

complaint

Mr E's complaint is that he thinks that he has been disadvantaged by being told to contract-out of the State Earnings-Related Pension Scheme (SERPS). The advice was given to him in 1988 by The Prudential Assurance Company Limited. He doesn't feel that the risks, costs and implications were properly explained to him.

background

In 1988 Mr E opted out of SERPS via an appropriate personal pension with Prudential. He was aged 24 at the time and employed earning £8,778 per year. He explained to the adviser who he spoke to that his priority was pension provision.

An illustration was produced at the time which showed the potential income from the policy (in then current terms) based on two assumed growth rates. The lower of these showed an income of £52 per year and the higher £137 per year. It was also explained that the annuity that would be provided would increase at 3% each year and include a 50% spouse's pension.

Prudential didn't uphold Mr E's complaint. It said that he had met its criteria for someone who could benefit from being contracted-out of SERPS. Mr E had been given an illustration of projected benefits and the pension was invested in a low risk fund. It said that his circumstances and needs had been discussed and details of the policy, SERPS and contracting out were provided. It didn't uphold his complaint.

Prudential also explained how it determined who should and shouldn't contract-out of SERPS. This was based on actuarial calculations, but the amount someone earned, their age and time to retirement, and income were all factors. In this case, it considered that a man should be younger than 45 (the pivotal age), able to opt out for a minimum of five years and earning at least £5,000 per year.

Our investigator didn't uphold Mr E's complaint. She asked him to explain how he had concluded that he had been disadvantaged by taking the Prudential policy. He said that he had made enquiries with the Department of Work and Pensions (DWP). It had given him figures for his likely pension income with and without SERPS. The latter being £38.74 per week lower.

my findings

I have considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The purpose of appropriate personal pensions was to take what would be contributions made to a state scheme and invest them for, what was hoped, better growth and benefits. As Prudential has explained, at the time this policy was taken out, the suitability of doing so was based on three key factors – age, annual earnings and time left to state retirement age. Mr E was 24, had an income above the limit applied by Prudential and had 40 years for his policy to achieve growth.

I am satisfied that Mr E met the required conditions to potentially benefit from contracting-out of SERPS. Of course the key factor in benefiting from doing so was the growth that would be achieved during the term of the policy. The policy he invested in was considered to be a low

risk one and suitable for most people at the time. I have seen nothing in Mr E's circumstances that would have prevented him from accepting this low level of risk.

The illustration given to Mr E at the time of the sale used estimates for the growth the policy might achieve; these were commonly used by most providers of such policies. Whilst it is of course disappointing that that level of growth may not have been achieved, it was never guaranteed to be.

Mr E has said that he doesn't feel that the costs were properly explained to him. At the time there was no specific requirement for the fees and charges to be highlighted during the sales process, although the consumer had to be given details of them in the literature. I am satisfied that this information would have been provided to him in the form of the product booklet at the time of the sale and later in the terms and conditions following the policy being set up.

I have noted that Mr E has said that the DWP has given him information that shows that he will receive less in pension than he would have had he remained in SERPS. As Mr E didn't provide a copy of his correspondence with DWP, I can't specifically comment on it. However, what I can confirm is that DWP won't have access to information about Mr E's pension policy and what he is likely to receive as an income from it. So the difference between the two figures at the very least needs to be off-set against any income he will receive from his pension policy. Mr E may want to contact his current pension provider to ask for this information.

Overall, I am satisfied that the recommendation for Mr E to contract-out of SERPS was a reasonable one, based on his circumstances at the time.

my final decision

My final decision is that I don't uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask Mr E to accept or reject my decision before 23 April 2018.

Derry Baxter
ombudsman