

## **complaint**

Mr F is unhappy about the level of pension that The Prudential Assurance Company Limited (Prudential) is paying to him. He says it's altered its contract with him and is paying him less than it should under his policy.

## **background**

Mr F had a personal pension with Prudential. In September 2014, just before he intended to retire, he was sent some pension quotations. These included quotes based on pension annuities with five and ten year guarantee periods. He signed the declaration form choosing a pension with a ten year guarantee.

The pension Mr F has been paid is at a lower rate than the 9.9% Guaranteed Annuity Rate (GAR). He complained to Prudential saying that his annuity was not fair or reasonable. He says it should have been calculated with the GAR of 9.9%.

Prudential rejected this part of Mr F's complaint. In summary, it said that the policy's conditions explained that in order to have a GAR of 9.9%, the plan would have to be paid in a set way. It also said that Mr F signed retirement forms choosing the annuity he wished to be paid.

Prudential upheld the complaint in part accepting there had been some poor service. It offered £200 for any distress this had caused.

One of our adjudicators considered Mr F's complaint and concluded that it shouldn't be upheld. In summary, she said that in order for Mr F to get the GAR of 9.9%, there couldn't be any alterations made to the way the annuity is paid. But he had chosen a pension payable monthly in advance and with a ten year guarantee. The full GAR would have been paid on a pension payable annually in arrears with no guarantee.

Mr F didn't agree. He said he didn't alter the terms of the annuity by asking that it be paid monthly in advance. He said this was a change Prudential had made which was set out in correspondence he was sent in 2005 and 2006. The only alteration he wanted was to increase his guarantee period from five years to ten years.

## **my findings**

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

I agree with the adjudicator. I've decided not to uphold this complaint and I'll explain why.

Prudential has offered £200 for any inconvenience and upset its poor service may have caused Mr F. I think this is a fair offer.

Mr F's main concern is with the level of pension he's being paid. I've set out below some extracts from the rules of Mr F's pension plan. The relevant rules and notes say;

### *"Rule 3- Retirement Benefit*

*The annuity purchased with the Society will be at the Society's then current rates or, if more favourable, the appropriate rate set out in Table A on page 4 of these Rules. The annuity*

*purchased with the Society will be payable yearly throughout the lifetime of the Annuitant on each anniversary of the first day of the calendar month in which the Pension Date occurs and will be non-assignable and non-commutable except to the extent that the Annuitant may at the Pension Date commute part of the annuity for a lump sum not exceeding three times the yearly amount of the remaining annuity.*

*Rule 4- Annuity Options*

*At the request of the Annuitant at the Final Pension Date or at an elected Early Pension Date, the annuity purchased from the Society under Rule 3, after any commutation, may be altered to a reduced annuity payable throughout the lifetime of the Annuitant*

*(1) by monthly or quarterly or half yearly or yearly payments*

*(2) guaranteed for a fixed period of five or ten years or not so guaranteed*

*(3) by level payments or by payments increasing at a fixed rate per annum, the said fixed rate being such as is in accordance with the normal practice of the Society at the Pension Date. The amount of the reduced annuity shall be the amount secured by taking the Retirement Sum or Reduced Retirement Sum applicable to the Pension date, reduced by any lump sum taken under Rule 3 in commutation, and applying the resultant figure to purchase an annuity with the Society and the Society's then current annuity rate for the mode of payment selected..."*

In 2005 Prudential sent Mr F quotations. These forecast the fund value based on a selected retirement age of 70. The general notes said that:

*"Receiving Your Pension*

*The pensions quoted would be payable in monthly amounts throughout your life. These payments will be made in advance. If you die within 5 years of your pension starting, the pension will continue to be paid to your beneficiary for the rest of the 5 year period."*

In 2014 Mr F was sent pension quotations which included options with five and ten year guarantee periods. He selected the ten year option.

I think Prudential has calculated Mr F's pension in line with the rules of the plan. The rules set out above do mean that the GAR is based upon an annual pension paid in arrears with no guarantee period. And if a guarantee period was chosen, or if it was paid monthly in advance, the annuity would be reduced.

I don't agree that Prudential changed the basis for calculating the pension when it wrote to Mr F in 2005. It did say the pension would be paid monthly and with a five year guarantee, but this was only a quotation or illustration. It didn't mean the pension would have to be paid on that basis. Prudential has explained that monthly payment with a five year guarantee is the most common choice and so I think it's understandable that this is used in an illustration.

I've also noted that, before he applied for the annuity Mr F was told that there would be a reduction in the GAR if the terms of payment were altered. Mr F has said he was told that the reduction for choosing a ten year guarantee instead of the five year guarantee would be about £40 or £50 p.a. but the reduction was significantly bigger than this.

However, the financial report he was sent just before he made his application for the annuity does say that there would be reductions both for the guarantee and for receiving payments monthly in advance (and not annually in arrears). The report also included an illustration of

the annual pension that would be paid. So I think he was aware of the impact of these reductions and that he wouldn't receive the full GAR.

Mr F has chosen to have his pension paid monthly in advance and with a ten year guarantee. These choices do mean that his pension is less than the figure the GAR would have produced. But I think Prudential has followed the rules of the plan in making the calculations it has.

**my final decision**

So for these reasons I don't uphold this complaint.

I think Prudential's offer of £200 for distress and inconvenience is fair and I don't make any further award.

I think Prudential has calculated Mr F's pension in line with the rules of the plan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 13 June 2016.

Keith Taylor  
**ombudsman**