

The complaint

Mr P complains that errors by Scottish Widows Limited trading as Halifax Financial Services led to his pension savings being annuitized rather than transferred to another provider as he wanted.

What happened

Mr P had a stakeholder pension plan with Halifax Financial Services (“HFS”) which is now part of Scottish Widows Limited. It was set up in May 2004 due to contracting out of the State Earnings Related Pension Scheme (“SERPS”).

In December 2023 HFS wrote to Mr P to remind him he was nearing the retirement date of his plan, being his 75th birthday in May 2024. This letter explained that unless they heard from him before this date they would automatically buy him an income for life (an annuity), but he’d lose the opportunity to choose the type of annuity he wanted, release tax-free cash or transfer away. Mr P was still working and didn’t really want an annuity yet, so he consulted his independent financial adviser (“IFA”). In February 2024 the IFA requested some information from HFS about Mr P’s plan. A policy information pack was sent out on 29 February 2024, showing the plan value as just under £44,952.

Having not heard anything, in March 2024 HFS sent Mr P a reminder about the need to take action prior to his approaching retirement date. On 2 April 2024 Mr P called HFS and asked if he could just leave the plan with HFS to grow after he turned 75. The call handler “R” said that wasn’t possible and Mr P did have to make a choice, as his plan would mature and close at age 75. He could take his 25% tax-free lump sum and an annuity, but if he wanted some kind of drawdown plan, he’d need to transfer to another provider. Mr P said he didn’t need the annuity income and was concerned about the tax implications. He mentioned he had another personal pension but wasn’t sure if the Lifetime Allowance on his other plan would preclude him receiving the full 25% tax-free lump sum on his HFS plan. Mr P said he needed to speak to his accountant and financial adviser, so asked if there was any leeway to the deadline. The call handler said he couldn’t help with tax queries and suggested Mr P refer to HMRC, but he could arrange an eight-week extension for Mr P to get his plans in place. The call handler confirmed the new retirement date on the plan as 7 July 2024. Mr P checked the call handler’s name so he could come back to him once he’d spoken to his accountant and financial adviser.

On 10 May 2024, two days before Mr P’s 75th birthday, the IFA called HFS and asked for the policy information again. A policy information pack showing a value of £49,619 was sent out on 14 May 2024. The plan had been automatically disinvested on Mr P’s birthday, so the value wouldn’t change, but HFS allows a three-month grace period, (until August 2024) in which to implement the instructions.

On 17 June 2024 HFS sent a final letter to remind Mr P his 75th birthday had passed. It said HFS hadn’t heard from him for a while, and the end of the extended deadline was approaching. It explained that if instructions aren’t received by age 75, the policy is automatically annuitized. And then he’d lose the option of taking the 25% tax free lump sum

or choosing an alternative annuity which might better suit his needs. This letter included a booklet giving Mr P his options, and recommended he consult the free PensionWise service. Mr P was asked to please get in touch so his pension can be paid to him. It ended by saying “*you need to make a decision as you are unable to leave your fund as it is*”. As Mr P didn't reply to this letter, HFS commenced the annuity process.

Meanwhile on 24 June 2024 Mr P had signed transfer forms, and on 5 July 2024 Mr P's IFA called HFS explaining Mr P intended to transfer to provider Q. But as Mr P was shortly going on holiday and would be uncontactable while away, the IFA requested a further extension to September 2024. As the annuity process was already underway, a quotation for an HFS annuity was issued to Mr P on 17 July 2024.

HFS received a transfer request via the electronic Origo system on 26 July 2024, but this failed as Mr P's policy was no longer in force, having already been encashed. This prompted a query from the IFA, as the instructions had been submitted within the grace period. On 2 August 2024 HFS received the hard copy transfer form from provider Q, but this couldn't be processed as the plan had been converted to an annuity. HFS escalated the matter internally to see if the annuity could be reversed, but that wasn't possible due to the potential tax implications. Dialogue between the IFA and HFS continued, which gave the impression the transfer to Q could still take place once all the requirements (such as an HMRC certificate) were received.

In October 2024 Mr P received a confusing letter from Clerical Medical explaining his policy wouldn't be transferred to his new provider. The IFA raised a complaint as Mr P didn't want an annuity, and they had been under the impression HFS would accept transfer instructions received within the grace period. HFS responded to the IFA's complaint and apologised for the poor service. But they said Mr P had been made aware that unless he gave instructions his plan would be converted to an annuity, and the transfer instructions had been received too late. But they offered £200 to acknowledge the poor service Mr P had experienced.

Mr P also complained about the Clerical Medical letter, as he didn't understand that firm's involvement, and the letter advised the transfer couldn't be made as it failed to meet two statutory conditions. It also said “*We'd be happy to consider a transfer request in the future*” which didn't make sense. Throughout November 2024 Mr P tried to get HFS to reverse the annuity to enable him to transfer away, but was told it was too late.

HFS responded to Mr P in December 2024 upholding the complaint and apologising for the poor service he'd received. They said he shouldn't have been told it would be possible to transfer his plan away after his 75th birthday, as the policy terms state it would be automatically annuitized, and that couldn't be reversed. But they arranged to pay Mr P a further £100 meaning total compensation of £300, together with the £200 paid to the IFA.

Unhappy with this, Mr P referred his complaint to this service. At this point HFS reviewed its response, and increased the compensation offer to £700 (£400 on top of the £300 already paid).

Our investigator reviewed what had happened, and obtained some information from Mr P's financial adviser.

Based on the call note, he considered that HFS could have been clearer with Mr P in the 2 April 2024 call about the extension. But even if they had, he didn't think it was likely Mr P's transfer instructions would've been received by HFS in time to prevent his policy being converted to an annuity. And he felt total compensation of £700 was fair for the inconvenience Mr P had experienced.

Mr P didn't accept the investigator's view and requested an ombudsman's decision. He wasn't really complaining about HFS's poor customer service, he was unhappy at being forced to accept an annuity against his wishes. He said HFS had received instructions within the extended deadline, and it was unfair to say the extension had been granted in error, as he'd accepted it in good faith. To put things right he wanted the annuity to be unwound as he'd made clear he never wanted it.

So the case has come to me to make a decision.

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 P doesn't think it's fair he was "*forced*" to take his pension benefits by way of an annuity, when he didn't want or need the income. The starting point when considering what is fair, is the terms and conditions of Mr P's stakeholder pension plan, and what it says would happen at age 75. When the plan started in 2004 Mr P would've expected that at his selected retirement date, (or at age 75 at the latest) for his plan to purchase an annuity, as that was the default for pension plans at that time. Taking benefits more flexibly was only possible following the 2015 Pension Schemes Act, often referred to as "*pension freedoms*", which allowed more options at retirement. But this is "enabling" legislation only, so providers don't have to offer more flexibility, if for example the product didn't already offer a drawdown option. In this case HFS didn't allow any flexibility to stakeholder plans like Mr P's which would automatically be annuitized at age 75, unless transfer instructions had been received prior to that date.

I asked HFS for a copy of Mr P's policy document, which they weren't able to provide. But they did advise that according to the stakeholder plan scheme rules, a policyholder can exercise any option prior to age 75, but Rule 10.12 means the policy will be encashed and annuitized at age 75. HFS does not offer a drawdown option, so if that's what Mr P wanted, he'd need to transfer to another provider. I've not seen the scheme rules either, but it's not uncommon for pension schemes to require benefits to be taken at age 75. I think HFS was entitled to close Mr P's plan when he turned 75 and arrange the annuity if he didn't submit his firm instructions by the deadline. So I've looked at what Mr P was told would happen to his plan.

As his retirement date approached, HFS sent Mr P reminders that he needed to take action before then. On 19 December 2023 HFS sent Mr P a letter headed "*You're nearing your retirement date*" which confirmed the retirement date on the plan was Mr P's 75th birthday in May 2024. If he didn't respond by that date it told him "*we'll buy you an income for life (an annuity), but you'll lose the ability to choose the type of annuity which best suits you, take tax-free cash or shop around to see if another provider has a better deal.*"

Mr P says he doesn't remember receiving that letter, but probably passed it to his IFA, which makes sense as it appears to have prompted the IFA to ask HFS for some information about Mr P's policy, which was provided in February 2024. The covering letter told the IFA that "*the member*" (Mr P) "*could take benefits at any time between the ages of 55 and 75*".

The same sentence was also included in the 14 May 2024 "*Statement of Value*" sent to the IFA when she requested the policy information again.

The message was reinforced in the 26 March 2024 letter to Mr P, which is headed up in very large bold type "*Let us know what you want to do with your pension **by 12 May 2024***" (my bold emphasis). The letter concluded "*If we don't hear from you by 12 May 2024, we'll buy*

you an income for life (an annuity), but you'll lose the ability to choose the type of annuity which best suits you, to take tax-free cash or shop around to see if another provider has a better deal". Mr P did receive this letter as it prompted his call to HFS on 2 April 2024.

The investigator relied on HFS's call notes, but I have listened to the actual call recording. Mr P asked HFS if he could leave his plan where it was, as he was still working so he didn't need the income, which he was concerned would increase his tax liability. The call handler "R" confirmed that age 75 was the retirement date for plans like his, at which point it would mature, but offered to double check with his supervisor. Having done so he told Mr P *"Unfortunately no, once 75 you have to make a choice, lump sum and annuity or if you wanted some sort of drawdown plan you are able to transfer out at no extra charge to one where you can leave it past 75"*.

Mr P wasn't sure he'd be able to take the full 25% tax-free lump sum of his HFS plan due to the Lifetime Allowance implications in relation to another pension plan he holds. HFS suggested he should refer tax queries to HMRC, so Mr P thought he should consult his accountant and financial adviser. Mr P checked his understanding that the answer to his question about whether he could stay with HFS (post 75) was *"no"*. To which the call handler replied *"Yes basically that's correct, these plans all mature at age 75 and a decision would have to be made **before then**, yes"* (my bold emphasis).

Mr P then asked if there was any leeway about when he needed to make a decision, and R again said he would check with his supervisor. When he rejoined the call, R said they could offer Mr P an eight-week extension to 7 July 2024, to allow him time to *"get his plans in place if he had made a choice"*. But R stressed *"the plan matures and closes at age 75 and a choice will have to be made I'm afraid"*.

Mr P had a few further questions for R, including whether he could transfer the funds to another plan or to his wife, and was told he could transfer away but it would have to be in his name. R did once refer to 7 July as the plan's *"new retirement date"*, which wasn't quite right. But as he'd confirmed more than once in the same call the plan would definitely mature and close at age 75, I don't think Mr P should've relied on that one remark and disregarded everything else he'd been told. As well as that call, Mr P had received a consistent message about the plan maturing at 75 in all the documentation he'd received from HFS since the plan's inception and leading up to his retirement date. While it wasn't what he wanted I think Mr P ought reasonably to have understood his plan had a fixed maturity date, and if he wanted to avoid it being automatically annuitized, he'd need to ensure HFS received his firm transfer instructions to an alternative provider before then.

But to avoid the misunderstanding that arose, I do think HFS should've been clearer about what it meant by granting the extension to 7 July 2024, and whether or not transfer instructions would be accepted after the 12 May deadline but before 7 July 2024. I think it was also remiss not to have mentioned the automatic three-month grace period once the maturity date passed, and what options that gave Mr P.

Mr P's IFA provided a timeline showing their dealings with HFS, and the first entry headed *"March 2024"* notes that Mr P had spoken to R at HFS, who had extended the deadline to 7 July 2024. I think this suggests Mr P may not have accurately conveyed what he'd been told in the 2 April call.

On 15 May 2024 HFS's system notes show that as the maturity date of Mr P's plan had passed, the funds had been removed and automatically "pended" for three months (to 12 August 2024), after which the annuity would be set up.

On 16 May 2024 the IFA's timeline notes she was handing over to a colleague prior to going on leave. The suitability report recommending the transfer to Q wasn't posted to Mr P until

24 May 2024. And despite the 17 June 2024 letter seen by both Mr P and the IFA reminding that his 75th birthday had passed and HFS hadn't received his instructions, Mr P didn't sign and return the transfer instructions until 24 June 2024, and further discussions continued during June and July 2024.

On 5 July 2024 just before the end of the extended deadline, the IFA rang HFS to advise them verbally of Mr P's intention to transfer the policy. But Mr P was due to go on holiday on 9 July and wouldn't be contactable, so they asked if the deadline could be extended for a further month. In my view this suggests neither Mr P or his IFA were acting with any particular haste, prioritising the transfer over other things, or perhaps they assumed the deadline was more flexible than it was. But as one extension had already been granted, I think the IFA ought to have been prepared for HFS to say a further extension to accommodate Mr P's holiday wasn't possible.

HFS told the IFA the policy had an automatic "*grace period*" to 12 August 2024, which I think was misleading, as it didn't correct the IFA's impression that HFS would still accept transfer instructions until this date. HFS should have clarified that it was now too late for Mr P to transfer away, but at its maturity date the plan had been automatically "*pended*" for three months to deal with instructions already received, or for Mr P to select the type of annuity he wanted. HFS should've explained that as instructions hadn't been received within the original or extended deadline, the plan was now on the pathway to an annuity, and Mr P would shortly receive annuity quotes, which were issued on 17 July 2024.

While the administrative errors and delays during September and October were unfortunate, I don't consider they were the reason for the transfer failing. By this time the original and extended deadlines had already passed, and it wasn't possible to cancel or reverse the annuity. HFS explained doing so would only be considered if it had been purchased due to its error. They told us nowadays firms are penalised for holding on to client funds post 75, which is why it's made very clear the annuity will be purchased automatically unless transfer instructions are received prior to the deadline.

The role of this service is to put someone in the position they would've been in had the firm not made an error. We don't require a firm to honour its mistake. So if everything had happened as it should, HFS would have confirmed in the 2 April call that if Mr P wanted to transfer away, instructions must be received before his birthday. And they should've been explicit about whether HFS would accept transfer instructions between 12 May and 7 July 2024. If that wasn't possible and the extension just gave Mr P more time to select the type of annuity he wanted, then that should've been made clear. I can't hold HFS responsible for Mr P not accurately conveying to his IFA what he was told, and I appreciate working full time keeps him busy. But if his genuine understanding following that call was that, as an exception, HFS had extended the deadline within which instructions would be accepted to 7 July 2024, it's reasonable for him to comply with it or accept the consequences, rather than simply expecting the deadline to be extended again. Mr P told the investigator he would've acted more quickly if he'd been told his instructions had to be with HFS by 12 May 2024. But the evidence shows he was told this in that call, which was consistent with all the documentation. The extended deadline wasn't complied with, and his IFA didn't key the transfer instructions until 22 July 2024, more than two weeks later.

Even without the other administrative issues which arose, I'm not persuaded it's more likely than not Mr P and his IFA would've been in a position to submit fully actionable instructions in time to prevent the annuity being purchased. So it wouldn't be fair or reasonable to expect HFS to unwind the annuity, or honour the transfer to provider Q.

Mr P has made clear he isn't really complaining about HFS's poor customer service, but there's no dispute its communication and administration have been poor at times. The 2 April

call was personable and aimed to be helpful, and R took care to check the position with his supervisor, but it left room for confusion. The deadline extension and grace period weren't properly explained, and the Clerical Medical issue added to the confusion and delays. Mr P's expectations were raised that the transfer was proceeding when it was already too late. And once the IFA complained, HFS gave conflicting answers about whether the annuity could be cancelled. Had communication been clearer, Mr P and his IFA would've been aware much sooner that it wasn't possible to avoid an annuity, and he might at least have had the opportunity to select an annuity of his choice.

So like the investigator, I agree Mr P should be compensated for the trouble and upset he was put to, his disappointment at having an annuity he didn't want, and for his expectations being raised. HFS paid Mr P £300 (£100 directly to him and £200 to his IFA) and offered to increase this by a further £400 in order to resolve the complaint. While I appreciate Mr P will be disappointed as he was hoping the annuity would be unwound, I think £700 is fair and in line with what I would have recommended.

Putting things right

If it hasn't already done so, HFS should pay Mr P a further £400 to bring the total compensation to £700.

My final decision

I uphold this complaint in part. Scottish Widows Limited trading as Halifax Financial Services should pay Mr P a total of £700, allowing for any sums it has already paid.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 2 March 2026.

Sarah Milne
Ombudsman