DRN-5431533

The complaint

Mr R complains that The Prudential Assurance Company Limited ("Prudential") failed to allow him to purchase an annuity from the firm. As a result Mr R complains that he has needed to pay a significant fee for financial advice in order to be provided with an annuity by an alternative provider.

What happened

Mr R held pension savings with Prudential. Following a previous complaint to this Service Prudential allowed Mr R to add to those pension savings by transferring in two smaller pension plans he held with other providers. Mr R says that he made those transfers as he intended to use all his pension savings to provide him with a pension commencement lump sum ("PCLS" – otherwise known as tax free cash) and an annuity.

Mr R first started to discuss taking his pension benefits in July 2023. I have been provided with a large number of secure messages that were exchanged between Mr R and Prudential between July 2023 and March 2024 when Mr R made his complaint. I will discuss the content of those messages in some more detail later in this decision, but it does seem that there was initially a degree of misunderstanding between Mr R and Prudential about how the pension benefits would be used.

I am satisfied that Mr R's complaint, about not being offered an annuity by Prudential, was raised to the firm. But the matter wasn't dealt with in the final response letter that Prudential sent to Mr R – instead that letter focussed on potential compensation for some delays in the transfer of the two smaller pension plans. But I think it reasonable, as did our investigator in his assessment, to deal with the complaint about the annuity not being provided given the time that has elapsed since the complaint was notified to Prudential.

Our investigator didn't think Prudential had done anything wrong. He thought that it wouldn't have been unreasonable for Prudential to have thought that Mr R wanted to use a drawdown approach to take income from his pension savings. And he didn't think there was any requirement for Prudential itself to provide annuities. So the investigator didn't think Prudential was responsible for the advice charges Mr R said he had paid.

Mr R didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr R and by Prudential. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words

I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

Mr R has held pension savings with Prudential for many years. He says that he always intended to use those pension savings to provide him with an annuity when he retired. And more recently he has added to those pension savings by transferring in some benefits from pension plans that he held with other providers. I appreciate that those transfers were not entirely straightforward and needed the intervention of this Service. But those matters were resolved by a final decision issued by another ombudsman, so it wouldn't be appropriate for me to discuss them further here.

In 2015 significant changes were made to pensions legislation, and the ways in which pension benefits could be taken. Those changes introduced taking pension benefits through a flexi-drawdown arrangement. But that option wasn't available through many older pension plans, such as the one held by Mr R. In order to benefit from flexi-drawdown, pension savings would generally need to be transferred to an alternative pension plan.

When Mr R told Prudential that he wanted to take his pension benefits he said that he wanted to start drawing his pension. But later he said he wanted "drawdown" to commence. I think it is clear that Prudential was caused some confusion by the choice of wording used by Mr R. I don't say that with any criticism of Mr R – pensions are complex and surrounded by jargon. It wouldn't be reasonable to expect Mr R to fully understand every nuance of the phrasing that he might have used.

But I don't think that means Prudential has done something wrong either. Prudential was simply acting on Mr R's instructions. And since Prudential wasn't providing Mr R with any advice, or recommendations, about how to take his pension benefits I don't think it would have been appropriate for it to question what he had said.

Prudential has taken a business decision to stop offering its own annuities to its pension savers. That is a decision that it is free to make, and I'm not persuaded that in the circumstances here it has caused any detriment to Mr R. Although I understand why he is disappointed by the additional steps he has needed to take in order to purchase an annuity, I'm persuaded that those are steps that he might have taken anyway.

All providers, when one of its pension savers wishes to retire, are required to make them aware that any annuity they are offered might be less than they could purchase elsewhere. So generally it is best practice for someone looking to purchase an annuity to consider what is known as an open market option. That is essentially what Prudential suggested Mr R should do by referring him to its chosen annuity partner.

Mr R has said that he needed to pay a fee of over £6,000 for advice he was given prior to him purchasing his annuity. I asked Mr R to provide more information about that fee. The documentation Mr R has sent us shows that the annuity provider paid a commission to Prudential's annuity partner for its work in arranging Mr R's annuity.

But I’m not persuaded that the payment of that commission results in a direct cost to Mr R. It is common practice for an annuity provider to pay a commission to the advisor or firm that introduces the consumer. But the cost of paying that commission is accounted for in the annuity rates that are offered – it isn’t funded as for example a charge for financial advice would be by a deduction from the capital of the pension savings. In my experience it is unlikely that the annuity rate offered to Mr R by his annuity provider would have been different regardless of whether or not commission was being paid to an introducer or financial advisor.

Prudential’s annuity partner will have sourced the most suitable annuity for Mr R, based on both his health and lifestyle circumstances, and his financial needs. Even after taking account the commission that was paid by the annuity provider, the rate offered to Mr R would have been the most competitive in the market at that time.

Neither I, nor Mr R, know what annuity he might have been offered had Prudential continued in the market. But I am satisfied that there is no evidence to suggest that any annuity would have been higher than that now being paid to Mr R. I appreciate that this decision will be disappointing for Mr R, but I think the commercial decision Prudential has taken to stop offering its own annuities is reasonable. And I haven’t seen anything to persuade me that decision has caused Mr R to lose out.

My final decision

For the reasons given above, I don’t uphold the complaint or make any award against The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr R to accept or reject my decision before 1 July 2025.

Paul Reilly
Ombudsman