DRN-5306179

The complaint

Mr J has complained that the online form he completed to make a withdrawal from his Scottish Widows Limited pension plan was confusing and difficult to navigate. Mr J claims that as a result he filled out the wrong withdrawal option and has suffered a financial loss.

What happened

Mr J holds a personal pension plan with Scottish Widows Limited (Scottish Widows). Mr J wanted to withdraw the tax-free cash sum from his Scottish Widows personal pension so on 1 November 2024 he started the online process to do this by completing an online form. However, the instructions that Mr J completed in this form said that he wanted to make a partial withdrawal of £20,000 from his personal pension. This meant that he would be withdrawing a mixture of tax-free cash and taxable income and not his tax-free cash entitlement only.

On 4 November 2024 Scottish Widows sent Mr J a further form to complete, together with a letter dated 1 November 2024 titled "*Cashing in some of your pension*", and a "*Key Features Illustration*", also dated 1 November 2024. Mr J completed this further form and confirmed his instruction that he wanted to withdraw a single lump sum of £20,000 from his Scottish Widows pension.

On 7 November 2024 Mr J contacted Scottish Widows to say he'd discovered that he'd paid Income Tax on his £20,000 withdrawal and that he'd wanted to withdraw his tax-free cash entitlement only. Mr J has said that he'd chosen the withdrawal figure of £20,000 as he knew his pension plan was worth approximately £80,000 so thought his 25% tax-free cash entitlement was £20,000. Mr J asked Scottish Widows to reverse the £20,000 withdrawal and complained about the withdrawal process, which he said he'd found confusing. Mr J also told Scottish Widows that he had practical needs which had impacted him correctly completing the withdrawal instructions.

Scottish Widows responded to Mr J's complaint on 8 November 2024 to say that it was unable to reverse the Mr J's pension withdrawal because it hadn't made any error and had processed the pension withdrawal in line with Mr J's instructions.

Mr J wasn't happy with Scottish Widows response to his complaint so he referred this to the Financial Ombudsman Service. Mr J repeated that he'd found Scottish Widows' pension withdrawal forms confusing and said that it had never asked him about any practical needs he had in correctly completing the forms.

One of our Investigators reviewed Mr J's complaint. Their view was that Scottish Widows hadn't done anything wrong so didn't uphold Mr J's complaint.

Mr J disagreed with our Investigator's view. He said that he hadn't received an illustration from Scottish Widows before his pension withdrawal had been completed and that Scottish Widows hadn't told him how much Income Tax he would have to pay on his £20,000 withdrawal.

In response to these points raised by Mr J our Investigator issued a further view on his complaint to say that Scottish Widows had emailed Mr J a "*Key Features Illustration*" on 4 November 2024, which was sent before Mr J completed and submitted his withdrawal instruction to Scottish Widows. Our Investigator also still thought that Scottish Widows had given Mr J sufficient warnings in the form that he'd completed on 1 November 2024 to say that 25% of his withdrawal would be tax-free with the balance subject to Income Tax. Our Investigator still didn't uphold Mr J's complaint.

Mr J disagreed with our Investigator's view, so he asked for his complaint to be referred to an Ombudsman.

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.

Mr J has said that he found the forms sent to him by Scottish Widows confusing and as a result wasn't aware that the withdrawal he instructed would be taxable. I've therefore carefully considered the documents and forms sent to Mr J by Scottish Widows.

The form that Mr J completed on 1 November 2024 gave Mr J the option of selecting "*Flexi-Access Drawdown*" or "*Partial Encashment*". Mr J selected *"Partial Encashment*". Next to the button that Mr J clicked to select this option the online form said "*This option is a taxable lump sum. To just access your tax-free cash please choose Flexi-Access Drawdown above. You can take part of the value of your plan as a lump sum, and leave the rest invested. 25% of how much you take will be tax-free, but the rest is taxable*".

I think it's reasonable to conclude that Scottish Widows was saying in the above information that the *"Partial Encashment*" option was for payment of a taxable lump sum. This wasn't what Mr J wanted as he just wanted to withdraw his tax-free cash. But Scottish Widows had said that the *"Partial Encashment*" option wasn't the correct one for just accessing tax-free cash. Scottish Widows said on the form to choose "*Flexi-Access Drawdown*" to access tax-free cash only.

Mr J has said that he found the form he completed on 1 November 2024 confusing. But I don't think it would be fair or reasonable to conclude that Scottish Widows was at fault. I say this because I think that Scottish Widows was telling Mr J in the text above that to just withdraw tax-free cash he needed to select the "*Flexi-Access Drawdown"* option. Unfortunately, Mr J still clicked the *"Partial Encashment*" option, despite this information provided by Scottish Widows.

I've also considered what further information was set out in the form Mr J completed on 1 November 2024. Under the heading "*Partial Encashment*", which was the option that Mr J had clicked, the form went on to say:

"*You can take a regular income, or lump sums from the amount invested as you need them. These will be taxable.*

- *Use our* ***tax calculator*** *to see that the amount of tax that might be taken.*
- *You may be able to claim some of this tax back, but you may have to pay more. Cashing in some of your pension can push you into a higher tax bracket.*
- *Once you have taken an amount from your pension this way, it will limit the amount of future payments that can be made into any money purchase (also known as defined contribution) pensions without a tax charge*".

Mr J has complained that he's had to pay 40% Income Tax on 75% of his partial withdrawal, but I think Scottish Widows had said above that cashing in some of his pension could push Mr J into a higher tax band. Mr J has also complained that he's now restricted on how much he can save into his personal pension each year without paying tax, which has impacted on his retirement plans. But again, I think Scottish Widows had explained in the above text that the way Mr J was taking money out of his pension would limit how much he could pay into pensions without paying a tax charge in the future.

Mr J has also complained that Scottish Widows didn't tell him how much tax he would pay on his withdrawal until the withdrawal had been completed and was by then irreversible. However, I think that if Mr J had wanted to know how much tax he would pay on his withdrawal, then he could have used Scottish Widows "*tax calculator*" as detailed above. But I've not seen any evidence to show that Mr J did this.

I also think that as Mr J has said that he wanted to withdraw just his tax-free cash sum, then this meant he didn't want to pay any tax at all on his withdrawal. My conclusion is that on being told that his withdrawal would be taxable, then this should have been sufficient to have highlighted to Mr J that he'd selected the wrong option, without also having to be told the exact amount of tax that would be deducted.

Scottish Widows also sent Mr J a further form to complete together with a "*Key Features Illustration"* and a covering letter. Mr J completed and returned this further form to Scottish Widows on 4 November 2024. I've therefore also considered this additional documentation that Scottish Widows sent to Mr J.

The form Mr J completed on 4 November 2024 told him that accessing a pension was an important decision and Scottish Widows recommended Mr J considered taking pension guidance or advice before proceeding. Mr J then completed his form to say that he had received guidance from "*Pension Wise*" and had received "*Regulated Financial Advice*".

Mr J then confirmed that he wanted to take £20,000 "*gross*" from his pension plan and that he'd read the "*Pension Summary Pack*" sent to him, as well as the additional information on the effects of taking money from his pension plan. Scottish Widows also told Mr J how he could obtain a copy of the "*Pension Summary Pack*" if he hadn't received one.

The form then also told Mr J:

"*MONEY PURCHASE ANNUAL ALLOWANCE*
Have you thought about restrictions on future pension contributions? If you're paying contributions to other money purchase pension plans, these and any contributions paid on your behalf (e.g. contributions paid by your employer or a third party) can continue, but payments totalling over £10,000 on any given tax year will be subject to tax based on your marginal rate of income tax. This is because you are deemed to have flexibly accessed your pension plan".

Later in the form Mr J ticked a box to confirm he was aware that by taking his lump sum withdrawal he would be subject to a tax charge if future pension contributions, including employer contributions, exceeded £10,000 a year.

The "*Key Features Illustration*" sent to Mr J contained a section headed: "*KEY FEATURES ILLUSTRATON FOR YOUR SCOTTSH WIDOWS PARTAL PENSON ENCASHMENT*". In the additional notes part of this section Scottish Widows said: "*If you take a partial pension encashment, you'll be subject to the Money Purchase Annual Allowance (MPAA). This will limit how much you can contribute to all money purchase pensions each year and get tax relief. Weve not taken account of the MPAA in this illustration.*
If you take a partial pension encashment, you'll receive up to 25% of it tax-free with the remaining 75% subject to income tax".

I think that Scottish Widows was again telling Mr J that he would be restricted on how much he could pay into a pension plan without paying a tax charge once he'd completed his withdrawal and that he'd pay tax on 75% of the £20,000 he was withdrawing.

Having considered the information set out in the two forms Mr J completed and submitted to Scottish Widows, and the Key Features Illustration, my conclusion is that Scottish Widows told Mr J that Income Tax would be deducted from part of his pension withdrawal and that by completing the withdrawal he would become subject to the Money Purchase Annual Allowance.

However, Mr J has also said that that Scottish Widows didn't ask him about any practical needs he had which would've impacted on him completing the forms correctly. Mr J has told this Service of the practical needs he has. I've also listened carefully to the telephone call that Mr J made to Scottish Widows on 7 November 2024 when he told the Scottish Widows representative about his practical needs. During this call Mr J gave his consent for Scottish Widows to record information on his practical needs on its systems. From listening to this telephone call my conclusion is that this is the first time that Mr J told Scottish Widows about his practical needs.

Mr J contacted Scottish Widows on 7 November 2024 to say that he'd discovered that tax had been deducted from his withdrawal payment and had realised that he'd completed the wrong option when he'd submitted his online form. Therefore, I think that Mr J first told Scottish Widows about his practical needs after he'd completed the online forms to instruct his withdrawal and after Scottish Widows had processed his withdrawal. However, Mr J has further said that Scottish Widows should have contacted him to ask if he had any practical needs before it processed his withdrawal instruction.

On section one of the Scottish Widows form that Mr J completed on 1 November 2024, Scottish Widows said: "*Need extra help? Lots of people find pensions a bit confusing and don't understand their choices. If this is you, don't worry. We can provide you with information to help you make informed choices about your pension. Call us on the number shown above*".

I think it would have been reasonable for Mr J to have contacted Scottish Widows on the telephone number given if he wanted help with completing the form correctly. I also think it's reasonable to assume that if Mr J had contacted Scottish Widows, as he'd been told he could, then Scottish Widows could then have helped him to complete the form correctly to just withdraw his tax-free cash entitlement.

But I’ve not seen any evidence to show that Mr J contacted Scottish Widows before he submitted his withdrawal instructions to say that he needed help. As I’ve said above, I think that Mr J first told Scottish Widows about his practical needs after he completed his form, and his instruction had been processed. Also, Mr J had told Scottish Widows on his online form that he had received guidance from “*Pension Wise*” and had received “*Regulated Financial Advice*”. I therefore don’t think it would be reasonable to say that Scottish Widows was at fault for not being aware that Mr J had practical needs when he completed and submitted his withdrawal instructions.

I therefore don’t think that Scottish Widows did anything wrong when Mr J completed and submitted his withdrawal instructions, and because of this I’m unable to uphold Mr J’s complaint.

My final decision

My final decision is that I don’t uphold Mr J’s complaint against Scottish Widows Limited.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr J to accept or reject my decision before 29 July 2025.

Ian Barton
Ombudsman