complaint

Mr R is complaining that The Prudential Assurance Company Limited gave him incorrect information about a guaranteed annuity rate (GAR) applying to his pension.

background

Mr R had a personal pension plan with Prudential with a target retirement date of February 2014. The pension was invested in Prudential's with-profits fund. In June 2013 Mr R phoned Prudential and says he was told that the guaranteed annuity applying to his pension would be £93 per £1,000 - the equivalent of a GAR of 9.3%.

In September 2013 Prudential wrote to Mr R to explain his options as he approached his target retirement date. Following this Mr R called to request a quote which was sent to him in October.

On 25 October 2013 Mr R called Prudential and completed a declaration to draw his pension in February 2014. Prudential told him the pension fund would be switched to a cash fund in preparation for this.

The pension was switched to a cash fund and funds were sent to Mr R's account in March 2014. But on 29 April Mr R told Prudential he no longer wanted to go ahead with drawing his pension and returned the funds. Prudential then changed his target retirement date to February 2029. Since Mr R returned the funds to Prudential they've remained in the cash fund.

On 31 August 2014 Mr R wrote to Prudential to ask them to keep his existing pension pot '*invested and accessible in readiness for the new pension regulations.'*

In May 2017 Mr R called Prudential and they told him again that a GAR applied to his pension. But the next day the adviser called him back to say she'd been mistaken, and no GAR applied.

Mr R complained to Prudential. He said they hadn't honoured the GAR rate quoted to him and the value of his fund was reducing.

Prudential replied to say that Mr R's funds had been switched to cash, so the interest rate was low and it was subject to annual charges. They apologised for the information their advisers had given him about the GAR, but clarified that this was incorrect because his pension didn't carry a GAR. They offered him £100 in compensation which they sent to him by cheque, but Mr R rejected this and returned the cheque.

Mr R wasn't satisfied with Prudential's response and wrote to them again. He said, in summary, that he'd converted his pension to the cash fund due to the incorrect information he'd been given about the GAR. And he was unhappy that his funds had remained in the cash fund since. He asked for the GAR he'd been quoted to be honoured, or for the fund to be reinstated from its 2014 value. He enclosed a letter he'd received in May 2012 from Prudential, which said he had a guarantee that the unit price would increase by 4% each year on all units held within the plan.

Prudential responded to say they wouldn't honour the GAR or reinstate the fund. They explained that the letter from May 2010 didn't refer to a GAR. But they didn't think they'd explained things very well in their letters so they increased their compensation offer to £150.

Mr R remained unhappy and brought his complaint to us. Our investigator didn't uphold Mr R's complaint because he thought the £150 Prudential had offered Mr R was fair, but Mr R asked for his complaint to be looked at again. So his complaint's now been passed to me for review and 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'm not going to ask Prudential to do any more than they've already offered to do to resolve Mr R's complaint. Let me explain why.

I've looked at the paperwork Mr R signed when he took out his pension. I can see he took out a personal pension with Scottish Amicable in June 1988. The type of pension Mr R took was a retirement annuity contract.

I've looked at the terms and conditions of Mr R's pension in relation to the retirement benefits it offers. Section 9.3 refers to the primary benefit and says:

The retirement fund shall be applied to secure a pension in accordance with the society's annuity rates current at the retirement date…

The terms go on to say (in summary) that a cash sum may be taken at retirement date, in which case a reduced pension can be paid, the payments from which can be guaranteed for a fixed period even if Mr R dies within that period.

I can't see anything in the terms and conditions of Mr R's pension to say a GAR will be payable on retirement. So I don't think Prudential are incorrect to say that no GAR is applicable to Mr R's pension.

I've noted Mr R's general point about businesses avoiding paying GARs on retirement annuities. But I don't think a GAR ever applied to the pension he held with Prudential, so I don't think this is relevant here.

We don't have a recording of the call between Mr R and Prudential from June 2013. But I do think it's plausible that he was given incorrect information about the GAR in June 2013 from the notes he's made at the time. And he was also given incorrect information about the GAR in May 2017, so I think this suggests Prudential's advisers weren't always clear about when a GAR did or didn't apply.

However, I don't think Mr R acted on the information he received during the call in June 2013 – so I don't think he's been disadvantaged by it. I say this because, like the investigator, I don't think his decision to take the pension was made as a result of this phone call.

Mr R's decision to take the pension seems to have been prompted by a quotation he received in October 2013, which in turn seems to have been prompted by Prudential's letter of 26 September 2013 explaining his options.

The quotation gives two annual income projections for the predicted value of Mr R's fund at 24 February 2014.

The first is for a non-escalating pension, guaranteed for five years and gives an annual pension of £1.002.96 or a reduced annual pension of £743.88 with a tax free cash lump sum of £5,378.

The second is for an increasing pension at 3% per year, guaranteed for five years and gives an annual pension of £631.68 or a reduced annual pension of £468.48 with a tax free cash lump sum of £5,378.

Mr R called Prudential on 25 October 2013 – after receiving the quotation – and it was at this point that he completed the verbal declaration to agree to taking his pension income.

The quotation sets out the annuity rates Mr R could expect from his fund amount. And it's clear that the examples given here do not reflect a GAR of £93 per £1,000. There's no mention of a GAR in the quotation. So I don't see how Mr R could've had any false expectations about what he would be receiving at that point. I think if he was expecting a GAR of 9.3% following the conversation he had with Prudential earlier in the year he would have queried the difference in the quotation and the figures he was expecting before accepting the quotation.

Another quotation was sent to Mr R on 4 February 2014 for a Prudential Pension Annuity in preparation for his retirement date. The pension funds had already been transferred to the cash fund at this point. This explained that the benefits would be an annual pension of £779.04 with a tax free cash lump sum of £5,375. Mr R returned the application form to Prudential to confirm he wanted to go ahead with this. Taking all of this into account, I don't think the information about the GAR given to Mr R during his June 2013 phone call led to his decision to draw his pension.

There's no doubt that Mr R was given incorrect information about the GAR again in May 2017. But the adviser called Mr R back the next day to let him know she'd given the wrong information. And Mr R didn't take any action as a result of the incorrect information, so he hasn't suffered a financial loss because of it.

So overall, although Mr R has been given incorrect information about the GAR, I don't think it's caused him a financial loss.

Mr R's pension funds have been invested in Prudential's cash fund since he changed his mind about drawing the pension in 2014. At that point he asked for the funds to remain invested and accessible and it seemed he intended to draw the funds again when the pension flexibility rules came into force. And Prudential asked Mr R to contact them again around that time for his options. But Mr R hasn't yet acted to draw his pension, and the funds have remained in the cash fund.

I don't think Prudential were under any obligation to re-invest Mr R's pension in the with-profits fund after he changed his mind about drawing it in 2014. And Mr R has expressly asked for it to remain accessible and seemed to have intended, at that time, to draw it fairly imminently. Prudential have also sent Mr R statements since 2014, showing his funds remained in the cash fund. So I think Mr R would have been aware that this was the case.

Prudential offered £150 to Mr R before he brought his complaint to us, and I think this is fair and reasonable compensation for him having been given incorrect information about the GAR. So I leave it to Mr R to decide if he now wishes to accept Prudential's offer, in full and final settlement of his complaint.

my final decision

My final decision is that the offer of £150 The Prudential Assurance Company Limited have already made to Mr R is fair and reasonable, for the reasons I've explained. So The Prudential Assurance Company Limited should pay Mr R £150.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 7 January 2019.

Helen Sutcliffe
ombudsman