

## The complaint

Mr E complains that Scottish Widows Limited (Scottish Widows) have unfairly reduced the amount of his pension annuity without notice, despite providing a guaranteed illustration. He wants the correct income paid and compensation for the distress and inconvenience caused.

## What happened

Mr E had two linked plans with Scottish Widows with retirement dates of 22 August 2024. As this date approached Scottish Widows sent Mr E details of his options including annuity illustrations. These said the combined plan value was £48,582.79 and if no tax-free cash was paid the annuity income available was £6,430.68, guaranteed for five years, with no spouses pension. The illustration referred to a Guaranteed Minimum Pension (GMP) and the possible need to provide a 50% spouse's pension. It also said the fund value wasn't guaranteed and would be recalculated on the day Scottish Widows received all necessary information, but that the annuity rate quoted was valid for 45 days provided Mr E's personal details were correct. Mr E says he checked the annuity market before deciding to proceed with Scottish Widows and returned the necessary paperwork, and an annuity was set up.

But when Scottish Widows sent confirmation details, Mr E noted that despite the fund value increasing slightly the annual income had reduced to only £5,101.32. He contacted Scottish Widows, it said it had made an error and not included the cost of the spouse's pension on the GMP. Mr E made some enquiries which showed the cost of providing a 50% spouses pension was modest and should have only reduced the income by a small amount. Mr E complained about this and about the plan's historical performance as he didn't think with profit bonuses had been credited correctly.

Scottish Widows said it should have told Mr E about the spouse's pension requirement sooner and paid him £300 in compensation for this. But it said the annuity had been set up correctly. It said as he'd previously complained about bonuses in 2019, and it hadn't upheld the complaint then, it didn't need to consider this now. Mr E wasn't satisfied and made some further points. Scottish Widows reconsidered the complaint. It said the previous explanation for the reduction in income wasn't fully correct as it now realised it had initially used the wrong formula when calculating the pension and had overstated the income at £6,430.68, instead of £5,128.17. It said it couldn't provide the calculations around this as these were commercially sensitive, but it accepted it had created a "*false expectation*" and offered Mr E a further £300 in compensation, which he rejected. Mr E made further points which Scottish Widows didn't accept but it increased the compensation offer to a total of £800. And it said if Mr E wanted to repay all the income received, it would unwind the annuity. It said the final bonuses paid and the total values on Mr E's plans had been correct and explained how these were arrived at.

Mr E referred his complaints to our service and our investigator looked into it, but she didn't uphold it.

Our investigator said because our service wasn't the Regulator, we couldn't check Scottish Widows calculations, which would be based on factors that changed frequently. She said as Scottish Widows had made an error it meant Mr E was never entitled to the higher income,

so hadn't suffered a loss and was in the position he should have been in. And whilst it had made multiple errors, the £800 compensation offered for the distress and inconvenience caused was fair. She said the explanation Scottish Widows had provided around the plan values and final bonuses was reasonable, and there was nothing to suggest it had treated Mr E differently from any other with profit customer.

Mr E didn't agree; he said our investigator had glossed over things, specifically Scottish Widows breaching an agreement as he'd accepted the original illustration offered. He said despite it making multiple errors and providing incorrect and limited information, its statements were being accepted as fact without being challenged.

As Mr E doesn't agree it has come to me to decide.

### **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.

Having done so, I'm not upholding the complaint.

I understand Mr E's frustration and his argument that his acceptance of the initial illustration formed a binding contract that Scottish Widows should honour. However, I don't agree the illustration was binding. It was both caveated in that the fund value would be recalculated, and there was a clear error in it not reflecting the underlying terms and conditions of the pension policy relating to the GMP, specifically the provision of a spouse's pension. And as our investigator explained when a business makes an error in calculating benefits it isn't reasonable to expect it to honour that mistake. Doing so would ultimately be unfairly detrimental to other customers. At the same time, I think it's fair that a clear explanation of what has gone wrong should be provided as far as possible to alleviate Mr E's concerns about what was a significant change in the income available.

A business does have a right to commercial confidentiality, but some of the information already provided to Mr E and our service indicated that several factors would impact the values and benefits available, details of which would typically be set out in the original policy schedules and so wouldn't be commercially sensitive. So, I asked Scottish Widows some further questions about Mr E's pension plans and the information provided about them. It confirmed several points and provided a copy of the original policy schedule and illustrations from October 1987. These documents provided some clarification on a number of the issues raised by Mr E in his complaints.

They set out details of the GMP, the requirement for a spouse's pension to be provided and that the transfer value paid to Scottish Widows of £3,323.39 was to be split between a non-profit fund and a with profit fund investment, each having a guaranteed future value at age 65. The non-profit guaranteed future value was £11,968 and Mr E's policy ending 966 matured at this value. The with profit guaranteed value was £13,121.00, plus any future bonuses. This plan matured with a value of £37,080.70. It was likely that these guaranteed future values were the anticipated cost of securing the revalued GMP pension at age 65, calculated to be £2,382.12 per annum having been increased by 5% per year from 1987. A spouse's pension of 50% of this (so, £1,191.06) was also to be provided. The policy referred to a guaranteed annuity rate (GAR) of 11.11%, and I raised a further query with Scottish Widows around this.

Scottish Widows provided further information, explaining how the annuity figure was arrived at, which I think is correct. It confirmed the GAR rate for Mr E's pension was 11.111%, which is significantly higher than open market annuity rates. It said the cost of providing the GMP

for Mr E was calculated at £21,439.29 (which is the GMP of £2,282.12 divided by the GAR rate of 0.11111) plus a further £3,146.45 for the 50% spouse's pension at a current annuity rate. The combined cost of £24,585.74 for these benefits was deducted from the final policy value of £49,048.70, giving a residual fund of £24,472.96. The GAR of 11.11% was then applied to this giving a further pension on Mr E's life only of £2,719.19. The two pensions combined provides the annuity income of £5,101.32 per annum (rounded up), being paid to Mr E. So, it does appear the prevailing terms of the policy have been correctly applied here, and there's no evidence Mr E has been treated unfairly.

Mr E also raised concerns around the performance of his plan and the bonuses applied, which Scottish Widows says he had also complained about previously. It is certainly the case that actual investment returns achieved over the last few decades have been lower than were anticipated back in the 1980's and 1990's. The cost of providing pensions is also much higher than it was when Mr E took out the policy. The increasing "cost" of meeting guarantees applying to some policies, Mr E's included, also resulted in with profits funds in general becoming more cautiously invested, reducing the potential for additional returns. But as Scottish Widows has stated, for Mr E the with profit investment has returned around 7.8% per annum. And importantly his policy has provided more than the minimum it guaranteed to do (the GMP). The operation of with profits funds is closely monitored by the financial regulator and there is no evidence Mr E has been treated any differently from other investors in the fund.

But Scottish Widows did make an error in calculating the initial benefits. It should have explained this rather than just arranging the annuity at a lower amount. When Mr E queried things it provided incorrect and conflicting information, instead of properly explaining what caused the error and how it calculated the benefits, which would have reduced the need for him to make his own enquiries. These issues undoubtedly caused Mr E distress and inconvenience. However, I think the compensation of £800 already offered by Scottish Widows for this is fair in the circumstances of the complaint and Mr E can accept this if he wants, but it needn't do any more than it already has.

### **My final decision**

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 6 January 2026.

Nigel Bracken  
**Ombudsman**