DRN-5068956

Financial Ombudsman Service

The complaint

Mr R complains that Scottish Widows Limited encashed some pension benefits he held before he reached his selected retirement date.

What happened

Mr R held pension benefits with Scottish Widows. When the pension plan was first opened in 1992 Mr R selected his retirement date as being his 60th birthday in June 2024. He has made monthly contributions to the pension plan since it was opened.

In May 2024 Mr R was told by Scottish Widows that his pension plan would soon reach its selected retirement date. Mr R spoke with Scottish Widows by telephone around two weeks later to advise that he wished to take all the benefits from his pension plan as a single lump sum payment. Scottish Widows sent some paperwork for Mr R to complete and return.

Mr R says he was surprised to receive the proceeds of the pension plan around a week later. He said that he had intended making a final contribution to his pension savings before his selected retirement date. He thought the funds would then be paid to him shortly after his 60th birthday. Mr R was concerned that the payment of the pension benefits before the selected retirement date would mean their value had been reduced.

Scottish Widows apologised that it hadn't made it clear that the forms it sent to Mr R would result in the immediate payment of his pension benefits. It paid him £100 for any inconvenience he'd been caused. Unhappy with that response Mr R brought his complaint to us. Before we had considered the complaint Scottish Widows again reviewed what had happened. It offered to pay an additional £50 in compensation to Mr R. Mr R rejected that offer and asked us to continue looking at his complaint.

Mr R's complaint has been assessed by one of our investigators. He was satisfied that Mr R hadn't lost out as a result of his pension benefits being paid before the selected retirement date. And he thought that the compensation Scottish Widows had offered Mr R (a total amount of £150) was fair and reasonable. So he didn't think any additional compensation was appropriate.

Mr R didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr R accepts my decision it is legally binding on both parties.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr R and by Scottish Widows. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words

I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

To help me decide this complaint I have listened to the phone call between Mr R and Scottish Widows before he decided to take his pension benefits. Scottish Widows has acknowledged that call didn't give Mr R all the information he needed before taking his pension benefits. And I would agree with that assessment.

I think it is clear that Mr R expected to take his pension benefits when he reached the selected retirement age on his policy of his 60th birthday. That was around a month after he made the call. And I don't think anything Scottish Widows said, or the information that Mr R was sent, would have changed his expectations.

I accept that the paperwork Mr R was asked to complete made it clear that he was making an irreversible decision. And it told Mr R that completing the forms would mean the process of taking his pension benefits would start immediately. But both of those would appear compatible with what Mr R had said he wanted to achieve. It wouldn't be unreasonable for him to conclude that he was simply getting everything ready for his pension benefits to be paid when he reached his 60th birthday.

So I can understand why Mr R was confused and disappointed when his pension benefits were paid into his account around three weeks before his selected retirement age. That wasn't what he intended, and I think it only arose as a result of Scottish Widows failing to correctly identify his requirements when he called the firm. But what I now need to establish is whether the early payment of the pension benefits has caused Mr R to lose out.

I think there are two scenarios in which I might conclude that the early payment of the pension benefits has caused Mr R to lose out. He says he intended to make a final contribution to his pension plan shortly before his birthday. And Mr R is concerned that taking his pension benefits early will mean that they have a lower value than if his plan had reached the selected retirement date. I will deal with each in turn.

If Mr R had been able to make a final contribution he would have increased the value of his pension savings. But by not making that contribution he has retained the funds that he would otherwise have paid as a contribution. So I don't think that has caused him any loss. But the contribution Mr R would have paid would have received tax relief, increasing its value to his pension plan by 25%. But, as I will now explain, I don't think it likely that has caused any loss either.

The additional contribution plus the tax relief would have increased the amount Mr R received from his pension savings. But when his pension savings were withdrawn, 75% of the amount would be subject to income tax. I don't know what Mr R's marginal tax rate was at the time, but it is certain he would have been at least a basic rate taxpayer. So the majority of the tax relief he received would have been reclaimed through the income tax he needed to pay on his withdrawal.

When pension benefits are taken, a reduction is applied to the amount that can be contributed to pension savings in the future. But here Mr R would still have been able to add up to £10,000 to his pension savings, after his benefits had been taken, each tax year. So for the current tax year I think it likely that Mr R would still have some allowance available to make the contribution he missed to another pension arrangement if that is what he chose. That would mean he would be able to recoup the tax relief he missed through the final contribution being cancelled. So I don't think Mr R has lost out as a result of the missed tax relief either.

Many pension plans provide for a final bonus to be added when the selected retirement age is reached. Or alternatively some plans remove any market value reductions that would be applied if benefits were taken earlier. But I am pleased to be able to tell Mr R that neither of those were relevant to this pension plan with Scottish Widows.

Under the current legislation Mr R was able to take his pension benefits at any time after his 55th birthday. And the value of his pension benefits would simply be the market value of his investments at that time. Scottish Widows has provided us with comparative figures showing the value of Mr R's pension investments when his benefits were paid, and what they would have been worth had they been paid on Mr R's 60th birthday. Those comparative figures show that Mr R has made a small gain as a result of his pension savings being paid early. And, of course, he had the use of the monies some three weeks earlier too.

So I don't think that Scottish Widows paying Mr R his pension benefits three weeks earlier than he intended has caused him to lose out. But I can see that this whole matter will have caused him some distress and inconvenience. I think that distress and inconvenience will have been caused by the poor nature of the way Scottish Widows handled Mr R's initial enquiry about taking his pension benefits.

Scottish Widows has already paid Mr R £100 for his inconvenience. And more recently it has told us that it thinks a further payment of £50 (making total compensation of £150) would be appropriate. I have thought carefully about the awards I would normally make in circumstances such as these. And having done so I have concluded that the amount Scottish Widows has offered, totalling £150, is in line with what I would expect. So, other than paying the additional compensation it has offered, I don't think Scottish Widows needs to do anything more.

Putting things right

Scottish Widows should pay Mr R the additional £50 compensation it has offered (making a total payment of £150) in respect of the distress and inconvenience he has been caused.

My final decision

My final decision is that I uphold a part of Mr R's complaint and direct Scottish Widows Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 14 March 2025.
Paul Reilly
Ombudsman