

complaint

Mr A has complained to The Prudential Assurance Company Limited about the sale of his Local Government Additional Voluntary Contributions (LGAVC) pension plan.

background

The background to this complaint was set out in my provisional decision which was issued in July 2017. This is attached and forms part of this final decision, so I won't repeat that information here.

In my provisional decision I set out why I was minded to reject Mr A's complaint and I invited both parties to let me have their further comments.

Mr A's representative responded with further points. In summary they've said that:

- Mr A's comments in respect of income meeting expenditure related to when he was married with dependent children. And he separated in 1994, divorced in 1995 and was mortgage free with surplus funds from the sale of the marital home.
- Mr A was mindful that he had very little pension so he sought to maximise his retirement provision.
- Mr A is adamant that had he been made aware of how added years offered a greater guaranteed income with inflation proof returns he would've undertaken them.
- It's not correct that Mr A needed 18 added years. He'd transferred a preserved previous pension into the Local Government Scheme awarding him additional years. And he estimates that he would've required a maximum of 9 added years. The cost of which wasn't prohibitive.
- Mr A believes he's been financially disadvantaged by Prudential not making him aware of added years.
- The ombudsman has suggested that Mr A's reasons for complaint were inappropriate because most of the complaint points related to an FSAVC having been sold. However, Mr A disagrees and still feels many of his complaint point are relevant.
- Mr A believed Prudential offered a "safe bet" yet the product sold couldn't reasonably be described as offering a safe proposition. And there's no evidence of how Mr A's risk profile was ascertained at the point of sale.

Prudential responded to my provisional decision and confirmed that it had nothing further to add.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so, I'm not upholding the complaint.

At the time this plan was sold, and up until the introduction of stakeholder pensions in 2001, there were only a limited number of options available for members of an occupational pension scheme (OPS) to top up their retirement provision. All employers operating an OPS had to provide an in-house AVC option. These were generally defined contribution plans – like the LGAVC. But some schemes, like the Local Government Pension Scheme, also offered its members a defined benefit option called added years. If an OPS member didn't want to contribute to the in-house options, they could take out an FSAVC instead.

The main difference between an FSVAC and the in-house LGAVC plan that Mr A took out is the charges. With an in-house AVC, the employer bears the administration costs, whereas with an FSAVC the plan holder is responsible for covering these. This generally means that in-house AVCs are likely to be a more cost effective option than an FSAVC.

Although the LGAVC Mr A took out was cheaper than an FSAVC, it doesn't necessarily mean that the plan was suitable for him. This is because AVCs and FSAVCs can involve more risk than added years. Whereas added years tended to be more suitable for someone who adopts a risk-averse approach to investing.

Prudential no longer has the sales documentation available so I don't know what Mr A told the adviser about his risk profile when he took the plan out. However, when Mr A spoke to our adjudicator, he explained that he wouldn't have wanted anything high risk. Prudential hasn't been able to confirm the funds Mr A was invested in but it has explained that generally LGAVCs were invested in the with profits fund, which is considered to be low to medium risk. In my view this fund would suit someone who wasn't risk adverse but didn't want to take a high risk with their investments. In any event, Mr A contributed just over £18,000 to his LGAVC and received a lump sum of £27,314.32 when he took the benefits from his plan in 2012. So even if it was determined that he'd been invested in a fund that didn't suit his risk profile, he's not suffered as loss as a result of this.

However, Mr A still believes that he's been financially disadvantaged as a result of Prudential not making him aware that added years were an alternative way for him to increase his pension provision. And I acknowledge what he's said about transferring a previously preserved pension into the Local Government Pension Scheme. So he would've only needed to purchase around nine added years if he was to retire on the maximum scheme benefit; not 18 years as I'd previously stated in my provisional decision. However, this in my view still doesn't suggest that he would've opted to purchase added years, if Prudential had advised him that this was an alternative option.

I say this because at the time the LGAVC was sold, Mr A could've contributed up to 15% of his salary to his pension. He was already contributing 6% to his OPS. So the maximum he could've contributed to either the LGAVC, an FSAVC or added years, was 9%. But despite saying that he had a surplus of funds at the time of the sale and that he was looking to maximise his retirement benefits, Mr A only contributed 4.5% of his salary to the plan. This suggests to me that either Mr A wasn't in a position to contribute more to his pension, or he wasn't willing to. And although 4.5% of Mr A's salary would've been enough to purchase some added years, he would've need to contribute around twice this amount to buy the 9 added years that he would've needed to retire on the maximum scheme benefit.

I acknowledged in my provisional decision that Mr A didn't need to buy the maximum number of years. And having reconsidered everything that has been provided, including Mr A's latest submissions, my thoughts on this haven't changed. I haven't seen anything to suggest that Mr A was risk adverse or that he was unable to take any risk at all. So I'm still of the opinion that, at the time of the sale, the LGAVC plan would've been projected to provide greater benefits than added years. So I think its likely Mr A would have considered it a more attractive option for increasing his retirement provision. And Mr A's circumstances at the time suggest the LGAVC would've been suitable.

Given the above, I don't think the advice to take out the LGAVC was unsuitable for Mr A at the time. And I think it's likely that, even if he'd been given information about added years, Mr A would've opted to take the LGAVC. It follows that I don't uphold his complaint.

my final decision

My final decision is that I don't uphold Mr A's complaint against The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 13 October 2018.

Lorna Goulding
ombudsman

provisional decision - 18 July 2018

complaint

Mr A has complained to The Prudential Assurance Company Limited about the sale of his Local Government Additional Voluntary Contributions (LGAVC) pension plan.

Mr A is being assisted with his complaint by a third party but for ease of reading the decision, I'll refer to all submissions as being made by Mr A.

background

Mr A took out a LGAVC plan in 1996. Unfortunately, there's limited sales paperwork available but it's been determined that at the time of the sale Mr A was 45 years old. He was working for the Local Government and he'd been a member of the Local Government Pension Scheme (LGPS) since becoming a full time employee in May 1994. His normal retirement date under the LGPS was 65 and he opted to contribute 4.5% of his salary to the LGAVC.

Prudential has confirmed that Mr A contributed a total of £18,188 to the LGAVC and he received a lump sum of £27,314.32 when he took the benefits in 2012, at the age of 61.

Mr A complained to Prudential in 2017. Many of the complaint points weren't relevant as they related to Mr A having been sold a Free Standing Additional Voluntary Contribution (FSAVC) plan. But this wasn't the type of plan that he had; he'd taken out an in-house LGAVC plan. This was one of the options set up to allow members of the LGPS to top up their retirement benefits. The only complaint point that was relevant to the type of plan that Mr A held was in relation to added years. Mr A said that if he'd been given adequate information during the sale of the LGAVC about this alternative option, he would've opted for this instead of contributing to the LGAVC plan.

Prudential reviewed the complaint but it didn't think it had done anything wrong. Mr A didn't accept Prudential's response so he referred the matter to this service for consideration.

One of our adjudicators reviewed the complaint. He said that based on the information available, he thought that Mr A decided to take out the LGAVC policy himself, he didn't pay for, or take any formal advice on the matter. So the adjudicator didn't think it would be fair to say that Prudential was responsible for a choice that Mr A may now feel was wrong.

Mr A didn't agree with the adjudicator's findings so the complaint has been passed to me to decide.

my provisional 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 don't currently intend to uphold the complaint. But before making a final decision I wanted to give both parties the opportunity to provide their final comments.

I think it's very likely that when Mr A joined the LGPS he was provided with a scheme booklet either by his employer or the scheme administrators. And I think it's likely that this booklet explained the various options he had for paying extra contributions to increase his pension provision – including the option of buying added years. So I think, on balance, Mr A had most likely been provided with information regarding the added years option two years before he started his LGAVC. But in case he didn't receive a booklet, I've also considered the possibility that Mr A wasn't aware of the added years option before he met with Prudential.

Prudential no longer has the paperwork from the time of the sale so it's not possible for me to say whether or not it provided Mr A with advice when the policy was taken out. And even if it did, the sales

representative was only authorised to provide advice on Prudential products; they couldn't have advised Mr A on the added years option.

All the Prudential representative had to do was make Mr A aware that added years were an alternative option and refer him to the LGPS booklet for further information. But with such limited information, I can't be satisfied that it did this. So I've thought about whether Mr A would've most likely opted for added years, rather than the LGAVC policy, if he'd known that this was an alternative option. For the reasons set out below, I don't think I can say that he would've chosen added years in 1996 rather than taking out the LGAVC policy.

The cost of added years of service in the LGPS was determined by the Government Actuary using conservative assumptions of likely future investment experience. This made them more expensive than if a less conservative (or more optimistic) set of assumptions had been used. The aim was to make sure, as far as possible, that the cost of added years would be met by the members. The intention was that this would mean there would be no shortfall that would have to be picked up by the employer.

Mr A contributed 4.5% of his salary to the LGAVC but it would have cost him much more than this if he'd wanted to purchase enough added years to retire with the maximum scheme benefits. I say this because it seems likely that Mr A would have needed to purchase around 18 added years. And although I don't know exactly how much it would have cost to buy each year in the LGPS, I know that in other public pension schemes, the cost would've been around 1% for each extra year. So I don't think it's unreasonable to assume it would've cost a similar amount in the LGPS. So Mr A would've needed to contribute around 18% of his salary to retire on maximum benefits. I'm aware that Mr A advised the adjudicator that he spent all that he earned at the time of the sale. So I think it's unlikely that he would've wanted to - or if indeed he would've been in a position to - contribute any more than 4.5% of his salary.

I do appreciate that Mr A wouldn't have needed to buy all 18 added years. But at the time it would probably have been shown that the projected benefits from the LGAVC - based on a contribution rate of 4.5% - would be greater than the benefits of using this same contribution rate to purchase added years. So it's difficult to say now that Mr A would definitely have considered it the cost effective or affordable option, when compared with the projected benefits available from investing in the LGAVC plan.

Given the above, although I can't say with any certainty what Mr A was told during the sale of the LGPS, I don't think Mr A would've opted to purchase added years, if he'd been told about this alternative option. So I'm not currently minded to uphold the complaint.

my provisional decision

My provisional decision is that I'm not currently minded to uphold the complaint against The Prudential Assurance Company Limited.

Lorna Goulding
ombudsman