DRN-5903087

The complaint

Mr S complains that Scottish Widows Limited treated him unfairly when he asked to take an income withdrawal from his pension savings in August 2024.

What happened

Mr S holds pension savings with Scottish Widows. In August 2024 Mr S got in touch with Scottish Widows by telephone to discuss taking part of his pension savings. He has explained to us that he was facing some financial pressures at that time due to the loss of his job earlier in the year and was suffering from some mental ill-health.

I haven't reviewed a recording of the phone call between Mr S and Scottish Widows. But it doesn't seem there is much dispute about what was discussed. Mr S says that he told Scottish Widows that he wanted to take a pension commencement lump sum ("PCLS" – more generally referred to as tax free cash) from his pension savings.

Scottish Widows responded to Mr S' request by sending him some information about the various ways in which he could withdraw money from his pension savings. Of particular relevance here were two options presented on the form under the heading of "Access your pension savings flexibly". Mr S completed the form indicating that he wished to take a partial encashment of £16,000.

Following receipt of the form, Scottish Widows sent Mr S a more detailed form for him to complete to authorise the withdrawal. On that form Mr S confirmed that he still wished to take a partial encashment but reduced the amount of the withdrawal to £15,000. He completed a number of declarations to confirm that he had been provided with information about how taxation would be applied to his withdrawal, and the impacts that the withdrawal would have on his annual pension contribution allowance. Scottish Widows paid the requested income to Mr S later that day after the deduction of the required income tax.

Around a year later Mr S complained to Scottish Widows about what had happened. He said that he hadn't intended to take a partial encashment but wanted a PCLS instead. He said that had been made clear on his original phone call, and Scottish Widows should have noticed he had made an incorrect selection of the application form. Scottish Widows didn't agree with Mr S' complaint. It said it wouldn't be able to reverse the income payment it had made. And it thought that it had paid the income in line with Mr S' instructions. Unhappy with that response Mr S brought his complaint to us.

Mr S' complaint has been assessed by one of our investigators. She thought it had been reasonable for Scottish Widows to rely on the information Mr S had provided on the application form rather than what he had said on the phone call. The investigator said it wasn't unusual for consumers to change their mind once they had received all the information about their choices. So, the investigator didn't think that Scottish Widows had done anything wrong.

Mr S 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 S and by Scottish Widows. 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.

It seems clear that Mr S didn't intend to take his pension benefits in the form of an Uncrystallised Funds Pension Lump Sum ("UFPLS") payment. It seems that he wanted to take a PCLS instead. But what I need to consider here is whether Scottish Widows was responsible for that mistake being made – whether the information it gave to Mr S was sufficiently clear, or whether it should have clarified what Mr S intended to do.

I think it would be helpful to set out my understanding of the relationship between Mr S and Scottish Widows. Scottish Widows is the administrator of Mr S' pension savings. But it doesn't provide Mr S with any advice, or recommendations, about those pension savings such as how they are invested, or how they might best be used to provide for Mr S' retirement. Those were essentially decisions that Mr S would need to take for himself.

As I have said earlier, I haven't listened to the call that Mr S had with Scottish Widows when he first asked to take some pension benefits. But it doesn't seem there is any dispute that Mr S told Scottish Widows on that call that his intention was to take a PCLS. And it seems that Mr S made similar requests to other pension providers with whom he held savings around the same time.

It isn't the role of this service to dictate to regulated businesses how their operations should be conducted. Here, following its normal process, Scottish Widows sent some information to Mr S, in response to his request, about the various choices he had when taking his pension benefits. I think sending that information was important since often consumers might not have sufficient understanding of the choices available to them before that information was received.

I've looked carefully at the information that was sent to Mr S about the choices he could make. As I will now go on to explain I think the information clearly differentiated between taking a UFPLS payment and a PCLS payment. I am satisfied that Scottish Widows wasn't at fault for Mr S choosing the incorrect option.

The document sent to Mr S set out the differences between taking flexi-access drawdown and a partial encashment. Specifically, for each option, it said;

__Flexi-Access Drawdown__; With this option, you can normally take up to 25% of the value of your pension as a tax-free lump sum and keep the rest invested in a drawdown plan.

__Partial Encashment__; You can take part of the value of your plan as a lump sum, and leave the rest invested. 25% of how much you take will be tax-free, but the rest is taxable.

A warning was also shown when partial encashment was selected that said;

This option is a taxable lump sum. To just access your tax-free cash, please choose "Flexi-Access Drawdown" above.

When Mr S sent back his choice to Scottish Widows, indicating that he wanted to take a partial encashment, Scottish Widows then sent him an application form for that option. The application form contained a number of further warnings that cover many of the aspects about which Mr S is now complaining.

Mr S told Scottish Widows that he wanted to take £15,000 gross from his plan as a cash lump sum payment. It then gave him the following warning;

The gross amount is the amount taken from your plan before tax. The amount you receive will be the gross amount minus any Income Tax. We'll calculate this using the Emergency Tax Code unless we've already got your actual Tax Code from His Majesty's Revenue and Customs (HMRC). You'll need to contact HMRC to claim back any overpayment of tax or pay any extra tax due.

It's important you understand the tax implications of taking money from your plan. You can use our interactive tax calculator on our website […] to get more information.

Scottish Widows also explained how the withdrawal would affect future pension contribution allowances when it said;

If you're paying contributions to other money purchase pension plans, these and any contributions paid on your behalf (e.g. contributions paid by your employer or a third party) can continue, but payments totalling over £10,000 on any given tax year will be subject to tax based on your marginal rate of income tax. This is because you are deemed to have 'flexibly accessed' your pension plan.

And Mr S was later asked to confirm specific declarations in relation to these matters, the relevant parts of which read;

Money Purchase Annual Allowance Declaration
I am aware that by taking this lump sum, I will be subject to a tax charge if future contributions (including employer contributions) to money purchase pension schemes exceed £10,000 in a given tax year.

Partial Encashment Declaration
- *I wish to take the agreed amount from my pension as a cash lump sum.*
- *I have been made aware that 25% of my plan value is tax free and that Income Tax will be deducted from the remainder. This will be calculated using the Emergency Tax Code we discussed on the call or the actual Tax Code supplied by HMRC if we already have this.*

- *The amount deducted may be more or less than my actual tax liability and I'm responsible for ensuring that I pay the correct amount of tax.*

And the information about the deduction of income tax, and the impacts on the annual contribution limits were detailed again when Scottish Widows sent Mr S confirmation that his income withdrawal had been processed.

So, I am satisfied that the information Scottish Widows sent to Mr S was clear and not misleading. I don't think, as Mr S suggests, that it is necessary for that information to be issued as separate letters for each option available.

I have thought carefully about whether Scottish Widows should have identified that the information Mr S had initially given by telephone (about wanting to take a PCLS) was different to that he returned on the application form. But I'm not persuaded that would be a reasonable expectation of the firm.

As I've said above it isn't uncommon for consumers to change their mind about how to access their pension income once they have received and carefully considered all the options available to them. Scottish Widows did not have any understanding of Mr S' financial position, or future plans, in order to identify that he might not be acting in his best interests. And in any case, as Scottish Widows wasn't advising Mr S on how to proceed, providing an assessment of that nature would have been wholly inappropriate. Scottish Widows will receive many telephone enquiries each day about taking pension benefits. It would be unreasonable to expect the firm to validate the output of those enquiries against the applications it subsequently receives.

So, I think Scottish Widows was entirely correct in relying on the written application it received from Mr S and paying his pension income accordingly.

I have also considered whether it would have been reasonable for Scottish Widows to reverse the payment since Mr S says it had been requested in error. HMRC has very strict rules about whether, or how, pension income payments can be reversed. In most cases it is not possible to return income payments once they have been taken from pension savings. Scottish Widows warned Mr S that would be the case before he made his application when it told him "Please note this decision can't be cancelled or reversed once you submit your form".

So, I think it reasonable that Scottish Widows refused Mr S' request for the payment to be reversed. And I think that conclusion is only strengthened by the length of time it took Mr S to make Scottish Widows aware of his concerns about what had happened. Even if a correction had been allowed under HMRC rules it is unlikely that it could have been actioned a year after the payment had been made.

I understand how disappointing this decision will be for Mr S. Not only has he needed to pay income tax on some of his pension withdrawal, but he now also faces lifetime restrictions on the amount he, or any employer, can add to his pension each year without incurring further tax charges. But I am sorry to tell Mr S that I don't think the problems he faces are as a result of something Scottish Widows did wrong. I think the information he was given by Scottish Widows, both before he made his decision, and when confirming his choice, was clear.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Scottish Widows Limited**.**

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 30 January 2026.

Paul Reilly
Ombudsman