

The complaint

Mr T is unhappy with the way The Prudential Assurance Company Ltd (Prudential) managed his pension, preventing him from divesting his investments to cash shortly before his retirement date, causing him anxiety and financial loss.

What happened

Mr T was employed in Local Government and had a pension with their pension scheme (LGPS). In addition, he contributed to an Additional Voluntary Contribution (AVC) plan through his employer, administered by Prudential.

On 29 June 2024, he instructed Prudential (via online account instruction) to transfer his AVC investments into cash, to minimise the risk of any loss of value prior to his intended retirement date at the end of September 2024. This was completed the following week.

However, due to a system issue, Prudential mistakenly reinvested Mr T's cash holdings back into the previously held investment funds. Mr T became aware of this on 18 July 2024 and so contacted Prudential. He was advised the mistake would be remedied by 25 July 2024.

On 27 July 2024, noticing that the issue hadn't been remedied, Mr T raised a complaint with Prudential, as he was concerned about the effect that world events at the time may have had on the value of his pension whilst the funds remained invested.

There followed multiple exchanges between Mr T and Prudential – Mr T enquiring why the transfer hadn't occurred, Prudential explaining it was in process, the reason for the delay was an IT/system error and confirming the switch would be back-dated to the date of the original transaction.

Mr T had also expressed concern that their actions (or inactions) forced him to change the way in which he took his retirement benefits. It was initially his intention to take all his AVC as a tax-free cash (TFC) amount, which the rules of his plan permitted. At the time of his initial switch to cash, the value of his AVC was just under £173,500.

However, Mr T was becoming increasingly wary of reports in the media that the Chancellor was considering, in the upcoming Budget, limiting the amount of TFC that could be drawn from a pension to (potentially) £100,000. This left him exposed to a (potential) tax liability if he continued to pursue the full TFC option which then became delayed beyond that Budget date. So, Mr T decided to limit the total TFC he took across both pensions (LGPS, and AVC) to £100,000, and took his benefits on or around 14 October 2024.

By 20 October 2024, Mr T still hadn't received a formal complaint response from Prudential and so brought his complaint to this Service. Prudential responded to Mr T's complaint on 7 November 2024, upholding most of the complaint points he'd raised – his unhappiness at how they'd handled the switch, they'd reinvested his funds without his consent, and their communication with him throughout had been poor.

But they didn't believe that he'd been financially disadvantaged by their mistakes. By the time Mr T eventually took his benefits, the value of the AVC had risen to just over £183,000, so nearly £10,000 more than the original cash amount/plan value. However, they offered to pay Mr T £250 compensation for the distress and inconvenience (D&I) they'd caused him.

Mr T didn't accept Prudential's offer. He felt their D&I offer was inadequate, given the distress their actions had caused him. Mr T also felt that he had suffered a financial loss because of their actions, given the choices he'd felt it necessary to make. He'd ended up with a significantly reduced TFC amount. And whilst accepting he'd been able to invest a correspondingly larger sum purchasing a lifetime annuity, the income derived from that would be taxed – whereas the lump sum wasn't taxed.

One of our Investigators considered what Mr T had said. He agreed that Prudential had made errors. But, because Mr T had, in effect, benefitted because of those errors – the AVC fund had grown considerably more than it would have done had it remained in cash – there was no identifiable loss that could be reasonably attributable to Prudential's actions. He also felt Prudential's D&I offer of £250 was fair in the circumstances.

Mr T was unhappy with this, and further exchanges with our Investigator took place, but his View remained unchanged. He felt that it was Mr T's choice to take the lower TFC amount, rather than wait for the matter to be resolved. He felt that Prudential had been clear that they'd ensure, when eventually being able to switch his investments back to cash, that Mr T would not lose out financially as a result – they'd backdate the switch to the date (and values) that existed in July 2024. He didn't think there was any evidence to show that the TFC limit was likely to be altered in the Budget. And he remained of the view that Prudential's D&I offer of £250 was fair.

As no satisfactory conclusion could be reached, Mr T's complaint was passed to me, an Ombudsman, to consider it afresh, and issue a Decision accordingly.

And having done that, whilst agreeing with our Investigator that Mr T hadn't experienced a financial loss because of Prudential's actions, I thought a higher award for D&I was warranted here. I explained my rationale in a Provisional Decision, the contents of which are as follows:

My Provisional Decision

There are essentially two issues that I need to consider here – the extent of Mr T's financial loss caused by Prudential, and the amount of compensation that he should be paid for the anxiety and distress their actions caused him.

Did Prudential cause Mr T any financial loss?

Firstly, I need to recognise that the value of Mr T's AVC increased during the period in question here. That's not in dispute by Mr T. So, in simple terms, Mr T's total AVC pension pot increased by the time he took his retirement on or around 14 October 2024, and in simple terms, Mr T (or his total pension pot) was better off because of Prudential's mistake. Had their mistake not occurred, Mr T's AVC pot would have remained in cash, and been worth just under £10,000 less than it eventually was.

Where this Service determines that a business' mistake has caused a loss, we'd direct a business to pay redress to make good that loss. Here, based on the value of the AVC at retirement some three months later, there was effectively no loss to correct.

However, Mr T didn't end up accessing the AVC funds in the way he'd originally wanted. I'm satisfied he began planning for his retirement in June 2024 expecting to be able to take the full AVC amount as a TFC lump sum – about £173,500, plus whatever further TFC amount he could take when accessing his main LGPS pension at the same time. His initial instruction to his LGPS reflected this but was changed on or around 12 October 2024 when he told them to limit the total TFC to £100,000. So, in very simple terms, the actions Mr T chose to take reduced the amount of TFC he received by at least £74,000 at that time. He had less immediately accessible cash available to him as a result.

Conversely, as he acknowledges, this meant he had more funds available with which to purchase an annuity, meaning he'd be in receipt of a larger pension for the entirety of that

annuity period, or until he passed away – albeit that ‘extra’ amount would attract tax at his marginal tax rate.

So, do these circumstances represent a ‘loss’ and further, if so, is it one that Prudential are liable for. I don’t think it is in either respect. That’s not to say that I don’t accept Mr T’s financial situation was very different to what he’d intended it to be. Yes, he’d ‘lost out’ on a larger TFC cash amount, but he hadn’t ‘lost’ that sum itself. It was able to be used to purchase a larger annuity, that would continue being paid for many years thereafter. However, a direct comparison between each scenario would be impossible to calculate, not least because it’s not known how many years Mr T will receive the extra annuity income.

Our service is designed to be informal in nature, seeking to put a consumer back in the position they would have been in, but for a business’ mistake, as much as practicably possible. So, any such redress here, were it to be required, would need to somehow consider/offset that extra annuity benefit that Mr T would continue to benefit from.

But such considerations would only be necessary if I thought Prudential were responsible for the decision Mr T felt he had to take. I appreciate his concerns about the forthcoming Budget – and I agree with him (and disagree with our Investigator) that there were various media reports in the months leading up to the Budget suggesting that pension TFC limits could be introduced (£100,000 was widely mentioned). But that’s all they were – media reports and commentary. There was nothing more certain than that.

I appreciate Mr T acted based on those reports, rather than wait to see what happened when the Budget was delivered at the end of October. And I appreciate too that, when he did that, he’d still not been given any indication by Prudential when his AVC investments were going to be switched back to cash (allowing the full TFC to be taken before the budget date). But they were still actions that Mr T chose freely to make. He was under no pressure from Prudential to take that action.

So, given what I’ve said above – there was no realistically identifiable loss, and in any event, I can’t fairly hold Prudential responsible for the actions Mr T chose freely to take – I don’t uphold this element of Mr T’s complaint, and won’t be asking Prudential to do anything further in this regard.

Distress and Inconvenience

It’s not in dispute that Prudential’s actions caused Mr T significant distress. They’ve admitted as such in their complaint response, and I agree with their conclusion. I don’t need to repeat details of all the communications that took place between Mr T and Prudential after he’d discovered their mistake, as these are known to both parties.

In summary, Mr T was repeatedly told the matter would be fixed (it wasn’t), was promised return calls (which didn’t happen), and wasn’t kept proactively apprised about the when the issue would be fixed. It’s clear from the tone of Mr T’s communications how anxious and frustrated he was becoming as time went on – and this anxiety and distress would have been avoided had Prudential not made the mistakes they did and communicated with him better than they did.

But I also think it’s clear there was further distress that Mr T experienced, and that stems from the fact he would have been able to retire on the financial terms he’d originally chosen, had Prudential not mistakenly reinvested his cash funds. Whilst he made his own choice (as explained above) to eventually take the smaller TFC amount, I recognise it’s a choice he didn’t really want to make - and wouldn’t have made if the mistake hadn’t occurred. Having considered Mr T’s testimony on that point I’m satisfied that this caused him extra distress.

So, as I’ve said, whilst I can’t hold Prudential responsible for any financial loss Mr T may or may not have experienced, I think I can fairly hold them responsible for the distress he’s experienced because of having made a choice that he wouldn’t otherwise have had to make.

Taken together, I don't think £250 fairly reflects the distress that Prudential's actions have caused Mr T. However, the amounts this Service awards for D&I are fairly modest in value. Our D&I awards are not designed to punish a business, but rather to put a monetary value on the distress a business' actions have caused. Guidelines setting out our approach to such awards can be found on our website.

So, taking account of what I've said above, and having careful regard to our guidelines on this subject, I think a total D&I award of £550 is appropriate here – and is an amount I'll be asking Prudential to pay to Mr T.

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 addition to fully re-reviewing the facts of this complaint, I've also now considered the points Mr T has raised in response to my Provisional Decision. Prudential accepted my increased award for D&I, but Mr T questioned whether an increased award of D&I might be appropriate here.

Mr T has clarified the exact amount of TFC that he initially wanted to take, across both his LGPS and Prudential policy – and ended up taking nearly £150,000 less than he originally wanted. Mr T believes this is relevant to the level of D&I I'd awarded, as the amount of 'lost' TFC reflects the magnitude of the decision he felt he had to make.

Whilst I appreciate the time Mr T has taken to explain the above – and I fully recognise he ended up taking considerably less TFC than he originally anticipated taking – I'm afraid it doesn't alter the decision I've made regarding what I think is fair D&I compensation here.

I awarded the increased D&I to reflect the fact Mr T had lost the opportunity to retire on the terms he'd originally chosen because of Prudential's actions. The actual amount of 'lost' TFC was secondary here. It was more about the principle that Mr T had lost that opportunity to retire on the grounds that's he'd originally intended to do. Put another way, there is no 'sliding scale' that increases the D&I I'm awarding based on incremental increases in the amount of TFC that Mr T 'lost'. But I also want to be clear here that, by saying the above, I'm not in any way seeking to diminish the impact of what happened here, or the fundamental change in how Mr T's financial retirement affairs have been set.

I've looked again at our guidance on appropriate levels of D&I awards and remain satisfied that the total amount I've awarded, £550, is appropriate in the circumstances here. So, I won't be increasing the total D&I amount I'm requiring Prudential to pay to Mr T.

Finally, Mr T has also kindly confirmed that Prudential have already paid him the initial £250 they offered, even though he hadn't accepted it. This means that I will only require them to pay him a further £300 in D&I compensation.

My final decision

I uphold Mr T's complaint against The Prudential Assurance Company Ltd and require them to pay him further compensation of £300, in respect of the distress and inconvenience their actions caused him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 27 June 2025.

Mark Evans
Ombudsman