DRN-5134014

Financial Ombudsman Service

The complaint

Mr S complains about Aviva Life & Pensions Limited's administration of his pension plan, particularly the calculation of the Loyalty Bonus.

What happened

Since the 1990s Mr S has had two personal pension plans (plans ending *94A and *94K) originally set up with Commercial Union ("CU") which is now part of Aviva Life & Pensions Limited ("Aviva"). These legacy plans are administered on different platforms and have different charges. Mr S is contributing to plan *94A which started in 1994 and has an annual management charge of 1% (factored into the unit prices). The value from the latest available statement in 2023 was around £130,969. Plan *94K started in 1996 with a single transfer in, and the annual fund charge is 0.6%.

Over the years Mr S has raised concerns with Aviva about the administration of these plans. He doesn't understand why the charges for each are different, he's unhappy the annual statements are not issued on a consistent date each year, he finds it difficult to obtain information when he asks for it, and mostly he doesn't accept Aviva's explanation about how the Loyalty Bonus is calculated, and why it's not as high as his calculations suggest. Mr S has no confidence Aviva has been managing his plans in line with the terms and conditions. He feels Aviva's continued failure to provide simple, transparent information about his pension over the years has prevented him properly planning for his retirement or transferring away to a better value provider, causing him a financial loss.

Aviva has responded to Mr S several times and has issued Final Response letters to formal complaints in October 2023, February 2024 and July 2024. These addressed his queries around the charges, the statements which are issued within three months of the plan anniversary in August, and a detailed explanation of the loyalty bonus calculation, which Aviva says is more complex than Mr S has suggested. Due to delays responding to his concerns and for the trouble and upset caused, Aviva has paid Mr S compensation of £200 in 2023 and £400 in 2024.

Mr S referred his complaint to this service in July 2024. In the complaint form he set out his four complaint points:

1) Calculation of the loyalty bonus
2) Fee % charge
3) Unavailability of information on his pension
4) Delay in receiving his annual statement and inconsistency in how it's produced.

One of our investigators looked into things and requested further information from Aviva so she could understand how Mr S came to have two plans, what the charges were for each, details about the loyalty bonus and the arrangements for issuing annual statements.

In October 2024 the investigator issued her view of the complaint which acknowledged his frustration. But overall she accepted Aviva's explanation about how the two plans A and K arose and the different charges for each, and as the terms say the charges can change she couldn't say Aviva had been applying them incorrectly. She reviewed the available information about the loyalty bonus and while the plan terms make clear it can be altered at CU's (Aviva's) discretion, it's calculated on each contribution invested over ten years, but not all contributions will have been invested since inception. She was satisfied Mr S had received comprehensive responses to his concerns about this, and as the methodology had been checked by Aviva's actuaries she couldn't say it was incorrect. While she recognised Mr S was still unhappy, she didn't consider Aviva needed to do more as the £600 it had already paid was sufficient for the inconvenience he'd been caused.

Mr S said he was disappointed with the investigator's outcome and asked for more time to respond in detail. In November 2024 the investigator chased Mr S for his comments about why he disagreed with her view, but he didn't respond. Mr S was told that as agreement hadn't been reached the next step would be for an ombudsman to review the complaint. and offered him additional time to set out his objections.

Mr S didn't respond to that either, so the case has come to me.

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.

I can see Mr S has raised many queries with Aviva over the years and is rather disparaging about their responses and the information he's been provided with. But having reviewed the file I agree with the outcome reached by the investigator. Let me explain why.

With regard to why Mr S has two policies with different charges Aviva has explained that the substantive "A" policy started in September 1994 and was set up with an adviser (Mr C of Financial Planning Wales Ltd) on a commission basis, which resulted in a capped annual management charge of 1%. The original letter issued by CU in September 1994 to Mr S's adviser showed that his initial monthly contribution was £112, level commission of 4.75% would be paid, and an enhancement of 2% on new regular contributions would apply. The smaller "K" plan started in 1996 with a single contribution from Scottish Life of £128.28 which appears to have arisen from Mr S contracting out of SERPS, and in my experience it's not unusual for such contributions to be set up in a separate plan.

The section within the policy terms relating to charges does not set out what the charges will be, it just explains how the charges are deducted "*each month from the Member's ordinary contribution account and/or Protected Rights accounts as applicable".* And it states details are available on request and that the charges can be changed at any time. Aviva has explained to the investigator that the 1% maximum charge applicable to the A plan was introduced in April 2001 to ensure it was in line with the charges for Stakeholder plans. So any charges in excess of 1% are refunded back to the plan on a monthly basis. The 1% guarantee also applies to the K plan, but as the charges for this are below the maximum at 0.6% no rebates are necessary. I've seen nothing to suggest Mr S isn't being charged in line with the policy terms. I understand he feels these charges are too high, but it's open to him to shop around for a better value provider if he wishes.

I understand Mr S would find having access to updated valuations and information on demand about the performance of his plan helpful for his retirement planning. He also thinks annual statements should be issued at the same time every year covering exactly the same period to enable accurate comparisons. Aviva has explained statements are issued within three months of the policies' anniversary in August, and it appears this is adhered to, as in the past seven years statements were issued four times in August, once in September, twice in October and once in November. I appreciate the lack of consistency makes comparing year on year performance tricky. But I've seen nothing in the scheme rules or the original CU policy terms which sets out what information Aviva is obliged to be provide or when, so I can't say producing an annual statement within three months of the policy anniversary is unreasonable. While many plans are viewable via a portal or in some other convenient way, it appears that this isn't available for legacy policies like these. Aviva has explained to Mr S that if he wants to take benefits flexibly he'll need to transfer to another type of plan, (although not necessarily away from Aviva), which would provide the opportunity to select one which can provide online access.

But Mr S's main concern relates to the calculation of the loyalty bonus, which he thinks should produce a greater uplift to his policy value than it has. According to Aviva the loyalty bonus is calculated on each individual contribution at a rate of 0.5% for each complete year that particular contribution has been invested. A definitive calculation of the policy's value will be carried out at the point Mr S decides to retire and take benefits from the policy (or on transfer or death), so any valuations prior to that point are based on the bonus accrued to date and an estimation of the value at the relevant retirement age. This is why the statements include a sentence explaining *"This is not a promise or guarantee of what you could get"* [at retirement] and then explains the figure has been calculated based on assumptions about inflation, contribution levels and investment performance, which will also include the loyalty bonus.

When considering how the loyalty bonus applies, the starting point is the policy terms and conditions for the "*CU Sterling Personal Pension Plan for Employees",* and the version I've seen is dated August 1994, which appears relevant to both plans. The Loyalty Bonus section on page 7 gives the following explanation:

"*For regular contributions the Loyalty Bonus is a percentage of the total contributions paid for retirement benefits. The percentage depends on the number of complete years prior to your Selected Retirement date for which the relevant contribution was invested*" as set out in the table below, which Aviva has also replicated in one of its responses to Mr S.

Number of complete years contributions paid/invested	**% of total regular or single contributions**
10 to 14	2.5%
15 to 19	5.0%
20 to 24	10.0%
25 to 34	20.0%
35 or more	25.0%

The document gives an example that "*for someone who had paid monthly contributions of £100 for 20 years the Loyalty Bonus is 10% of £2,400 ie £2,400".*

But when Mr S quoted this example to demonstrate his understanding of how the loyalty bonus calculation should apply to his policy, Aviva told him that isn't how it actually works, so I can understand his confusion. I think while it illustrates the basic principle, it's a bit simplistic, as it doesn't reflect that each contribution is invested separately, and only contributions invested for a complete year are eligible for the loyalty bonus. So if someone makes contributions every month for a year, the following year only the January (or first) contribution would've actually been invested for a full year (and therefore eligible to be counted towards the loyalty bonus), with each subsequent contribution becoming eligible a month later.

In its October 2023 response Aviva explained the calculation of the loyalty bonus is complex and calculated differently for different contribution levels and increments. Four different types of loyalty bonus calculations apply to Mr S's policy depending on when the contributions were made. Briefly these were as follows:

1) Regular premiums and increases between September 1991 and December 1994 – once 29 years of regular premiums have been made 20% would apply (and 25% after 35 years)
2) Regular premiums and increases between June 1995 and January 1998 – if premiums have been paid for 10 years or more loyalty bonus of 2.50% of the value of units purchased during the initial period for each complete year
3) Regular premiums and increases from February 1998 – if premiums have been paid for five years or more the loyalty bonus of 3.50% of units purchased during the initial period of each complete year
4) For transfers in received between January 1995 and January 1998 – if invested for ten years or more a loyalty bonus of 0.5% for every complete year invested

As Mr S continues to contribute to the policy the calculation is evidently not as simple as applying a uniform percentage to the total premiums paid to date, as each will have been invested for a slightly different number of complete years. So the maximum bonus of 20-25% only applies to those contributions which have been invested for in excess of 25 years and not to the total contributions he's made over the years.

Aviva says the calculations are checked by its actuaries, and I've no reason to say the way Mr S's pension plan is administered, or how the loyalty bonus is calculated is incorrect. I appreciate Mr S would like to be given a simple formula he could use to determine the value of his plan at any point between annual statements, but I don't agree Aviva is being "*awkward*" when it says this is not possible.

Aviva has paid Mr S a total of £600 compensation for the stress, inconvenience and poor service which I think is reasonable. So while I appreciate this will not be the outcome Mr S is hoping for, I don't uphold his complaint or require Aviva to do anything more.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 9 June 2025.

Sarah Milne
Ombudsman