DRN-5261233

The complaint

Mr P complains that Legal and General Assurance Society Limited ('L&G') delayed setting up his annuity. Mr P also says that because of L&G's delays, it's resulted in him receiving a lower income than he could've received were it not for their hold ups.

To put things right, Mr P would now like L&G to honour the initial quote he was provided with and pay him interest on the full period that they held on to his pension tax-free cash.

What happened

On 5 November 2023, L&G provided Mr P with an initial quotation to convert the monies held within his occupational money purchase scheme (MPS) into an income through a fixed term annuity. The quotation, which was guaranteed until 15 December 2023, noted that Mr P's fund value at the time as £243,072 and that would yield an annual income of £8,000 per annum, or £666 per month, payable in arrears with a 15-year term. After tax-free cash of £60,768, Mr P's pension fund would have a maturity value of £193,397 at the end of the term.

Two days later, on 7 November 2023, a further quotation for a fixed term annuity was produced. The quotation, which was guaranteed until 17 December 2023, noted that Mr P's fund value had increased to £243,745 and that would yield an annual income of £8,000 per annum, or £666 per month, payable in arrears with a 15-year term. After tax-free cash of £60,936, Mr P's pension fund would have a maturity value of £194,432.

After deciding to proceed with the quotation, L&G requested the funds from Mr P's money purchase scheme on 22 November 2023. Just over two months later, L&G received the funds on 29 January 2024 from Mr P's occupational scheme.

On 12 April 2024, L&G wrote to Mr P stating that his annuity had been set up with a start date of 29 January 2024. L&G explained that they'd received a pension fund of £252,997, of which, £63,249 would be paid as tax-free cash giving Mr P a maturity value of £181,299. Around four days later, Mr P received the tax-free cash from his pension.

After identifying that the annuity had been set up incorrectly, L&G cancelled the plan and set up a new policy issuing revised plan documents on 23 April 2024. Whilst the plan still provided the same income of £8,000 p.a., the new maturity value had altered to £187,887 at the end of the policy term.

Shortly afterwards, Mr P decided to formally complain to L&G. In summary, he said that he was unhappy about the length of time it had taken them to set the annuity up and more specifically, that he wanted L&G to honour the original quotation that they'd provided at outset. Mr P also said that because of the length of time L&G had held on to his pension fund for, he wanted them to pay him interest covering the period of 29 January 2024 to the point when he received the tax-free cash in April 2024.

After reviewing Mr P's complaint, L&G explained that they were upholding his complaint in part. They also said, in summary, that they had reviewed the chain of events leading up to the annuity being set up and determined that they had caused delays of 22 days. L&G said that they acknowledged there had been a slight delay in sending the transfer forms to the occupational scheme to release the funds, and another delay in issuing a final quotation between 12 and 24 February 2024. L&G also explained that they had reviewed the rate that Mr P received and determined that what he had received was more beneficial to him, but he would never have been entitled to the original higher amount. L&G explained that they had paid £400 to Mr P to say sorry for that delay.

L&G also said that they had calculated the interest on Mr P's tax-free cash to take account of the delays, and that amounted to £232 which they were paying to him along with £200 to say sorry for the any inconvenience the matter had caused.

Mr P was unhappy with L&G's response, so he referred his complaint to this service. In summary, he said he wanted recompensing for the full period of time that L&G had held on to his pension tax-free cash – Mr P said that he considered that meant 77 days' worth of interest rather than the 22 days that they'd originally offered. In addition, he said that he didn't think it was fair that L&G hadn't offered to honour their original quotation and were deliberately issuing short dated quotes that they knew they couldn't turn around in time.

The complaint was then considered by one of our Investigators. She concluded that from what she'd seen, L&G had treated Mr P fairly when they'd tried to put things right for him.

Mr P, however, disagreed with our Investigator's findings. In summary, he said that this service had made the wrong comparison on the maturity payment. He went on to say that that neither L&G nor this service had taken account of the large difference in funds used to purchase the annuity versus the estimated funds available to purchase the annuity used in the initial quote. In addition, Mr P said:

- The longer validity of the quote and faster processing time that he'd encountered with another provider hadn't been factored into the Investigator's thinking.

- L&G should pay interest based on him being deprived of his tax-free cash of 77 days rather than the 22 days outlined.

Our Investigator was not persuaded to change her view as she didn't believe Mr P had presented any new arguments she'd not already considered or responded to. Unhappy with that outcome, Mr P then asked the Investigator to pass the case to an Ombudsman for 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.

I have summarised this complaint in less detail than Mr P has done and I've done so using my own words. The purpose of my decision isn't to address every single point raised by all of the parties involved. If there's something I've not mentioned, it isn't because I've ignored it - I haven't. I'm satisfied that I don't need to comment on every individual argument to be able to reach what I think is the right outcome. No discourtesy is intended by this; our rules allow me to do this and it simply reflects the informal nature of our service as a free alternative to the courts. Instead, I will focus on what I find to be the key issue here, which is whether the approach L&G have taken to put things right for Mr P is fair and reasonable.

My role is to consider the evidence presented by Mr P and L&G in order to reach what I think is an independent, fair and reasonable decision based on the facts of the case. In deciding what's fair and reasonable, I must consider the relevant law, regulation and best industry practice. Where there's conflicting information about what happened and gaps in what we know, my role is to weigh up the evidence we do have, but it is for me to decide, based on the available information that I've been given, what's more likely than not to have happened. And, having done so, whilst I'm upholding Mr P's complaint in part – I'm not going to instruct L&G to do anything beyond what they've already proposed to do and I'll explain why below.

I think it's important to be clear that this complaint is about the actions of L&G rather than Mr P's financial adviser or the trustees of his occupational MPS, so I've only focused my decision on L&G rather than anyone else. I've been provided with a detailed timeline of events that I don't intend on repeating here because I'm satisfied that what happened and when is well known to both parties. It's important to remember though that when looking at delays and considering what ought to have happened and when, it's not an exact science and reasonable assumptions have to be made.

It seems to me that Mr P was advised that all of the quotations he received have an expiry date and if that quotation expires prior to L&G receiving the funds from his pension scheme, the annuity provided will be based on the prevailing annuity rates at the time. Quotations can only be guaranteed for a small window because a number of factors can impact the income that the annuity provider offers, such as interest rates and wider economic considerations so rates offered can and do change regularly. The illustration that Mr P received explained that "*if you purchase your plan outside the quote guarantee period, current rates will apply. As a result your actual payment may be less than the amount shown in your quote*", so I'm satisfied that L&G made Mr P aware of this risk.

Mr P's financial adviser provided him with a quotation to convert the funds held within his occupational MPS into an income through an L&G annuity on 7 November 2023 and at the same time, completed the application forms with him. Mr P's adviser sent the completed forms (quote ending 7111) to L&G on 16 November 2023. The quotation was guaranteed until 17 December 2023 and despite L&G requesting the pension funds from Mr P's occupational scheme on 22 November 2023, L&G didn't receive the money until 29 January 2024, well over a month after the annuity quotation had expired. That meant that L&G would need to requote the annuity and could mean the income that Mr P received may be lower or higher than the amount illustrated on 7 November 2023. Having thought about this element of the process, L&G appear to have sent the pension provider the paperwork within a reasonable timeframe so I can't hold them accountable for the delays in the occupational scheme sending the monies back to them or the fact that by the time the monies were received, the original illustration had expired.

It does seem, however, that L&G have conceded that when they received the monies from the MPS, they should have provided an updated illustration to Mr P's adviser setting out what the new income would be by no later than 12 February 2024, but it wasn't issued until 24 February 2024. I think the 12 February 2024 aspiration is reasonable because L&G were waiting for additional information from the MPS which they didn't receive until 8 February 2024. There seems therefore to have been an avoidable delay of 12 days at this point.

After issuing the updated illustration on 24 February 2024, L&G heard back from Mr P's financial adviser on 27 February 2024 requesting a revised quotation based on the commission being reduced. As the matter had to be referred to L&G's actuaries, an updated illustration wasn't issued until 14 March 2024, but that two-week window also took account of the time L&G needed to check to make sure that Mr P hadn't been disadvantaged by their delay sending the second quote out several weeks later and accommodating the financial adviser's request to remove the commission. I'm satisfied that the time taken within this window was entirely reasonable.

On 2 April 2024, Mr P's financial adviser confirmed that they were happy to proceed with the revised quote, but L&G didn't action that request until 12 April 2024. L&G have already conceded that they didn't act as promptly as they should have when they put the policy into payment at this point; a delay of 10 days. When the annuity was put into payment, it seems that L&G put the wrong quotation into force, initially setting a plan up that paid commission to Mr P's financial adviser, which they subsequently asked L&G not to do. The correct annuity was eventually set up on 24 April 2024 when L&G sent Mr P the backdated payments that he had missed. L&G have explained that because of those delays, they checked to identify whether Mr P had been impacted financially as a consequence of the different annuity rates. L&G concluded that Mr P had benefited from the delay by having the annuity commence on 24 April 2024 rather than the earlier dates, so it seems that he hasn't been financially disadvantaged by this specific stage of the process.

Mr P says that he received the tax-free cash payment from L&G on 16 April 2024, two weeks after accepting the final annuity illustration. Were it not for L&G's delays, I think it's more likely than not that he would've received the tax-free cash 22 days sooner. From what I've seen though, the amount of tax-free cash that he received would have remained the same, but he was deprived of the use of those monies for that three-week window. L&G have already agreed to pay Mr P 8% simple interest on the tax-free cash to recognise the period of time that he was without those monies, and I think that approach is fair and reasonable in the circumstances. I don't agree with Mr P that L&G should pay him interest from the point at which they received the money from his occupational MPS on 29 January 2024 because L&G weren't advised what they were to do with the funds until 2 April 2024, when Mr P's financial adviser gave them instructions on the quote which had been accepted.

Using financial services won't always be hassle free and sometimes mistakes occur. When they do, we'd typically ask firms to put the consumer back into the same position that they would have been in were it not for the mistake. From what I've seen, L&G have done this – they've checked to see what the impact of the delay in actioning the instructions that they received was and determined that Mr P has been better off as a result. And, they've backdated his annuity to the point at which they received the funds from his MPS; 29 January 2024. But, it wouldn't be fair or reasonable for me to instruct L&G to honour the original quotation that Mr P was provided with (on 7 November 2023) because that's a rate to which he would never have been entitled to because his occupational MPS didn't send L&G the cash in time to allow them to proceed with that quotation. Having thought about the £600 that L&G have offered Mr P to say sorry for the inconvenience around the delays that they caused, I think that amount is reasonable in the circumstances and is in line with what I would have instructed L&G to pay to Mr P had they not already offered to do so.

I'm mindful of the comments that Mr P has made to our Investigator about the longer validity of the quote and faster processing time that he'd encountered with another provider, where he said that hadn't been factored into our Investigator's thinking. However, as I've already explained, this complaint is about L&G, not what other firms offer or their quote windows. But, it is quite common for annuity providers to put validity windows on their illustrations and these will inevitably vary between firms. It's not within the remit of this service to dictate what those windows should be, that's a commercial decision for them and will be driven by a number of factors. So, I can't conclude that L&G have done something wrong purely based on the specific time limits that they have on their quotations.

Mr P has highlighted the maturity values of the two quotations he received and says that no consideration has been made of the large differences between those and the funds used to purchase the annuity. However, in determining the maturity value of any given lump sum, L&G will apply a number of factors in reaching a final value, and some of those considerations will be of a commercial nature. So, it's not within the remit of this service to scrutinise how L&G reached the maturity values between different quotations issued at different times. That's a business decision for them.

Putting things right

Mr P states that he received his tax-free cash on 16 April 2024.

If they've not already done so, L&G should pay Mr P 8% simple p.a. on the tax-free cash amount paid at that time, covering the period of 22 days that Mr P was without those monies for. I have seen L&G's correspondence refer to a payment of £232.36, but for completeness, L&G should re-check their calculations to ensure this figure is correct and provide a copy to Mr P if he wishes.

Income tax may be payable on the interest awarded.

If they've not already done so, L&G should also pay Mr P £600 for the trouble and upset caused.

My final decision

Legal and General Assurance Society Limited has already made an offer to pay Mr P £600 for the trouble caused and £232.36 to recognise the delay in paying his tax-free cash to him to settle the complaint and I think this offer is fair and reasonable in all of the circumstances.

So, my decision is that Legal and General Assurance Society Limited should pay Mr P £600 and the amount above (in 'putting things right') to cover the interest on the tax-free cash (once they've re-checked their calculation) if they've not already done so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 11 February 2025.

Simon Fox
Ombudsman