

The complaint

Mr J has complained that The Royal London Mutual Insurance Society Limited failed to send him a retirement pack for his pension policy in good time, denying him the chance to explore his benefit options. He also says that he received poor customer service and that there were delays in setting up his pension payments.

What happened

I have previously issued a provisional decision regarding this complaint. The following represents excerpts from my provisional decision, outlining the background to this complaint and my provisional findings, and forms part of this final decision:

“Mr J held a policy with Royal London called a section 32 ‘buy out bond’. The benefits accrued were the result of a transfer from an occupational pension scheme (OPS) in 1999 on the advice of an independent financial adviser (IFA). Mr J has previously referred a separate case to this service about the IFA’s advice to transfer, and it was determined that the complaint had been brought too late. The subject matter of that complaint does not form part of the case being considered under this complaint about Royal London, but I mention it because it provides some context about the circumstances of this complaint.

The section 32 policy included an element of guaranteed benefits called a guaranteed minimum pension (GMP). The GMP benefits were the result of the original OPS being contracted out of the State Earnings-Related Pension Scheme (SERPS). Royal London was legally required to pay the GMP to Mr J at age 65.

In April 2024 Mr J was approaching his 65th birthday in June but had not received any information from Royal London confirming what benefits he might receive. I understand that Mr J rang Royal London on 11 April to request a benefit illustration, and on 16 April he told it that he was interested in using flexi-access drawdown to take his benefits.

Mr J rang several times chasing the benefit information, and on 30 April he spoke to a Royal London member of staff who was experienced with section 32 policies. The staff member explained that the GMP under the policy represented what are called ‘safeguarded benefits’. He said that because these benefits were worth over £30,000, it was legally required that Mr J had to take regulated advice from an IFA if he wanted to move the benefits to a different type of plan, such as drawdown. The staff member said this applied whether Mr J moved his benefits to a Royal London drawdown, or to a drawdown plan with another provider.

The staff member confirmed the estimated benefits available to Mr J on his 65th birthday under the section 32 plan. Although the fund value was just over £180,000, he explained that the maximum tax-free cash available was limited to just over £10,000 because of the cost of providing the GMP. Mr J said that having spoken to Pension Wise (a free and impartial government backed service offering guidance, but not advice), he wanted to take 25% as a tax-free sum and invest the remainder of his fund. The staff member stated that would still require advice to be provided by an IFA because this would involve converting safeguarded benefits into flexible benefits. Mr J said he was unhappy about this.

The staff member emailed Mr J confirming the section 32 benefit amounts on 30 April. In response Mr J reiterated his unhappiness about having to obtain advice from an IFA, and he confirmed the amounts he was being quoted for such advice. Royal London set up a complaint from Mr J which related both to the requirement to use an IFA if considering giving up the safeguarded GMP benefits, and also the length of time it had taken for policy values to be sent.

On 9 May a complaint handler spoke to Mr J. During this call, Mr J expressed his frustration about having to use an IFA if he wanted to move his benefits to drawdown, both in terms of the costs and the time it would take to arrange this. The complaint handler asked if Mr J was interested in what she described as the 'annuity option'. She explained this as taking a tax-free sum of 25% of the fund plus an annuity, and said it would not require Mr J to take advice from an IFA. Mr J said that this was the option he wanted to take.

Also on 9 May the complaint handler issued a response to Mr J's complaint. She accepted that Mr J had waited a long time to receive a value for his policy, had not been able to speak to someone who could explain how his policy worked, and that there had been some miscommunication. Royal London agreed to send Mr J a hamper as an apology.

On 14 May Royal London sent forms for Mr J to sign to start taking his policy benefits on his 65th birthday. Mr J responded to the complaint handler saying that the forms did not allow him to take 25% of the fund as tax-free cash as they'd discussed. He asked for clarification about this. Having chased for a response, Mr J spoke to the complaint handler on 22 May. She said that the cost of providing the GMP reduced the amount of the fund available as a tax-free sum, limiting it to £10,402.60. Mr J was disappointed with this outcome but said he would send the forms back authorising payment of the section 32 benefits from age 65. These were received by Royal London on 23 May.

Mr J expected his pension payments to be paid from his 65th birthday, but this did not occur. On 6 June he contacted the complaint handler asking for an update, and he listed his reasons for dissatisfaction with Royal London. In summary these were:-

- Mr J had not been contacted about his options for his policy a good time before his 65th birthday and so he had to contact Royal London to obtain this.*
- He had to call multiple times to obtain information and was regularly told that the person who dealt with this type of policy was not available. Mr J said promised callbacks also did not occur.*
- Mr J said he was given conflicting information about what his options were.*
- Contacting IFAs to receive advice, as he was told he had to do if he wanted to take flexible benefits from the pension fund, caused him multiple problems: some IFAs said they could not assist him; one wanted to charge 4% of the fund value to give advice; one said it would take three to six months to provide advice, and it might not carry out the actions Mr J wanted, but it would charge him.*
- Mr J said that if he'd been given documents by Royal London six months before his 65th birthday he might have been able to obtain financial advice and follow the option he wanted to with his benefits.*
- He had still not received his pension benefits.*
- Mr J said Royal London's customer service had caused him significant stress and financial loss because pension payments had not yet been made.*

Royal London replied to this complaint on 21 June. It apologised for its level of customer service, stating there was only one member of its retirement team who dealt with GMP

benefits. Royal London said that government legislation requires a product provider to ensure someone seeking to give up safeguarded benefits has received regulated advice. It accepted however that if it had sent a retirement pack to Mr J before he had to chase for this, he would have had more time to contact an IFA and consider his options with the policy.

Royal London said that for the type of plan Mr J held, benefits are calculated manually, and this means a retirement pack is only sent once requested. In terms of paying Mr J his tax-free cash it said this had been sent within its normal timescale of 7-10 working days. But it did offer £200 compensation for frustration it had caused.

Unhappy with Royal London's response, Mr J brought a complaint to this service. Reiterating the complaint points summarised above, Mr J also explained that he had some outstanding debts that he'd wanted to clear by taking 25% of the pension benefits as a tax-free lump sum, and he'd then planned to invest some of that larger lump sum to cover future expenditure. He said Royal London had denied him the opportunity to explore his options to transfer to flexi-access drawdown, leaving him with a much smaller tax-free lump sum. Mr J asked to be compensated for receiving that lower lump sum.

After referring his complaint to this service, Mr J told us that he'd originally been informed by Royal London that because his June monthly annuity payment had been missed, he'd receive two monthly payments in July. However this was paid to him ten days late, and to compensate him for this, Royal London offered Mr J a further £150 compensation.

Mr J also provided some further background information, explaining that when he enquired about taking his benefits at age 60 Royal London told him that the policy did not have sufficient funds to cover GMP payments. Mr J confirmed that he'd later pursued a complaint for mis-selling the policy against the IFA who'd set it up, as detailed above. He explained that these circumstances had fed into his frustration with not being able to obtain a higher tax-free sum, which he said was because Royal London failed to send him details of his policy benefits at age 65 in sufficient time for him to explore his options.

Our investigator did not uphold this complaint. He said that Royal London was correct when saying that if a policyholder wanted to explore transferring GMP benefits, there is a statutory requirement to obtain advice. The investigator agreed that Royal London should have contacted Mr J at an earlier date before his 65th birthday, but he also noted that Mr J had contacted Royal London around his 60th birthday to discuss the policy. His view therefore was that Mr J was aware of the policy, and that it had some complexity in terms of GMP benefits. The investigator commented that Mr J could have contacted Royal London earlier to obtain options available to him at age 65.

The investigator said outstanding annuity payments had now been backdated. His view was that he could not say whether Mr J was better or worse off by not transferring benefits to a drawdown because no analysis had been carried out about this by an IFA. His conclusion was that the compensation amount of £200 offered was fair (the investigator did not mention the further £150 which Mr J had said had also been offered to him).

Mr J disagreed with the investigator's findings. He said that when he'd contacted Royal London before his 60th birthday and been told the policy could not at that time cover the GMP, he wasn't given the option to take financial advice and consider converting the benefits to a different policy with Royal London or elsewhere. He also said that he'd not been informed about this option since then, or that there was a possibility to take 25% of the fund as a tax-free sum. Mr J said that he was told by Pension Wise that it would be an eight week wait before that service would be able to call him back to discuss his options.

Mr J explained again the difficulties he'd had speaking to someone at Royal London who understood his policy, and other delays he experienced from the business. He commented that during one conversation with the complaint handler, he was told it was possible for him to take 25% tax-free cash. Mr J highlighted that Royal London had admitted it was at fault for not sending a retirement pack to him earlier, meaning he had less time to explore his options. He also questioned how he could have made plans for his retirement when Royal London hadn't sent him information about his plan in good time before his 65th birthday.

Mr J said that by not providing him with his options under the plan at an earlier date, Royal London had taken away his opportunity to consider using his pension benefits to pay off outstanding loans that he had. He stated this impacted whether he needed to keep working to meet loan repayments.

If he'd converted his benefits to a plan where he was able to take 25% as a tax-free sum, this would have provided a lump sum of about £45,000, and Mr J said this would only have reduced his pension payments by about £100 a month. Mr J commented that this was the option he wanted to take. When he contacted IFAs he received responses that either they did not deal with this type of policy, or they wanted more time than was available to advise on the best option for him, or they said they might not recommend the option Mr J wanted. Mr J said he was surprised that IFAs quoted 3-6% of the pension pot value for the cost of advice. He described himself as being backed into a corner due to the limited time he had before his 65th birthday to arrange financial advice.

In further submissions to the investigator, Mr J commented again that Royal London had failed to provide his retirement options to him in good time. Mr J also highlighted that in one of the calls he had with the complaint handler, she had told him that he could transfer his policy within Royal London to obtain his chosen option of 25% tax-free cash and a reduced pension, without seeking advice from an IFA. However, he was later told that this was not possible. Mr J said that Royal London's actions meant that he had little over a month to seek advice before his pension automatically matured with no tax-free lump sum, and he questioned the fairness of this. He stated the compensation offered by Royal London did not adequately reflect the difference between the tax-free lump sum that he took of just over £10,000, and the approximate £45,000 he would have been able to take if his benefits had been transferred to a policy offering 25% as a lump sum.

The case was referred for review by an ombudsman.

What I've provisionally 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.

As explained, Mr J's policy contained safeguarded benefits in the form of GMP. The policy was bound to provide that amount on Mr J's 65th birthday, in the form of an annuity, regardless of the fund performance of the policy. Royal London was also required to increase part of the annuity by 3% a year once in payment.

With safeguarded benefits, certain valuable guarantees can be lost if transferred or converted to access flexible benefits, but it might not be obvious that that is the case. The government brought in legislation making it a legal requirement for the ceding provider to ensure a consumer had taken authorised financial advice if considering giving up their guarantees where their value was over a certain amount. The aim was to make consumers aware of the value of the policy guarantees when making a decision about them.

Based on the value of Mr J's policy, it is clear that if he wanted to transfer to flexi-access drawdown he needed to obtain regulated advice from an IFA, and show Royal London that he'd done so. And extra care needed to be taken to ensure Mr J was aware of the value of the guaranteed benefits. This requirement applied whether Mr J was considering moving to a drawdown plan with Royal London or another provider. I appreciate that Mr J was unhappy about the need to receive advice from an IFA in order to achieve the financial objectives which he felt he wanted to. But for the reasons outlined above, I consider Royal London acted appropriately when requiring this. And whilst I acknowledge Mr J spoke to Pension Wise to discuss his options, I should highlight that that service does not constitute a regulated adviser.

Central to Mr J's complaint is that if Royal London had sent him his benefit details in good time, such as six months before his 65th birthday, he would have had the opportunity to obtain IFA advice, and this might have recommended the course of action he favoured – taking 25% of the fund value as a tax-free sum, and either leaving the remaining fund invested, or using it to provide a smaller annuity. In offering compensation to Mr J, Royal London appears to have accepted that it could have sent a retirement pack at an earlier date.

When Royal London emailed policy benefits to Mr J on 30 April, this was around five weeks before his 65th birthday. This was the result of Mr J requesting details of his plan on 11 April. Taking into account regulatory requirements on providers to contact consumers as they approach a policy's retirement date, in my view Royal London should have contacted Mr J at least four months before his birthday to encourage him to start considering his retirement options. In the circumstances I need to consider whether Royal London's failure to do so has caused detriment to Mr J.

I have listened to recordings of phone calls that Mr J had with Royal London at this time. When told that he would need to seek advice from an IFA if he wanted to take 25% of the fund as tax-free cash, due to the impact on his safeguarded benefits, it is clear that he was frustrated with this requirement. In discussions with the staff member on 30 April, Mr J commented that he would be paying an IFA to advise him on something he knew he already wanted to do. He also highlighted that when the policy was originally set up, this was on the advice of an IFA, and he was now aggrieved about that original advice. As Mr J held that view, I think it explains his understandable reluctance to use an IFA when taking his policy benefits.

On 9 May Mr J rang Royal London to say that the quotes he'd been given by IFAs indicated the cost of advice would be significant, and that it could take a long time to be given the advice. He confirmed that one IFA had quoted a fee of 4% of the fund value, and he found this unacceptably high. Mr J also said that a number of IFAs had told him they were not qualified to advise on his policy, and he was concerned that those who were qualified might not recommend the option he wanted.

As I explained above, I consider Royal London should have contacted Mr J at an earlier date before his 65th birthday, allowing him greater time to explore what options he had with his pension benefits. Mr J has said that if he'd had this extra time, he would have been able to obtain IFA advice that resulted in him taking 25% of the fund as a tax-free sum. But on the weight of evidence provided, my view on balance is that it is unlikely this would have been the outcome.

I say that for several reasons. Firstly, Mr J was unhappy with the costs of advice that he was being quoted by IFAs. As he explained in his phone calls to Royal London, he was willing to pay a certain amount for advice, but the figures he was being quoted were unacceptable to him. In addition, had he paid for advice from an IFA, it is not clear what recommendation he

would have received. It may not have been in line with what Mr J had initially hoped to do. And importantly, if that was the case, once Mr J had received that advice, he might have changed his view about what course of action he felt was in his best interests, considering that the IFA would likely have been looking at Mr J's general financial circumstances, and taking into account the value of the safeguarded benefits.

Finally, even if Mr J had had longer to look into his pension options, it is clear he encountered some difficulties finding an IFA to advise him, suggesting it may not have been straightforward to obtain regulated advice for this matter. Overall, based on the evidence available I'm not persuaded that it's been sufficiently demonstrated that had Royal London alerted Mr J to his pension benefits at an earlier date, and confirmed the policy's value, this would have resulted in him taking a 25% tax-free sum and a reduced annuity in the way that he has suggested. Consequently I do not consider it would be reasonable for me to require Royal London to compensate Mr J based on the difference in the tax-free sum that he actually received compared to the amount he would have received if he'd taken 25% of the fund in this way.

Further to this, Mr J has commented about the information he was given by Royal London in April 2019 when he contacted it as he approached age 60. As he has said, he was told at this time that there were insufficient funds in the policy to cover the GMP, and consequently he was told he could not take benefits from the policy. Mr J has said that he wasn't given the option to take advice and consider converting the benefits to a different policy in 2019. However in its April 2019 letter, Royal London did say that his policy could be transferred to another type of plan to allow a range of pension options, but that GMP benefits would be lost. The letter continued that if Mr J wished to consider this, he would need to get regulated advice from an IFA that related to the loss of GMP benefits. Royal London had therefore brought to Mr J's attention in 2019 the need to seek advice if he wanted to transfer his benefits to a different type of plan.

Mr J has commented that in a call with the complaint handler, she told him that he could transfer his policy within Royal London and take 25% of the fund tax-free without seeking IFA advice. I would agree with him that he was told this in the call on 9 May. At first the complaint handler had said that if Mr J wanted to explore moving to a drawdown plan, he would need to use an IFA. She said the only other option was to take an annuity.

In explaining this 'annuity option', the complaint handler said that Mr J would receive an income for the rest of his life, and would also receive 25% of the fund tax-free. Mr J said he wanted to take this option. But in a call on 22 May, the complaint handler explained that in fact, when taking the annuity available under the section 32 policy, the tax-free cash would be limited to a sum of just over £10,000, or around 5% of the fund value. Royal London clearly gave Mr J inaccurate information in the call on 9 May, saying he could take the section 32 annuity but with a 25% tax-free sum. I have considered this error below when assessing compensation that should be paid for distress and inconvenience caused to Mr J.

Mr J has said that he was left with no option but to take his pension benefits from his 65th birthday. However, the retirement options sent to him by Royal London had a section entitled 'taking your benefits at a later date', and my understanding is therefore that benefits did not have to start under the plan at age 65. This form also stated that to be able to take any tax-free lump sum, benefits had to begin before age 75. On balance it seems to me that Mr J could therefore have taken a lump sum if he'd deferred his benefits beyond age 65, although that would have depended on how much of the fund was required to cover the GMP benefits, which I understand would have increased after age 65. I've also not seen evidence that Royal London said Mr J was required to take his benefits by age 65 – albeit at age 65, Mr J was in any case seeking to realise some of the value of the policy.

In terms of the level of service Royal London provided Mr J, it has already accepted that it was at fault in this regard. As I've already explained, in my view Royal London should have contacted Mr J at an earlier date before his 65th birthday. In addition, in describing the 'annuity option' under the policy, the complaint handler did on one occasion incorrectly tell Mr J that he would be able to take 25% as a tax-free sum without needing to take advice from an IFA.

Mr J has detailed the times he chased Royal London for information about his pension benefits and was told that the one person who could assist him was unavailable, and I understand there were occasions when Mr J did not receive promised callbacks. Although the tax-free sum appears to have been paid within an appropriate timescale, the first two monthly annuity payments were paid late.

Mr J has detailed the distress and inconvenience that failings in Royal London's customer service have caused him. To reflect this, Royal London sent Mr J a hamper, and later offered him £200 compensation. Since bringing a complaint to this service Mr J says that he has been offered a further £150 compensation, although we do not appear to have received confirmation from Royal London that it offered this sum. In my view, taking into account the difficulties Mr J has been caused by Royal London, and in light of awards made by this service on cases with similar circumstances, I consider a total compensation amount of £350 is fair in this case. I would ask Royal London to confirm in response to this provisional decision whether it has already paid this amount to Mr J.

I appreciate Mr J is likely to be disappointed with my provisional findings, and remains unhappy that he did not receive a sufficient tax-free sum to clear outstanding debts. However for the reasons detailed above, my current view is that compensation of £350 fairly reflects Royal London's failings when dealing with Mr J's policy."

Responses to my provisional decision

Mr J expressed his thanks for my explanation of why I had reached the provisional findings that I had, but said that he firmly believes he was denied his right to explore his options because he wasn't given timely and accurate information. He said that if he had had time to explore his options he might have achieved a better outcome for his circumstances. Mr J explained that he did not think the compensation proposed adequately reflected Royal London's culpability in this matter. He also said that he believes he has not received all the compensation offered by Royal London.

Royal London confirmed that it had offered £150 to Mr J in an email dated 11 July 2024. It asked for confirmation that the redress I was proposing was for Mr J to receive a further £150 compensation, in addition to the £200 it said it had already paid Mr J after it had offered this to him in its email on 21 June 2024.

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 carefully considered Mr J's further comments in response to my provisional decision. My view remains that Royal London should have contacted Mr J at an earlier date before his 65th birthday to confirm the policy benefits. But for the reasons explained in my provisional decision, I'm not persuaded it's been shown that it's likely there would have been a different outcome in terms of how Mr J took the policy benefits if Royal London had sent him a retirement pack at an earlier date.

In terms of Royal London's failings in the service it provided Mr J with, I consider that fair compensation for the distress and inconvenience caused to Mr J is £350. Royal London has said that it has already paid £200 compensation to Mr J, and if that is the case, I consider it should pay a further £150 to him.

My final decision

My final decision is that I uphold this complaint in part. The Royal London Mutual Insurance Society Limited should arrange any further payment that is necessary to Mr J to ensure that he has received £350 compensation in total, taking into account any compensation amount it has already paid him in relation to this matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 14 April 2025.

John Swain
Ombudsman