DRN-5209129

The complaint

Mr G says that policy information supplied by Aviva Life & Pensions UK Limited (Aviva) is incorrect and he doesn't agree with the policy values he's been given.

What happened

Mr G is a member of an Executive Pension Plan (EPP) which commenced on 1 November 1981 with Provident Mutual who, in 1995, became part of Aviva (formerly Norwich Union). Contributions were paid until about 1994 – I understand Mr G was made redundant.

At the end of June 2024 Mr G contacted us about a complaint against Aviva. Mr G said he'd been trying to get more information about his pension and that, from what he'd been told, it was worth less than he'd expected.

I've seen that Mr G had been in contact with Aviva for some months about his policy. I'm not going to refer to all the telephone calls, emails and letters. But, in summary, things started off in October 2023 when Mr G emailed Aviva requesting information about his policy, including details of all the premiums paid, bonuses added and how his fund had been invested. And in November 2023 he complained to Aviva about the performance of his policy. He was unhappy with the smoothing process and that he hadn't received any regular bonuses since Aviva had taken over and he felt Aviva had mismanaged the fund.

Aviva issued a final response letter on 13 December 2023. Aviva said Mr G's policy was invested in a with-profits fund. At his normal retirement date (NRD) there was a sum assured of £19,886.82 plus accrued bonuses of £23,342.99. A final bonus might also apply but that wasn't guaranteed. Aviva made some comments about recent fund performance.

Mr G remained unhappy and in a telephone call on 19 December 2023 to Aviva he said he'd been trying to obtain information about his policy for some years. He wanted details of the premiums paid, bonuses added and how his fund had been invested. He thought his fund should be around £51,000. And he said he'd accrued bonuses of £23,000 during the first 16 years of the policy.

Aviva reopened Mr G's complaint. Mr G was in further contact with Aviva during January 2024. Aviva confirmed the information he was seeking. Mr G chased things up several times. Aviva explained that as his policy dated back some time, it wasn't held on Aviva's current systems and so it took longer to get the information requested. Mr G remained unhappy with the time taken and the matter was escalated.

Aviva sent Mr G further information in February 2024. Mr G had further queries which he raised with Aviva who referred them to its actuaries. There were further telephone calls including one on 3 April 2024 where Aviva said the value of the plan on 1 September 1995 (the date of the Provident Mutual merger) was £3,947.34.

Aviva wrote to Mr G again on 24 April 2024. Aviva said previous values given had been incorrect. Including the value at the date of the transfer which had been £12,082.86, not £3,947.34. And a figure given for the value as at 1 November 1998 was also corrected. Later on the letter also apologised for a typing error in adding up the premiums paid as £8,415.89 which should've been £8,415.69 – I think Mr G had pointed out that error during one of his earlier calls with Aviva. The letter gave further referral rights to this service.

When the complaint was referred to us the investigator raised a number of queries with Aviva which it referred to its actuaries. Aviva was unable to provide a breakdown showing how the figure of £12,082.86 had been calculated. Aviva said that rolling up the premiums paid at 3.25% pa until NRD gave a value of £26,728. But the transfer value as at 13 November 2023 was £51,642.18 which was an average return on the premiums of 5.4% pa. Aviva also reviewed Provident Mutual's letter of 17 January 1995 which confirmed the fund value was £32,525.42. But that wasn't a transfer value. And the rate structure was such that included in these amounts is 3.25% compound interest from the date shown to NRD. The rate of 3.25% is built into the calculation of the sum assured at outset. When the policy was set up, the assumption was, if the premiums were paid annually up to NRD, the guaranteed sum assured that the policyholder would receive would represent at least a return of 3.25% on premiums paid less any policy fee. But, since premiums had ceased, the guaranteed sum assured had been reduced based on the term actually paid.

The investigator didn't uphold the complaint on the basis that Aviva had provided Mr G with sufficient information which had been explained to him.

Mr G didn't agree and provided some further documents which the investigator shared with Aviva and raised some further queries. Aviva provided details of all available transfer values since 2011 and the fund returns for the same period. Aviva said that changes in the transfer values didn't mirror fund returns exactly due to the impacts of charging and smoothing. The investigator shared what Aviva had said with Mr G but he remained concerned. In particular he maintained that smoothing had had a detrimental effect of the value of his policy.
As agreement couldn't be reached the complaint was referred 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've read and considered everything but I've concentrated on what I see as key. Mr G's central concern is his fund value and whether the information Aviva has provided about that is correct. I can see that Mr G has had concerns for some time. He made a previous complaint to us in respect of which a final decision was issued on 15 January 2015. And there was further correspondence in 2019 between Mr G and Aviva about the policy and bonuses.

Mr G's current complaint is that he wasn't given a full history of his pension and he's also concerned about the effect of smoothing which he says has reduced his fund value. Given that he now wants to take his benefits from the policy (and I note here what's happened more recently about that and that it seems things didn't go well) he's understandably concerned to ensure that he's getting what he's entitled to.

I think some confusion may have arisen because some of the information issued about the policy was on the basis that the premiums continued to be paid for the full term of the policy – over 40 years with the last premium due on 1 November 2022. But premiums ceased to be paid after about 13 years. So that's had a significant effect on the value of the policy and means that the benefits which are payable from the policy will be proportionately reduced to reflect the fact that the premiums weren't maintained until 1 November 2022. I also recognise that it's not always easy to reconcile figures given over the years. Different values may have been given at different times. But, although values may have fluctuated, that doesn't mean the calculations were incorrect at the time.

From what I've seen, Mr G has now had full details of his pension. Aviva has provided a full history of the policy – details of the contributions, the bonuses added, transfer values since inception and fund returns. Aviva noted that transfer values won't exactly mirror fund returns due to the impacts of charges and smoothing – I've mentioned smoothing further below.

Aviva has also produced the Anniversary Certificates (or annual statements) for the policy and which set out the then current transfer values. Unfortunately some can't be produced – the earlier ones which would've been issued by Norwich Union. I think the earliest Anniversary Certificate we've seen is the one issued on 10 September 2011. All of the certificates we've seen gave the same message – that following bonus rate reviews, Aviva was unable to declare any regular bonus for that year. The transfer values set out were what 'could' be paid to another pension provider – so weren't guaranteed.

An unknown factor in the final policy value is the amount of any final bonus – that will only be known when Mr G takes his benefits – whether by way of transfer or from the policy. I think the latter is Mr G's preference as the annuity rate offered by Aviva was higher.

Overall I think Aviva has provided sufficient information and explanations to Mr G. As to whether the information provided by Aviva is correct, there were some errors. For example, Aviva told Mr G that the value of his pension fund when Provident Mutual merged with Aviva was £3,947.34, which Aviva later corrected to £12,082.86. That will have confused matters and further eroded Mr G's confidence in Aviva. There were other, smaller errors. Even relatively small mistakes or inconsistences will undermine trust.

I've seen the EPP terms and conditions. They say that each premium payment purchases a guaranteed cash sum due at pension date. This guaranteed cash amount is increased each year by Reversionary (annual) bonuses. Each addition represents a permanent increase and once added cannot be taken away. At pension date a final bonus, calculated as a percentage of the Reversionary bonus, may be added. Where regular premiums cease, the cash fund at pension date is recalculated based on the premiums paid to date. Bonuses will continue to be added. So, as I understand it, the overall sum available at retirement is made up of a (reduced) capital sum assured (£19,886.82) plus regular bonuses plus any final bonus.

From what I've seen, Aviva has calculated the values accordingly. As I've said, reconciling all the information that's been given over the years, and some of which may have been based on estimates, isn't easy. But where Mr G has pointed to apparent discrepancies Aviva has been able to explain them. For example, the letter from Provident Mutual dated 17 January 1995. And the projected fund value at retirement of £66,100 which Aviva gave in June 2019.

It seems that Mr G's main concern is the effect of smoothing which he feels has disadvantaged him. He says bonuses weren't added when the fund appears to have performed well. I do understand his disappointment. But the aim of a with-profits fund is to ensure that investors receive a fair share of the profits of the fund. Although bonuses are partly based on gains within the fund, a with-profits fund doesn't work in the same way as other investment funds. The amount of any bonus isn't an equal proportion of the profits of the fund. The calculations aren't straightforward and take into account a significant number of factors. And smoothing means that, in years where fund performance is strong, the fund manager can choose to keep back some of the profits to ensure bonuses can be added in later years when markets may be underperforming and that any guarantees that have to be met when the investment comes to an end can be honoured. That means the value of an investment in a with-profits fund won’t necessarily directly reflect the fund’s current or historic performance.

Further, the decision whether to pay a bonus is a commercial decision that Aviva was entitled to make. The way in which Aviva’s fund managers manage investments and determine bonuses is a matter for Aviva’s own commercial judgment. With-profit funds have attracted criticism for their lack of transparency. I do understand Mr G’s suspicions about the level of bonuses applied and I accept that it can be very difficult for policyholders to satisfy themselves that they are receiving what they are entitled to under the terms of their policy. But that doesn’t necessarily mean that Aviva has done anything wrong.

Aviva is accountable to the industry regulator, the Financial Conduct Authority (FCA) for the way in which it operates its with-profits fund, in accordance with its Principles and Practices of Financial Management (PPFM) document. I’ve seen that Aviva has sent Mr G a copy. And the regulator monitors the management of with-profits funds. Businesses are required to appoint a with-profits actuary and the FCA provides rules and guidance on their duties. There’s more information about Aviva’s with-profits funds on its website. And I’ve seen that Aviva has provided Mr G with a copy of the Provident Mutual With-Profit Sub-Fund and Investment Summary.

I’d add that this service determines complaints on their individual merits. We don’t have the power, or resources, to carry out audits or investigations, for example into the management or governance of a with-profits fund. If Mr G remains concerned that decisions about his bonuses have been unfair, he may wish to raise his concerns with the FCA. But, from what I’ve seen, I can’t say that Aviva’s bonus decisions in respect of Mr G’s policy, including the application of smoothing, have been unfair.

My final decision

I don’t uphold the complaint and I’m not making any award.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr G to accept or reject my decision before 8 May 2025.

Lesley Stead
Ombudsman