Financial Ombudsman Service

complaint

Mr T is unhappy with the annuity income offered by Canada Life Limited (Canada Life) for his Annuity Growth Account (AGA). He also says that Canada Life should have offered him a ten year guarantee with his annuity in 2014.

background

Mr T bought an AGA in 2006. Mr T did this without taking financial advice. This product allowed Mr T to take a fixed income for five years following which he could make a new annuity decision. At that review point, he could opt for a further period of fixed income or take a lifetime annuity.

In 2011, Mr T opted for a fixed income for a further three years with a review in 2014.

In 2014, Canada Life wrote to Mr T at the second review point. He raised some concerns about his options with Canada Life as he was unhappy with projected lifetime annuity figures. But, he later accepted Canada Life's offer of a revised annuity figure in full and final settlement of that part of his complaint.

However, Mr T had some concerns which he felt hadn't been resolved:

- The AGA was mis-sold in 2006 on the basis that the projected annuity growth was misleading.
- Canada Life didn't offer him a ten year guaranteed payment period in 2014.

One of our adjudicators investigated the complaint. He thought that the complaint shouldn't be upheld for the following reasons:

- The documents given to Mr T in 2006 clearly explained the possibility of lower annuity rates in the future.
- Interest rates had significantly reduced since 2006. A review of the annuity market place showed that rates had dropped by about 20% in the period 2006 to 2014.
- Mr T didn't opt to take a guarantee in 2006 when he first joined the AGA. He agreed with Canada Life that by buying the AGA in 2006, Mr T had taken a lifetime annuity. Mr T hadn't entered into a short term annuity contract. So, under HMRC rules, Canada Life couldn't offer Mr T a ten year guarantee in 2014.

Mr T didn't accept these findings and asked for an ombudsman to review his complaint. He said that:

- The lifetime annuity rate offered in 2014 was lower than in 2011. But gilt edge yields hadn't reduced over the same period. Also, life expectancy hadn't increased over that time. So, by offering him a lower lifetime annuity in 2014, Canada Life hadn't adhered to guidelines set out by the industry regulator the Financial Conduct Authority. These said that firms should treat customers fairly.

- If he wasn't a "new annuitant" in 2014 then he should have been offered the annuity rate which applied in 2006. If he was a new annuitant in 2014, Canada Life should have offered him the option of a ten year guaranteed payment period.

my findings

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

Mr T has now accepted Canada Life's offer of a revised rate for his lifetime annuity from 2014. But, he has again raised some issues with regard to how annuity rates are calculated by Canada Life.

So, it may be helpful if I explain that gilt edge yields and life expectancy aren't the only factors which determine annuity rates. Interest rates and changes in law are among other relevant factors. Also, each provider has its own underwriting techniques. Overall, I have no concerns that Canada Life acted unfairly when offering lifetime annuity rates to Mr T in 2014. It also appears that Mr T had the opportunity to compare the rates of other providers. I don't know if Mr T did this but clearly he took the rate offered to him by Canada Life and didn't take an annuity with another provider.

I think that Canada Life did enough to alert Mr T that by taking out the AGA in 2006, he may receive a lower annuity in the future. For example one document said "*annuity rates may be lower than at outset*" and "*the annuity rate may give a smaller income than you could have received at outset*". Another document referred to the prospect of interest rates being lower than at outset, leading to a "*smaller*" lifetime annuity in the future. So, I'm satisfied Canada Life didn't mislead Mr T.

I've looked carefully at Mr T's argument that he should have been offered a ten year guarantee in 2014. Canada Life have highlighted two arguments against this. First, Mr T didn't select the guarantee from the outset of the AGA in 2006. And the policy documents made clear that the guarantee couldn't be selected at a later review date. Secondly, HMRC rules only allow a ten year guarantee to be offered at the outset of a lifetime annuity contract.

I have some sympathy with Mr T. The AGA appears to be very similar to a short term annuity contract. HMRC have issued guidance which says that pension providers may still offer a ten year guarantee even after someone has taken out a short term annuity contract.

However, Canada Life have explained that the AGA is a lifetime annuity and not a short term annuity contract. This is because the funds are fully crystallised at the start of the policy. It doesn't have a set end date or term at outset. The policy is reviewed every three years (these were initially five yearly). At each review the customer is given the option to:

- Buy another three year income and re-invest the balance; or
- Buy a lifetime income; or
- Transfer the investment element to another provider on the Open Market to continue with a lifetime annuity.

Given this explanation, I'm satisfied that Canada Life haven't treated Mr T unfairly by not offering him a guarantee in 2014.

my final decision

I don’t uphold this complaint.

Under our rules, I’m required to ask Mr T to accept or reject my decision before 2 November 2015.

Abdul Hafez
ombudsman