

The complaint

Mr S complains that Unum Ltd acted unfairly when processing his income protection benefit claim when it applied taxation and Employment and Support Allowance ('ESA') deductions.

What happened

As the background to the complaint is well known to both parties, I have only included a summary of it here and I've done so using my own words.

Mr S is a member of his employer's group income protection scheme. It offers monthly benefit of 50% of his salary should he be incapacitated due to an illness or injury preventing him from completing the material and substantial duties of his own occupation, throughout a deferred period of 26 weeks and beyond. The policy also allows for ongoing payment of benefit for a further three years after the employment ends (or up to state pension age, whichever is sooner) based on 50% of pensionable pay. ESA is deducted from the monthly benefit payment.

A claim was made to Unum, following Mr S suffering with a type of degenerative spinal condition which meant that his employment ended in July 2023 on ill health grounds. Mr S confirmed to Unum that he had applied for ESA, which was payable from November 2023. The claim was thereafter accepted by Unum in February 2024 – backdated to July 2023 - with a deduction for the ESA.

In June 2024, Mr S told Unum he had been informed by the Department for Work and Pensions ('DWP') that his entitlement to ESA was going to cease.

Unum wrote to Mr S in July 2024, recalculating his claim payment to account for the cessation of ESA.

In November 2024, Unum became aware that tax wasn't being deducted from the monthly benefit payment – though it had previously told Mr S in February 2024 that it would make such deductions. In December 2024 and January 2025, Unum corrected its error by deducting tax from the benefit payments.

Mr S complained. In February 2025, Unum partially upheld the complaint. It said it had now realised that it ought to have initially deducted tax from Mr S's benefit payments, and it apologised for the error and upheld that aspect of the complaint. Unum also paid Mr S £150 for the upset it had caused.

Unum recognised Mr S needed to contact HRMC which had also confused matters, because HMRC couldn't confirm individual taxation amounts taken for Mr S. Unum explained that was because it made group tax payments for Mr S's employer. However, it assured Mr S that the taxation for December 2024 and January 2025 was correctly accounted for.

Unum thereafter received confirmation from Mr S (he completed a HM Revenue and Customs form) which showed that it did not have to deduct tax from the payment. And so it

told Mr S that it had resumed paying the monthly benefit gross of tax effective February 2025 – along with confirming the annual and monthly amount of benefit gross of tax.

In respect of the ESA deductions, Unum said it hadn't done anything wrong. It said that once Mr S told it in June 2024 that his ESA had been cancelled, its claims team made an adjustment to the benefit payment to discount the deduction of ESA. It also told Mr S that if he was asked to return any ESA payments to the DWP, it would back date and repay any underpaid funds on the claim, to ensure Mr S would not be out of pocket.

Mr S remained unhappy with Unum's response and brought his complaint to this service.

An investigator considered the complaint, but she didn't believe it should succeed. She noted that Unum originally made an error in paying the claim without deductions, but it had corrected its mistake thereafter and offered reasonable compensation to Mr S. Furthermore, she said Unum had acted correctly when adjusting Mr S's monthly benefit once he confirmed he wasn't in receipt of ESA.

Mr S didn't accept the findings of our investigator. He said he wanted his complaint to be referred to an ombudsman. He said, in summary:

- Though the Financial Ombudsman Service cannot provide determinations relating to tax liability, Unum unreasonably placed him in this situation.
- Overall, he felt Unum had behaved unfairly and discriminatorily towards him.
- He had lost income because Unum insisted on deducting state benefits from its monthly payment, despite it later becoming apparent at a tribunal that he was not entitled to ESA.
- He still doesn't know how much tax he is liable for.
- He had spent some 200 hours dealing with Unum, HMRC, the DWP, his former employer, his pensions agency and this service.
- He should be compensated for that time, his administrative costs and the distress caused by Unum's processes over the last two years.
- The £150 offered by Unum is wholly unacceptable in the circumstances he has outlined.

Our investigator was not prepared to change her view on the complaint. She didn't believe Unum had made any errors in relation to the ESA Mr S had claimed. And it confirmed the tax Mr S paid in December 2024 and January 2025 was accounted for – so no further tax was due from him. She didn't think Unum should be liable for Mr S having to contact other third parties, and though it had initially been confused about whether or not to deduct tax, Unum had corrected the mistake and made a fair offer of compensation for the inconvenience caused to Mr S.

Mr S still disagreed. He said:

- State benefits were taken from the claim payments, which was unfair.
- He accepts that Unum has agreed to cover the cost of any benefits if he has to repay them to the DWP, but that overlooks the fact that he should not have been put in that position in the first place.
- And the deductions for ESA taken by Unum exceeded the benefit he actually received from the DWP.
- HMRC has said he overpaid tax in the second year of claiming the income protection benefit.
- He disagrees that £150 is a fair amount of compensation when considering the totality of his complaint.

- If this service can only look at Unum's actions, that implies that his employer has acted questionably.
- He remains dissatisfied with the haphazard manner in which Unum has undertaken the claim and so, he wants an ombudsman to look at the complaint.

Whilst the matter was awaiting an ombudsman's decision, Mr S also noted that he had since attended a further social security tribunal where the DWP was ordered to provide a further explanation regarding his benefits entitlement, and this has now escalated into a separate complaint with the DWP.

Unum didn't have any further comments to make. The complaint has now been passed to me.

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 thank the parties for their patience whilst this matter has awaited an ombudsman's decision. Given my remit to make findings on what I believe to be fair and reasonable in the circumstances, I am not required to address each point raised. Instead, I will set out what I consider are the central issues in this complaint. Our rules permit me to take that approach.

Having reviewed this complaint carefully, I agree with the outcome reached by our investigator. So, though I realise my decision will be disappointing for Mr S, I won't be asking Unum to do anything further to resolve the complaint. I'll explain my reasons below.

In summary, my findings are:

- It's important for me to point out that we do not act in the capacity of a regulator. That remit falls to the Financial Conduct Authority ('FCA'), where it may look at wider issues governing how businesses conduct their operations or exercise what may be commercial judgement on the provision of a particular service.
- My role isn't to substitute my view for that of a business but instead, to determine if a business has acted fairly in all the circumstances of a complaint. And, as Mr S has pointed out, I am only able to reach findings about the actions of Unum in relation to this matter, not HMRC, the DWP, his former employer, or any other third party.
- I cannot agree that Unum has acted haphazardly or otherwise. I am of the view that Unum has overall behaved fairly and reasonably in the circumstances of this complaint, including its offer to put matters right regarding its confusion over taxation of the claim payments.
- I know Mr S feels it is unreasonable for Unum to require him to have applied for ESA. However, it is a condition of his employer's group scheme to deduct that payment, whether or not Mr S made a claim.
- Unum's policy with Mr S's former employer sets out how it will deduct ESA at the rate that would be paid to the member. It goes on to confirm that "*for those who apply but do not qualify for ESA, we will make no deduction and for those who do not apply for ESA, we will deduct the basic allowance plus the support component for the duration of the claim*".

- I also believe this was made reasonably clear to Mr S by Unum in its claim correspondence to him, where it explained how the post-employment benefit would be paid. It said *“the gross annual basic benefit is 50% of your pensionable pay, calculated at the date you leave service, less the amount you are entitled to receive as Employment and Support Allowance (see below). The benefit will be paid monthly in arrears by direct credit from the insurer into your nominated UK bank account, for a maximum period of 3 years”*.
- And, after Mr S provided information to Unum about his ESA entitlement, it wrote to him on 15 March 2024 explaining the full calculation of benefits.
- In respect of ESA, Unum said, *“we are currently making a deduction from your benefit payments equal to £3,315.52 [per annum] as per [the] supplied ESA benefit statement. The Policy taken out by your former employer for you to receive 50% of your pre-incapacity, pensionable pay (calculated at the date you left service) from Unum and the State combined. As such, should the benefit you receive from Unum mean that your State Incapacity Benefits are affected, we will top-up the benefit to ensure that you maintain 50% of your pre-incapacity pensionable pay”*.
- Unum has also provided further written assurance to Mr S that should he be required to repay any of the period he claimed ESA for, it will make up this amount to restore his benefit as required by the policy.
- Though it has been frustrating for Mr S dealing with the DWP, I cannot hold Unum accountable for that third party.
- I believe that Unum has acted fairly and reasonably in relation to both Mr S’s requirement to claim ESA, and its payment of benefit in light of those deductions. And, once Mr S gave Unum confirmation that his ESA was ending, it no longer deducted the amount from him.
- I realise Mr S feels that he has been underpaid by Unum, but I’ve seen no evidence of that. Mr S referred to Unum saying it would pay him £5,171.52 in benefit, so it must be underpaid. However, this related to the back payment of benefit (from which ESA had been deducted) from 1 July 2023 to 29 February 2024, not the annual claim payment amount.
- The original calculation for the three years of benefit (if it remained payable) was confirmed to Mr S as £10,545.49 (less benefits and tax) each year, from 1 July 2023. And Unum has provided a statement of payments for the 2024/25 tax year showing Mr S was paid gross benefit of £10,618.09 for April 2024 to March 2025 (less the two months of tax). Given these sums broadly tally – allowing for the small difference in calculation dates – I am satisfied with Unum’s explanation that the benefit has been correctly paid.
- Where Unum did make an error is by not immediately deducting basic rate tax from the benefit – as the policy terms required it to do so. And it had told Mr S in its various ongoing correspondence from the date of the claim acceptance that tax would be taken.
- However, two months after Unum began belatedly deducting tax, Mr S completed a relevant form to apply for benefit without tax. And Unum reverted to paying gross benefit from February 2025.

- I have not seen any evidence that Unum has wrongly deducted tax – once Mr S told it not to. And, though it should have taken tax at the start of the claim payment, Mr S would still have needed to complete the relevant form for HMRC. Accordingly, this has not impacted Mr S financially, since he has informed Unum that he should not be paying income tax on the benefit payment in any event.
- If the two taxation payments resulted in overpaid tax, this is a matter Mr S needs to resolve with HMRC.
- What this service does is consider if a business has treated its customer(s) unfairly because of its actions or inactions. And if it has done so, we then go on to consider what ought to be done to put the mistake(s) right. In this case, Unum ought to have deducted tax from the claim payments from the outset, rather than identifying it some nine months after the claim had been accepted. Unum's error has not caused Mr S any identifiable financial loss, but it has been inconvenient for him.
- As well as putting right any financial losses in a complaint (though there are none in this circumstance), this service will also consider the emotional or practical impact of any errors on a complainant. In doing so, we do not fine or punish businesses; that regulatory role falls to the FCA – something I've explained earlier in this decision.
- I recognise that the confusion caused Mr S concern and worry. However, I am also mindful that Mr S would have to liaise with HMRC in any event, because tax should have been taken as a default from the date of the claim acceptance in line with the terms of the former employer's group scheme. This means Mr S would still have had to complete the form to notify Unum not to pay his monthly benefit net of tax. Unum's error meant this process had the same effect on Mr S, but it was delayed.
- Overall, I am satisfied that a £150 award is appropriate in the circumstances where the impact upon Mr S caused short term inconvenience and upset. However, I do not believe any further award is due. Nor am I able to consider compensating Mr S for the time he has spent liaising with the relevant third parties in relation to his overall income; I have no doubt how frustrating and time-consuming these matters are, but in my view, they do not flow from the administrative error made by Unum.
- I do not believe Unum needs to do anything further to resolve this complaint.
- It may be helpful for Mr S to review the guidance available on our website around the amounts and types of awards made in instances of upset, trouble, inconvenience and distress caused by businesses in the complaints we see at this service.

My final decision

I do not uphold this complaint or make any award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 18 November 2025.

Jo Storey
Ombudsman