DRN-4863963

The complaint

Mr T says The Prudential Assurance Company Limited (Prudential) is responsible for a reduction in the transfer value of his deferred annuity policy.

What happened

Mr T holds a deferred annuity policy with Prudential. In 2021 Prudential provided a transfer value for his pension of £54,305. In 2023 the transfer value had fallen to £32,476.

Mr T complained to Prudential in August 2023 about what had happened and requested a detailed breakdown of the two valuations, as he felt his pension had been mismanaged.

Prudential provided Mr T with a final response to his complaint in November 2023. It didn't uphold his case. It explained his policy consisted purely of a benefit payable to him at retirement, which wasn't determined by investment performance.

Unhappy with Prudential's response Mr T referred his complaint to our Service. An Investigator considered his case and concluded that his pension provider hadn't done anything wrong. Mr T disagreed and summarised his position in the following terms:

"Since my request to be provided with a detailed breakdown of my last 2 transfer valuations has [fallen] on deaf ears by Pru, simply because it was deemed company sensitive information. It is hard to make any decisions choices without some clarity of information. It would appear to me that it is the poor level of conservative investment (return on government bonds) is one of the main reason for the big reduction in my transfer values."

"Pru who have been put into place to look after and manage my pension from [my former employer]. I hold them partly responsible for the large reduction in my transfer valuations by not acting upon the clear visible trending evidence of falling transfer valuations."

As both parties couldn't agree with the Investigator's view, Mr T's case has been passed to me to review afresh and to provide a 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.

Where there's conflicting information about the events complained about and gaps in what we know, my role is to weigh the evidence we do have and to decide, on the balance of probabilities, what's most likely to have happened.

I've not provided a detailed response to all the points raised in this case. That's deliberate; ours is an informal service for resolving disputes between financial businesses and their customers. While I've taken into account all submissions, I've concentrated my findings on what I think is relevant and at the heart of this complaint.

I'm not upholding Mr T's complaint. I'll explain why.

The first thing I've considered is the extensive regulation around transactions like those performed by Prudential for Mr T. The FCA Handbook contains twelve Principles for businesses, which it says are fundamental obligations firms must adhere to (PRIN 2.1.1 R in the FCA Handbook). These include:

- Principle 2, which requires a firm to conduct its business with due skill, care and diligence.
- Principle 6, which requires a firm to pay due regard to the interests of its customers and treat them fairly.
- Principle 7, which requires a firm to pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

So, the Principles are relevant and form part of the regulatory framework that existed at the relevant time. They must always be complied with by regulated firms. As such, I need to have regard to them in deciding Mr T's complaint.

There are many pension products with different benefits, guarantees, flexibilities and protections. And there are many factors which influence their value and performance. Pensions can be complicated.

In its final response letter to Mr T, Prudential explained he had a deferred annuity policy. It said:

"…it is important to note that your deferred annuity policy is what is known as a defined benefits arrangement. When [your former employer's occupational pension scheme] wound up, the Trustee purchased benefits for its members, payable at their normal retirement date. These benefits are guaranteed. Your deferred annuity policy does not have a fund value, it consists purely of a benefit payable to you at retirement, which is not in any way determined by investment performance..."

So, Mr T's pension plan promises to pay him a stream of benefits from when he retires until he passes. This can be seen in the documentation he has been sent each year. This sets out his total annual pension, which comprised various elements including a guaranteed minimum pension and certain death benefits. This has been consistent, as I would expect.

Prudential confirmed that Mr T's scheme allowed him to transfer his benefits to another arrangement up until his normal retirement age. It then went on to explain how that value was derived:

"The transfer value, in effect, is a best estimate of the present day value of the sum of expected future pension payments — effectively the amount of money we would need to invest at the calculation date taking into account assumed rates of investment performance, assumed future inflation, mortality assumptions etc to provide the persons pension from their normal retirement date to their date of death and potentially a dependant upon their death."

"To do this we estimate what the pension will be at NRD and we estimate what the future cashflows will be - the stream of pension payments increasing by fixed or inflation as appropriate, taking account of mortality and the probability of the person being alive. This gives us a total pot required, which we then discount back (reduce) by the assumed rate of investment growth to the calculation date."

"The assumptions about investment growth are the key factor in determining the transfer value of defined benefits policies. The higher the figure, the lower the transfer value. Or to

put it another way, less money needs to be invested to provide the same pension, as the investment return is higher."

I think Prudential has tried to explain why the transfer value of Mr T's pension plan has varied considerably over the past few years, as has the Investigator.

Several factors affect the transfer value of defined benefit pension pots. Amongst these are: interest rates; inflation levels; annuity rates; and gilt yields & stock market activity. And there has been considerable turbulence in these areas in recent years, and this has been reflected in the transfer values Mr T has received from Prudential.

The Prudential Assurance Company Limited accepted it didn't handle Mr T's initial enquiry effectively. It apologised and offered him £100 in recognition of this. I think the award is fair and it should honour that payment if it hasn't done so already.

My final decision

For the reasons I've set out, I'm not upholding Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 8 October 2024.
Kevin Williamson
Ombudsman