

complaint

Miss N's complaint is about the sale of her Teachers' Additional Voluntary Contributions ("TAVC") pension policy by The Prudential Assurance Company Limited ("Prudential"). Miss N says she wasn't told about the option to buy 'Past Added Years' within her Teachers' Pension Scheme ("TPS"). She feels that this would have been the better option for her.

background

In 1992, a Prudential representative sold Miss N a TAVC policy, with a starting contribution of 2% of her salary per year. She continued to make contributions until 2013, when she transferred her TAVC pension fund to another arrangement. Miss N complained to Prudential in 2014, because she had learned about the Added Years option. This was an option allowing employees participating in the TPS to apply to buy extra 'final salary' pension. Employees could pay contributions to make up any shortfall in the number of years they could've been a member of the TPS – based on being eligible to join from age 20.

Miss N felt that Prudential hadn't advised her of all the options available to her when it sold her the TAVC policy, and that she'd have chosen Added Years if she'd been told about them. Prudential said although it couldn't prove its representative definitely made her aware of the Added Years option, it was standard procedure to do so, and it had no reason to think this procedure wasn't followed. But in any case, it didn't think Added Years would've been Miss N's natural choice back in 1992. Our adjudicator agreed with Prudential. As Miss N was unhappy with the adjudicator's conclusions, she asked for her complaint to be passed to an ombudsman for review and a final decision.

Miss N has explained that she joined the TPS at age 21. This means she was likely to be eligible to buy one extra year of service under the Added Years option.

my findings

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've decided not to uphold Miss N's complaint against Prudential.

Miss N says that Prudential didn't tell her about the Added Years option when she was sold the TAVC policy in 1992. It's difficult to know now what Miss N was told, due to the limited records and the passage of time.

Miss N ought to have been provided with a scheme booklet when she joined the TPS, which would've explained the various options she had for paying extra contributions to increase her pension provision – including the option of buying Added Years. Prudential says that most TAVC policies were set up after teachers had attended a presentation by a Prudential representative, who visited schools. It says that the standard presentation included pointing out the Added Years option, although teachers would have had to contact the TPS administrators for further information about this option.

There is also a section on the TAVC policy application form which asks if the applicant is currently paying additional contributions for Added Years under the TPS. Prudential accepts that in Miss N's case, the representative has scored through this section. Miss N says this option wasn't discussed with her. Prudential says it would've been discussed at the time.

Although the evidence is inconclusive about what was discussed, I do think there were a number of opportunities for Miss N to become aware of the Added Years option. So I'm not satisfied that I should conclude she most likely wasn't told about this.

But, I also need to consider if I think that Miss N would've most likely opted for Added Years, rather than the TAVC policy, if Prudential had definitely discussed this with her. For the reasons set out below, I don't think I can say that she would've chosen Added Years rather than taking out the TAVC policy, based on which option was likely to have seemed most beneficial for her.

First, because Miss N joined the TPS at age 21, it seems that she could only have been eligible to buy one more year of service within the TPS through the Added Years option. This wouldn't have significantly increased her overall pension provision. That extra year of service would have given her a slightly higher, guaranteed, index-linked pension (ie increasing each year to protect against inflation). But there were a number of other reasons why the TAVC policy may have seemed more attractive, and beneficial, for her at the time of sale. In particular:

- The extra pension benefits from buying Added Years were fixed from the outset, whereas TAVC policies had no cap on the benefits that could be achieved, depending on investment performance and annuity rates available at retirement.
- The contributions required to buy Added Years had to be agreed upfront, whereas TAVC policies allowed the flexibility to adjust the contribution rate from year to year, as financial circumstances allowed (subject to the Inland Revenue cap on total pension contributions).
- The true value of buying Added Years depended, to some extent, on Miss N's final salary in the three years prior to her leaving 'pensionable service' in the TPS. If Miss N didn't have significant uplifts in her salary over the period until she retired or otherwise left service, there could have been more perceived value in contributing to an arrangement that didn't depend on salary growth but on investment returns to increase the pension income Miss N would receive.
- Expectations of investment growth were higher back in 1992 than they are today, so the expected return from investing in the With Profits Fund was then anticipated to be potentially more beneficial than buying Additional Years. Annuity rates were also much better then than they are today.
- For an unmarried employee, there was also a higher potential for benefit from the TAVCs arrangement, because included in the cost of buying Added Years within the TPS is an allowance for a spouse or dependant's pension, which might never be required. By comparison, the TAVC policy allowed the employee to choose *at retirement* whether to buy a 'single life' annuity (one just for herself), or a 'joint life' annuity, if she had by that time married and wanted her spouse to benefit from an increased pension income after she died. And if the individual remained unmarried at retirement, they benefited 100% from the funds they had built up in the TAVCs arrangement.

For all these reasons, I'm not persuaded that Miss N would've chosen Added Years rather than starting a TAVC policy in 1992, if she'd been aware of both options. I'm also not satisfied that I could conclude that Miss N has been financially disadvantaged by taking out a TAVC policy, given that she could only have made a small increase to her pension provision through the Added Years option.

my final decision

I haven't upheld Miss N's complaint, so I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 4 April 2016.

Venetia Trayhurn
ombudsman