

complaint

Mr L's complaint is about the transfer values, he was given by The Prudential Assurance Company Limited (Prudential) for his pension.

background

Mr L said he contacted Prudential, around February 2017, to obtain the transfer value of his pension, as he was considering his retirement options. Prudential gave him a value of over £56,000. He contacted them again around April 2017 and was given a transfer value of £47,736. Mr L is unhappy that Prudential cut his retirement pot by so much (and over such a short period of time).

Prudential said its retirement plan is annuity based as opposed to fund based. The policy benefits are made up of separate elements some of which are guaranteed (the basic annuity and annual bonuses) and others that are not (underlying interest and terminal bonus rate). Any non-guaranteed bonuses are added at retirement, or when benefits are transferred. As they are not guaranteed they can potentially, go up or down at any time.

Prudential explained that its bonus rates used in the calculation of quotations were updated following its full bonus declaration. It said this adjustment reflected the most recent performance of the With Profits fund and current market conditions. It noted that the investment returns it had received to date were not sufficient to justify the amount of non-guaranteed bonuses that it had previously incorporated into its quotations and, as a result, they were reduced. Prudential said any of the written or verbal values it had provided, based on a retirement or transfer date before 1 April 2017, would be based on the previous bonus rates applicable to the policy.

Prudential acknowledged that the fluctuation of the transfer value may cause concern. But it said this was not unusual for this type of policy. They explained it is not a regulatory requirement, and not always feasible, to inform its individual customers of the fluctuation in the value of their policies. Prudential said the main factors causing the interest rate volatility during 2016 were the market conditions following the results of the EU referendum.

Mr L asked us to look into his concerns.

Our investigator didn't think Prudential had acted unfairly. She said the full bonus declaration for the year was confirmed in April 2017. At this time the underlying fund hadn't performed as Prudential had expected. So the non-guaranteed bonus, included in Mr L's earlier quote, was reduced. And she explained that the interest rate that affects annuities is the 'gilt rate,' and this saw a downward trend at the time of the quotation.

Mr L disagreed with the investigator's findings. He said he'd discussed the matter with his financial advisor; they felt that investments had performed well in 2016/17. They didn't believe that Prudential's explanation would stand up to investigation.

As no agreement was reached, the complaint has been passed to me to consider.

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 investigator, and for broadly the same reasons.

I won't go into the mechanics of the plan. That's been addressed by both Prudential and our investigator. Yet I think what's material here is that it appears the plan was set up with an underlying assumed yearly increase in bonuses. This also meant the plan involved some risk, in that the underlying fund needed to perform in order to pay bonuses of at least the assumed amount just for the annuity to stay at the same level.

The level of bonuses is not guaranteed and will vary. Indeed, the retirement plan documentation says;

"...bonuses depend on profits earned in the Ordinary Branch of the Prudential, the actual bonuses may be greater or less than those assumed, and cannot be guaranteed."

It's also important to note that the amount of bonus declared for the fund is a matter for Prudential's commercial discretion. And with-profits fund providers, like Prudential, do have significant discretion about how they operate this type of fund.

Yet they are accountable to the industry regulator, the Financial Conduct Authority (FCA) for the way in which they manage their with-profit funds. The FCA monitors the management of the funds. And the FCA's Principle 6 requires that firms "*...must pay due regard to the interests of its customers and treat them fairly*". The Conduct of Business Sourcebook (COBS 20) also provides specific rules and guidance for firms on the operation of these funds.

I can appreciate Mr L's concerns. I accept that the matter may not seem very transparent to him. It can be difficult to know what a plan is worth, how its value has been calculated and whether bonuses have been fairly applied.

However, I hope that my explanation around the FCA having oversight of Prudential's operation, will assure him that Prudential can't simply do as it pleases.

I must add that I'm not aware of any concerns the FCA has about Prudential's management of the fund or how it operates its with-profits annuities.

I can fully understand that Mr L is disappointed by the reductions in bonus rates and how this has affected the transfer value of his pension. Yet I haven't seen any persuasive evidence that Prudential has acted unfairly in how it has awarded bonuses on Mr L's policy.

my final decision

I do not uphold Mr L's complaint against The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 18 September 2017.

Paul Phillips
ombudsman