

The complaint

Mr S has complained that Legal & General (L&G) provided poor service in his annuity purchase process. He has complained that L&G provided unclear communication and caused a delay which resulted in him suffering a financial loss.

Mr S would like to be compensated for this loss.

Mr S is being assisted in bringing this complaint by an IFA firm. For reasons of simplicity, I shall refer to all communication as if it were between Mr S and L&G.

What happened

I have reviewed all the evidence provided by both parties. I have not reproduced all of this in this decision but concentrated on what I believe to be the most relevant parts.

Mr S held pension benefits with a pension provider (Provider A). In November 2023 he was advised by his IFA to purchase an annuity with a portion of his pension benefits to take advantage of historically high annuity rates.

The IFA contacted L&G to ask it to produce an annuity quote on an enhanced basis, which it did on 6 November 2023. The annuity rate quoted was 8.48% and Mr S decided to accept the quote, which had an expiry date of 16 December 2023. Mr S then gave authorisation of payment to Provider A and the funds were removed from his SIPP account on 20 December 2023.

The application form was signed by Mr S on 7 December 2023 and by the IFA on 10 December 2023. The form was subsequently received by L&G on 15 December 2023.

L&G uploaded the application to its system on 28 December 2023. After reviewing the application, it wrote to the IFA asking for details of Mr S's doctor and requested the funds to be transferred from Provider A. It also requested the annuity rate to 8.08%. The doctor's details were supplied on 17 January 2024 and an enquiry sent to Provider A requesting an update on when it could expect to receive the funds. Provider A subsequently sent the funds which were received by L&G on 6 February 2024.

L&G carried out final checks on the application and found that the annuity rate had fallen to 7.64% on 12 February 2024 before sending the final offer of acceptance (FOA) to the IFA on 20 February 2024. When the IFA checked the annuity rate available on 20 February they found that L&G was offering a higher rate than the 7.64% quoted for Mr S on 6 February 2024, when the funds had been received.

The IFA subsequently contacted L&G to explain as the open market rates had risen, Mr S would most likely refuse the policy during the 30 day 'cooling off' period. The IFA also suggested that it made little sense for L&G to return the funds to Provider A if Mr S rejected the policy only to immediately request the return of the funds in order to access the higher annuity rates currently on offer. The IFA proposed that L&G simply amend the application so that Mr S would benefit from the higher rates available at that point.

On 26 February L&G replied to the IFA to acknowledge his request and to say that it was looking into whether this would be possible. The IFA contacted L&G a further seven times over the next three weeks as they were aware that any changes needed to be made within the cooling off period.

Mr S subsequently informed the IFA on 15 April 2024 that he had begun receiving the lower level of annuity payment that was based upon the 7.64% annuity rate.

Mr S complained to L&G on 13 May 2024. He complained that L&G had caused him a financial loss by locking in his annuity at a lower rate than he thought he could receive. He said that had he known that there was no way for the rate he had been quoted to be amended he would have rejected the policy within the cooling off period and then reapplied to receive a higher rate. As L&G did not clarify that this was not possible, the cooling off period expired and he was left with a lower income than he would otherwise have been able to achieve.

Mr S was also unhappy that L&G put the annuity policy into force despite him not returning and accepting the FOA.

L&G investigated Mr S's complaint before responding to it on 18 July 2024. It upheld part of his complaint, accepting that it had caused a delay of five working days by not uploading the application to its system until 28 December 2023. It also accepted that Mr S had received poor service in terms of the communications it had sent to him during the application process.

In recognition of the delay it caused to the application, L&G paid Mr S £300 in respect of lost income, together with interest at 8% simple per annum, giving a total of £314. It also paid him £300 in respect of the distress and inconvenience its poor service had caused him.

L&G did not uphold the element of the complaint relating to Mr S receiving a lower annuity rate. It explained that as it had only received the original application one day before the original quote expired, even without the delay it caused it would not have been possible to complete the application on time.

L&G went on to say:

I also can't agree to honour the rate you've requested us to use from 23 February 2024. Once we receive the funds outside of guarantee, we must use the rate that is applicable on the date we received the funds. Unfortunately, the only way we could use a rate from a later date would be to send the funds back to the original pension provider and start the application process again. I understand some of my colleagues attempted to find a workaround for this, but the rules and regulations around this wouldn't have let us do anything other than what we are required to do.

Although Mr S had not returned the FOA, L&G had put the policy into force on 6 March 2024.

Unhappy with this response, Mr S brought his complaint to this service. He said that had L&G confirmed that it was not possible to amend the rate on the existing application, he would have cancelled the application during the cooling down period to get access to a higher annuity rate in the future.

Mr S also explained that the poor communication from L&G had caused him a financial loss by providing a lower level of income from his annuity than he could otherwise have received.

Our investigator reviewed all the evidence in this case and formed the view that L&G had not treated Mr S unfairly and need take no further action to resolve the complaint.

Mr S remained unhappy and so the complaint has been passed to me to make a final decision. He said that the main issue for him was that L&G had not communicated the situation clearly to him so he was unable to make an informed decision on how to proceed and that he was:

ultimately unable to cool off.

Before making my decision I asked L&G about the role the form of acceptance plays in the process. It explained:

If we don't receive a signed copy, we will aim to authorise the policy within a ten working day period to avoid delaying the payments to the customer any further.

If the FOA is signed and returned, we will authorise the annuity as soon as possible while working within our processing timescales.

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.

Having done so, I have reached the same conclusion as our Investigator and do not uphold Mr S's complaint.

I will explain now how I have reached my conclusions.

Firstly, I think it's important to reflect upon the role of this Service. Our role is to impartially review the circumstances of a complaint and make a decision on whether a business has made errors or treated a customer unfairly. Where it has, we expect a business to fairly compensate a customer for any financial loss and distress and inconvenience they have suffered as a result.

It's clear to me that Mr S has an annuity income that he believes is lower than it should be. In the circumstances of this case I need to decide whether, on balance, L&G bears the responsibility for this.

To do this, I've firstly considered the mechanics of the annuity quotation and application process. The initial part of the process was when Mr S requested an annuity quote from L&G. I can see that the quote was produced and sent to Mr S on 6 November 2023. In the document sent to Mr S, L&G said that the quotation was only valid for a limited period, in this case 16 December 2023. It is accepted industry practice that a quotation such as this should have an expiry date, so I can't see that L&G has done anything wrong in stating the expiry date of the quotation.

As Mr S did not return the acceptance form for this quote until 15 December 2023, the day before the quote expired L&G applied the current annuity rate to Mr S's application. I can see that in the quotation document sent to Mr S, L&G said:

The annuity rate used in your quote is guaranteed for a limited period. For this rate to apply, we must receive all funds before the date shown in the 'important information' section of your quote. If the funds are received after this date then the rate available at that time will apply.

I have noted that Mr S has stated that the funds left his SIPP account with Provider A on 20 December 2023. From the evidence provided I can also see that L&G did not request the funds from Provider A until 28 December 2023, receiving them on 6 February 2024. I have not seen any evidence of where Mr S's funds were held once they left his SIPP on 20 December 2023 until they were received by L&G, but I cannot hold L&G responsible for this delay, which I consider was outside its control.

I've also considered that the quotation expired before the funds were transferred from Mr S's SIPP. Given this, I can't see that L&G has done anything wrong in processing Mr S's application using the new – and unfortunately for Mr S – lower annuity rate.

Where L&G did make a mistake was that it caused a delay of five working days in uploading the application to its system. This led to a similar delay in requesting the funds from Provider A. I've considered that L&G has paid Mr £300 plus interest at 8% per annum simple for the delay in his receiving his funds. This is the approach that this service would expect to see and I would consider this to be an appropriate level of compensation for the delay.

Turning now to look at the key issue that Mr S has complained about; the application of the lower than originally quoted annuity rate to his policy. As I have mentioned above, I have found that L&G acted correctly in applying an updated annuity rate once the original quotation had expired. I have also noted that on 20 February L&G sent the FOA which used the annuity rate that was in force on 6 February 2024. The FOA included the statement:

Please contact us immediately if you are not happy with anything on the illustration so we can rectify it without causing any delay to the client.

The IFA checked the annuity rate on 20 February and found it was higher than the level in force on 6 February 2024, which prompted the request to L&G to apply the higher rate currently available. I can also see that the IFA contacted L&G a further seven times between 14 March and 2 April, without receiving a definitive answer about whether the request to apply a higher annuity rate could be accommodated. Given this, I consider that the IFA was aware of the need for Mr S to cancel within the 30 day period .

I can also see that L&G issued the policy documents to Mr S's IFA on 6 March 2024. L&G's information on cancellation rights on a pension policy are in line with the Financial Conduct Authority's rule COBS 15.2 which makes clear that a customer has 30 calendar days from the start of the policy to cancel a pension annuity contract. In this situation, Mr S would have had until 5 April 2024 to cancel the policy.

I can fully appreciate that Mr S wanted L&G to explore whether his original application could be amended to allow him to take advantage of the increased annuity rates. Having reviewed L&G's terms and conditions I can't see anything that would suggest that this would be possible.

The key features document also confirms that cancellation is only possible:

Up to 30 days from the date you receive our confirmation that your annuity has started.

On balance, I consider that given the lack of a definitive undertaking from L&G that it was willing to alter its normal business process, Mr S should have considered that the normal process should apply.

Mr S has also said that if L&G had explained that the application could only be cancelled during the 30 day period, he would have done so and then reapplied to benefit from a higher rate. When considering this point I have taken into account that this would have meant that

L&G would have to send the funds back to Provider A before requesting their return if Mr S wished to take up a new annuity quotation. I have also considered that a new application may also have failed to be completed before any such new quotation expired as the majority of the delay to the first application appears to have been caused by reasons outside L&G's control. I've not seen any evidence to explain why the fund transfer process took so long, so I am unable to say with any confidence that any subsequent transfer applications would have been any quicker. Consequently, I don't find it fair and reasonable to conclude that Mr S would have necessarily achieved a better outcome if he did cancel the annuity purchase and reapply at a later time.

L&G has apologised for the poor service it provided to Mr S in failing to give him a definitive answer to his query about amending the original application. It has also paid him £300 in respect of the distress and inconvenience that this caused him. I consider this level of payment to be appropriate in the circumstances of this complaint and in line with the guidelines this service publishes to ensure consistency across compensation awards.

I've also considered that Mr S was not sent the FOA by his IFA and consequently this was not signed and returned to L&G. L&G has subsequently provided evidence that a signed FOA is not required to complete the process – it is only used to allow the annuity to commence at an earlier date if the customer is happy with the quotation they have received. Consequently, I can't see that L&G did anything wrong in putting the annuity into force without receiving the FOA.

In summary, while I can appreciate Mr S's unhappiness with this situation, I don't find that L&G is responsible for his annuity income being lower than he anticipated.

My final decision

For the reasons given above, I do not uphold Mr S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 28 July 2025.

Bill Catchpole
Ombudsman