DRN-5102989

The complaint

Mr G complains that The Prudential Assurance Company Limited ("Prudential") has failed to treat him fairly when assessing the benefits due to him under a Personal Retirement Plan that he holds.

What happened

Mr G holds pension savings with Prudential that are in a Personal Retirement Plan that he started in March 1985. I will discuss the form and nature of the benefits arising from those pension savings at some length later in this decision. When the plan was first started a normal retirement date ("NRD") was specified of Mr G's 65th birthday in March 2022. Mr G decided not to take his pension benefits when he reached that date and has continued to pay his regular premiums.

Mr G has regularly corresponded with Prudential since mid-2023 about the benefits he would be due when he intended to take his pension in early 2024. Prudential has sent a number of reports to Mr G showing the benefits he was guaranteed to receive, and explained that other bonusses, and a potential increase in his benefits due to them being taken later than the NRD would be calculated at retirement.

Some years ago Prudential took a commercial decision to stop providing annuities to its customers. So, in the case of consumers such as Mr G with guaranteed benefits, it made an arrangement with a firm I will call H. That meant that H would provide the annuities to Prudential customers, but on the same terms as their contract with Prudential. But it would also ensure that a better annuity than that being offered by Prudential wasn't available on the open market.

Mr G complained to Prudential about its use of H to calculate and pay the guaranteed benefits he was entitled to receive. And he complained that the benefits Prudential was offering did not take account of the additional contributions Mr G had paid since his NRD. He said he wanted details of the final and terminal bonusses that might be added to his pension savings.

Prudential told Mr G that it wasn't able to provide details of the terminal and final bonusses as they wouldn't be known until he took his pension benefits. And it explained that the additional contributions Mr G had paid, and that he had deferred taking his benefits, would be reflected in a calculation performed when he took his benefits. But again, the outcome of that calculation wouldn't be known until he confirmed his retirement date. But Prudential agreed that it hadn't always responded to Mr G's queries in a timely and accurate manner. So in total it has now paid Mr G £300 for the inconvenience he has been caused.
Unhappy with that response Mr G brought his complaint to us. Mr G's complaint has been assessed by one of our investigators. She thought that the actions Prudential had taken when calculating the benefits due to Mr G were in line with the terms and conditions of the pension plan. And she thought that Prudential's decision to use H to provide the annuity quotations had not disadvantaged Mr G. So the investigator didn't think the complaint should be upheld.

Mr G 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.

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 G and by Prudential. 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.

Mr G's pension plan offers him some guarantees on the annuity he will receive when he puts his pension into payment. So I think it would first be helpful for me to set out my understanding of how his benefits will be derived at retirement.

For the premiums that Mr G agreed to pay, Prudential will pay a guaranteed annuity to him. This is called the Guaranteed Basic Annuity ("GBA"). That amount of annuity will be paid to Mr G, providing he made the agreed contributions, regardless of the investment performance of the with-profits fund in which his pension savings were invested.

But the GBA will also potentially benefit from some enhancements. Each year Prudential will assess the investment performance of the with-profits fund. If that performance has been sufficiently good, Prudential will declare an annual bonus. Those annual bonusses, when added together, will increase the annuity that Mr G would receive on his retirement.

Further enhancements to the annual annuity will also potentially arise from final, or terminal, bonusses that Prudential might add. Those allow the firm to reflect on expected interest rates following retirement, and any additional investment performance attributed to a consumer's pension savings that hasn't already been accounted for in any annual bonusses. But given their nature, and the relative flexibility available over the final choice of retirement date, Prudential can give no guarantees as to whether any final bonusses will be added, or what their value will be.

As I said earlier, Mr G has also deferred taking his benefits past the NRD on his plan. And he has continued to make contributions to his pension savings. But as Prudential has explained in its letters to Mr G, his additional contributions and deferred retirement will not result in an increase in the GBA. Instead, when Mr G takes his benefits, Prudential will potentially apply an increasing factor so that the annuity received is greater than that guaranteed from the contributions and annual bonusses at the NRD. But, importantly as Prudential has also explained, those increased factors are not guaranteed and will only be assessed when pension benefits are taken.

And the final matter that is applicable to any annuity being paid is that the GBA and bonusses relate to a specific type of pension – an annuity on a single life basis with no guarantee, no cash sum, no escalation, and payable annually in arrears. It is possible for Mr G to request any annuity he receives is paid on an alternative basis. But its value won't reflect the previous quotations he has received, although it will benefit from similar annuity rates to those he would receive as part of his guaranteed pension benefits.

I've looked carefully at how Prudential has responded to Mr G's requests for information on his pension benefits. On balance I don't think Prudential has treated Mr G unfairly. It has provided him with information about the benefits he has previously accrued, and so are guaranteed when he retires. But other benefit components, such as any final bonusses or escalations due to late retirement are not known at this stage. So any information Prudential could provide would be at best speculative.

I can see that Prudential accepts it has provided some information of that nature in the past. But to provide that information will require a manual calculation to be performed by an actuary. Whilst it is of course vital that information is calculated correctly when benefits are about to be taken, I don't think Prudential is under any obligation to provide it sooner. The costs and practicalities of doing so, across its entire customer base, would be prohibitive.

Prudential has taken a commercial decision to no longer offer annuities itself. But it does have a number of customers, such as Mr G, who hold various guarantees that might offer them annuities greater than can be found on the open market. So Prudential has quite rightly devised a process for ensuring that it meets its obligations to those consumers.

Prudential has an arrangement with H to source annuities on its behalf. H will assess whether the pension savings Prudential holds against the pension plan are sufficient to purchase the guaranteed annuity on the open market. Should there be a shortfall then Prudential will top up the value of the pension savings it sends over to H so that the correct valued annuity can be purchased. But, in the consumer's favour, H will also assess whether the pension savings Prudential holds could purchase an annuity greater than that guaranteed by their plan. If that is the case, the higher annuity would be provided.

Mr G is keen to take his pension benefits. But understandably he wants to understand what they will be worth. I understand he has been told by H that calculation cannot be completed until he decides when to take his pension benefits. I think that ties into what I've said earlier about the complexities of the calculation, and Prudential no longer offering interim valuations.

But it would be my understanding that asking H for a quotation to take his benefits wouldn't leave Mr G in an irrevocable position and needing to proceed. He can ask H for a range of quotations that he can decide whether or not to accept. And I think that answers a question Mr G has posed more recently about the dependent's benefits on a pension he is considering not being as great as he would have hoped. I'd expect that H could offer Mr G a range of options in that regard if he makes the request.

Ultimately here, although I appreciate how disappointing this finding will be for Mr G, I don't think Prudential has done anything wrong. It has explained to Mr G how his pension benefits have been derived through the GBA, guaranteed annual bonusses, potential final and terminal bonusses, and a potential escalation given his decision to defer his retirement. And I think Prudential's decision to cease offering its own annuities, and to partner with H to fulfil its contractual obligations, is a reasonable exercise of its commercial freedoms. So I don't think the complaint should be upheld.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 27 December 2024.

Paul Reilly
Ombudsman