Mr D subsequently brought his complaint to this service.

Prudential wrote a further response to Mr D's complaint on 7 November before issuing a final response on 13 November 2023. It did not uphold his complaint or his request for his transfer value to be increased back to the level it was at his SRD.

Our investigator reviewed the evidence and formed the view that the complaint should not be upheld as they felt that Prudential had acted correctly in the way it had managed Mr D's policy.

Mr D was unhappy with this view and so the complaint has been passed to me to review the evidence again and make 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, and considering the view of our investigator, I have reached the same conclusion and will not be upholding Mr D's complaint.

I can appreciate that this will be disappointing for him, so let me explain how I have reached my decision.

For me to uphold Mr D's complaint, I must be able to establish that Prudential has acted incorrectly and to his detriment. That is because it is not the role of this service to punish a business, but to establish whether a business has made mistakes in respect of how it has treated the person bringing the complaint. Where it has, I have to determine how best the business should compensate the complainant to put them back into the position they would have been in had the errors not occurred.

Given this, I have to look at whether Prudential has made any mistakes in how it has treated Mr D and, on balance, I don't think it has.

Essentially, the pension policy Mr D took out in 1985 was always designed to provide him with a guaranteed annuity on retirement, in his case his 65th birthday. Mr D believes that Prudential has changed the basis on which it calculated the transfer value of his benefits after his SRD and that it only became annuity based at this point. I've seen no evidence to suggest that this is correct and find that Mr D's benefits have consistently been based on the provision of a guaranteed income. This can be illustrated by looking at the Terms and Conditions document that Prudential provided to Mr D when he took out his policy in 1985, which I think make clear that the main benefit of this policy is a guaranteed income for life (annuity).

I do appreciate that this was a long time ago, and at a time when different financial regulations applied, but this document contains the essential facts relating to the way in which the pension policy was designed.

I've also looked at the annual statements that Mr D received each year and am satisfied that it was made clear in these that he was invested on a with-profits basis.

In terms of the benefits Mr D could expect from his policy, his annual statements showed the benefits he had accrued in terms of:

Guaranteed pension (total basic annuity)	*£A*
Yearly bonus to date	*£B*
Total Single premiums paid to date	*£C*

Also, as Prudential stated in its response to Mr D of 7 November 2023:

we do not mention a fund value, only a transfer value along with your annuity forecasts. It is important to note that the transfer value is not guaranteed and may change daily.

From this, I am satisfied that Prudential acted correctly when using the cost of providing Mr D's guaranteed annuity as the basis for the quoted value of the benefits.

I can certainly appreciate Mr D's disappointment that the value he was quoted on retirement was significantly lower than that quoted to him previously. Prudential has explained that this reduction was because the value of his benefits was based upon the cost of providing his guaranteed annuity benefits. The cost of providing an annuity is based upon a number of factors, some which are specific to the individual such as their age and health, but other external factors also play a large part, particularly interest rates. Specifically, as interest rates rise, the cost of providing an annuity falls, which may have contributed to the reduction in fund value Mr D experienced in this instance. I can appreciate Mr D’s view that the fall in transfer value of his benefits was not proportionate to the change in interest rates, but this is only one of a number of factors which determine the cost of providing an annuity.

I can also appreciate that Mr D is dissatisfied that Prudential itself does not offer the wide range of annuity products that it has done in the past. It is not the role of this service to comment on the commercial decisions that any business takes in relation to which products it chooses to offer, and as Prudential has made Mr D aware of his ability to look for a suitable product from another provider, I can’t see that it has done anything wrong here either.

Mr D has also explained that he felt that Prudential did not adequately explain the dependence of the fund value to the cost of providing the guaranteed annuity. While the retirement options packs Prudential sent to Mr D do indeed show a current value on the first page of the covering letter, they also include details of the current value of the guaranteed annuity he had accrued at that time. Taken in conjunction with the annual statements he received, I can’t see that it has acted incorrectly in this respect either.

Consequently, and disappointing as it will be for Mr D to hear, I do not find that Prudential has acted incorrectly and do not uphold his complaint.

My final decision

For the reasons given above, I do not uphold Mr D’s complaint.

The Prudential Assurance Company Limited need do no more than it has already offered to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D to accept or reject my decision before 5 September 2024.

Bill Catchpole
Ombudsman