

The complaint

Mrs S complains that Phoenix Life Limited (“Phoenix”) paid her some retirement benefits both incorrectly and far later than should be considered reasonable.

What happened

Mrs S has been assisted in dealing with this complaint by her partner. But in this decision, for ease, I will simply refer to all communication as if it has been with, and from, Mrs S herself.

Mrs S held pension savings with Phoenix. Her money was held across four different pension plans and benefitted from protected tax-free cash (“PTFC”) – in other words, when Mrs S took her pension benefits she would be able to receive more than the normal 25% of her pension savings tax free.

Given the complexities of her situation Mrs S engaged a financial advisor to assist her. Phoenix accepts that it didn’t deal with the financial advisor’s enquiries as well as it should have done. It provided incorrect and incomplete information in the lead up to Mrs S taking her pension benefits. As a result, and following an initial complaint, Phoenix said that it would use 26 August 2024 as Mrs S’ date of intent – it said it thought that was the earliest time it could have settled her claim had nothing gone wrong. Phoenix said it would use that date to check whether the delays had caused Mrs S to lose out. And it paid Mrs S £250 for the inconvenience she’d been caused

Mrs S then proceeded to take her pension benefits. The nature of the legislation relating to taking PTFC meant that the remainder of her pension savings needed to be used, within six months of the PTFC being paid, to purchase an annuity. Mrs S instructed Phoenix to pay the PTFC and transfer the remainder of her pension savings to another provider so the annuity could be purchased.

But Phoenix processed Mrs S’ claim incorrectly. It paid her the whole of her pension benefits as a lump sum. So that meant that Mrs S only received 25% of her pension benefits tax free, and she needed to pay income tax on the remainder. Mrs S complained to Phoenix about what had happened two days later and tried to make further contact with Phoenix on at least three further occasions – Phoenix accepts that it didn’t respond to those enquiries as quickly as it should have.

Around a month after Mrs S pension benefits had been paid Phoenix wrote to her financial advisor to ask that the incorrectly paid funds were returned in full so a corrected payment could be made. But Mrs S asked instead that she be allowed to retain the PTFC amount and only return the resulting balance. Phoenix repeated its requirement that all the payments be returned in its final response letter issued in early May 2025. And it offered Mrs S a further £250 compensation for the inconvenience she’d been caused. Unhappy with that response Mrs S brought her complaint to us.

Before the complaint could be looked at by one of our investigators, Phoenix increased the amount it had offered for Mrs S’ inconvenience to a total of £1,000. But it said that it would

still require the return of all the monies it had paid in order to reverse the incorrect transaction. Mrs S didn't accept that offer so we continued to look at the complaint.

Mrs S' complaint has been assessed by one of our investigators. She thought it was reasonable for Phoenix to require Mrs S to repay all the funds before any corrections took place. But regardless of whether that happened the investigator thought that Phoenix needed to pay Mrs S some compensation for the delays to the PTFC payment being made. The investigator thought that the compensation Phoenix had offered for Mrs S' inconvenience was fair.

Phoenix accepted that assessment and said it would carry out a further loss assessment if Mrs S was unable to return the funds. But Mrs S thought it appropriate for additional compensation to be paid. 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. If Mrs S accepts my decision, it is legally binding on both parties.

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 Mrs S and by Phoenix. 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.

There seems to be little dispute about the basic facts of this complaint. Phoenix accepts that it didn't deal with Mrs S' initial enquiries about her PTFC as quickly or efficiently as it should have. And then, when Mrs S put her pension benefits into payment, Phoenix made a serious error in the format of the benefits it paid. So, what I am tasked with considering here is not whether something went wrong, but how those errors have affected Mrs S and what Phoenix needs to do to put things right.

As Mrs S became aware, in order to benefit from the PTFC she would need to use the remainder of her pension savings to purchase an annuity. And the legislation requires that annuity to be purchased within six months of the PTFC being paid. Should the annuity not be purchased, then the PTFC would be considered an unauthorised pension payment and attract taxation at a rate of up to 55%.

That part of the legislation is important when considering how to put things right since we are now more than six months past the pension benefits being paid. That means that, in order to reverse what would have been the taxable part of the payment (and use the funds as intended to purchase an annuity), the PTFC part would also need to be reversed as otherwise the annuity purchase would be more than six months after the PTFC had been paid. I appreciate how unsatisfactory that situation is for Mrs S, but Phoenix (and I in this final decision) is bound by the six-month deadline set out in the relevant legislation.

I have explained these issues to Mrs S. In response she has said that she has used the value of the PTFC to repay some long-term credit card debt. So, to repay the full amount to Phoenix would leave her needing to take on new debt – and that is not something that she is willing or even able to do. So, Mrs S has told me that, reluctantly given she has no practical alternative, she will need to accept the way in which her pension benefits have been paid to her.

But I agree with our investigator that Phoenix should also pay Mrs S some compensation to reflect the delays in the payment being made. In its first final response letter Phoenix told Mrs S that it thought it could have reasonably paid her pension benefits to her by 26 August 2024 had nothing gone wrong. I see no reason to disagree with that date, nor have I seen any disagreement from Mrs S about its use.

As I said earlier, Mrs S has said that she wanted to use the PTFC to repay some long-term credit card debt that she held. She has provided me with credit card statements showing approximately £25,000 of debt being cleared between June and August 2025 following receipt of the pension monies. My understanding is that debt was also present when the payment should have been made in August 2024, and I think it likely that Mrs S would have taken the decision to clear that amount of debt at that time. So, it seems to me that Mrs S has paid interest, for approximately 12 months on the credit card debt, that would have not been paid had the pension benefits been paid on time. Looking at the relevant interest rates, and the proportions of the debts at those rates, I think it reasonable to estimate the effective interest rate paid by Mrs S to be 26%.

It seems clear that the problems with the pension benefits being put into payment will have caused considerable distress and inconvenience to Mrs S. She has saved over an extended period of time to provide benefits for her retirement. But those plans have been greatly changed by the errors of Phoenix, both in terms of the delays to her benefits being paid, and her no longer receiving an annuity providing a lifetime income.

As I have said earlier, Phoenix has already paid £250 to Mrs S for her distress and inconvenience. And it has offered her a further payment of £750 (making a total payment of £1,000). Having thought carefully about the problems caused to Mrs S, and the awards that I would make in similar circumstances to these, I have concluded that the offer Phoenix has made, for a total payment of £1,000, is fair and reasonable. So, I will direct Phoenix to pay the balance of the award to Mrs S.

I appreciate that this decision does not go as far as Mrs S would like. But as I have explained, without the return of the whole payment that Phoenix made to Mrs S in error, it is likely that her PTFC would now be considered an unauthorised payment by HMRC. So, I am not able to reflect her wishes to simply return part of the payment to Phoenix and that means she needs to accept the payment in the form it was made. I think that the compensation I set out below is fair and reasonable and reflects the losses Mrs S has experienced due to the late payment of the pension benefits.

Putting things right

As Mrs S has said she is unable to return the whole payment to Phoenix I have concluded that she reluctantly accepts the nature of the payment that has already been made (that is it being a cash lump sum of which 75% is subject to income tax). I do not direct any compensation for any additional income tax she has needed to pay. But I direct the compensation for the late payment as below

Compensation for late payment

I think Mrs S has provided clear evidence that she intended to, and indeed did, use the pension payment to repay some outstanding credit card debts. It seems entirely reasonable that she would have taken a similar course of action had she received the PTFC payment at the earlier date in August 2024. So, I'd propose Phoenix should do the following to provide reasonable compensation;

- Pay compensation to Mrs S equal to an estimate of the credit card interest she paid (at a simple rate equal to that charged by the credit cards as set out earlier in this decision) for the period August 2024 to March 2025 capped at a maximum outstanding balance of the permitted PTFC that should have been paid at that time.

Compensation for distress and inconvenience

Phoenix has offered Mrs S a total of £1,000 compensation for the distress and inconvenience she has been caused. Only £250 of that compensation has been paid to date. I think a total payment of £1,000 for Mrs S' distress and inconvenience would be appropriate, so I direct the balance of £750 be paid to her.

My final decision

My final decision is that I uphold Mrs S's complaint and direct Phoenix Life Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 19 February 2026.

Paul Reilly
Ombudsman