

## **complaint**

Mr R has complained about his with-profits annuity with The Prudential Assurance Company Limited (referred to from now on as Prudential). Mr R does not believe that Prudential is applying a guaranteed interest rate correctly.

## **background**

Mr R originally took out an Equitable Life with-profits annuity in 1992. At that time Equitable Life applied a guaranteed interest rate of 3.5%. This had the effect of increasing the initial income from the with-profits annuity.

Mr R also selected an anticipated bonus rate of 6.5%. This further increased the initial income.

The product particulars stated that this equated to anticipation of an overall rate of return of 10.2275% (where  $1.035 \times 1.065 = 1.102275$ ) because 3.5% interest was implicitly guaranteed. If returns were lower than this combined figure of 10.2275% the annuity income would be reduced.

As the returns were lower than 10.2275% the income was reduced in the following years. The annuity was then transferred to Prudential in 2007 following the closure of Equitable Life to new business. This transfer was reviewed and approved by an independent actuary and by the courts.

Mr R complained to Prudential in 2015 as he believed that Prudential was not applying the guaranteed interest rate correctly. He considered that his pension should be higher.

Prudential did not uphold the complaint and in a number of letters explained how the bonuses were applied to Mr R's with-profits annuity. Mr R did not accept any of the explanations and brought his complaint to this service.

Having considered the submissions, an adjudicator did not uphold the complaint. In his view Prudential's explanation of how the annuity worked was in line with other documents he had seen. He said that the policy worked in the same way as it had from the outset except that the underlying fund was now part of the Prudential's with profit fund.

Mr R did not accept the adjudicator's assessment. He provided his own calculations that he argued showed he had been receiving less than he was entitled to.

The adjudicator still felt that the complaint should not be upheld. He said:

- The starting income was around 10.5% of the purchase price. This showed that it was determined by the combined effect of the guaranteed interest rate and anticipated bonus rate – 10.2275%.
- A letter from 1996 stated that the overall rate of return would be credited by way of the guaranteed interest rate, declared bonus and final bonus. A separate document

showed that Equitable had used these rates to calculate the income in the same way as Prudential had later.

- Mr R's calculations were not accurate.

Mr R maintained that a guaranteed uplift of 3.5% should be applied each year. He also said that the guaranteed interest rate did not form part of the overall rate of return. He suggested that the documents said an overall rate of return of 6.5% was required to maintain a level annuity.

The adjudicator referred again to the 1996 letter. This said that the guaranteed interest rate was included in the overall rate of return.

As agreement could not be reached, the complaint was referred to me for a decision

### **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 have come to the same conclusions as the adjudicator.

This is not a straightforward product. The calculations Prudential makes to work out the annuity income are not straightforward either. It is understandable that some policyholders may find them difficult to understand.

Prudential does provide a number of guides to how it operates the former Equitable Life with-profits annuities. These documents are available on its website. They include the Principles and Practices of Financial Management. This is a very technical document but Prudential has published a customer friendly version that is much shorter and easier to understand.

Whilst Mr R clearly believes that Prudential is not applying the guaranteed interest rate correctly I am afraid that having reviewed the responses from Prudential I disagree.

In its letter to Mr R dated 16 November 2015 Prudential explained how Mr R's with-profits annuity is being administered and how the Assumed Bonus Rate of 6.5% and the guaranteed interest rate of 3.5% interact. I consider that explanation is correct. There is no evidence that Prudential is managing Mr R's annuity inappropriately.

I agree it is a difficult product to understand but the way it operates should have been explained to Mr R by the individual who arranged the policy in 1992.

I can understand Mr R's disappointment with the reduction in the level of his income. Mr R may feel that the risk of this occurring was not made clear at the outset. But Prudential did not sell the annuity to him.

Finally I should point out that Prudential has an independent With Profits Committee whose role is to protect the rights of with-profits policyholders. Prudential's management of its with-profits fund is also overseen by the regulator. I am not aware that the regulator has any concerns over the way that the with profits fund is being administered. I am satisfied that Prudential is calculating the income correctly.

**my final decision**

I do not uphold Mr R's complaint against The Prudential Assurance Company Limited and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 10 October 2016.

Adrian Hudson  
**ombudsman**