

complaint

Mr L complains that The Prudential Assurance Company Limited failed to communicate with him in a clear enough manner about a final bonus being added to his pension plan. As a result the value of that plan is significantly less than he was expecting.

background

Mr L has held a pension plan with Prudential since 1992. The funds held in that plan comprise both former protected rights benefits and contributions Mr L has made himself. When he took the plan Mr L chose a retirement date of September 2018. But the protected rights benefits could be taken when Mr L turned 65 in early August 2017.

In February 2017 Prudential wrote to Mr L to remind him that he would be able to take some benefits in around six months time. And it wrote to him again in June 2017 to suggest he begin to consider how he wanted to deal with the benefits that were due to him.

Mr L didn't get in touch with Prudential before his 65th birthday. So shortly afterwards Prudential wrote to him to confirm that it had deferred his planned retirement date for those benefits to August 2022, but reassured him that he would be able to take these benefits at any time. And the letter also confirmed that as a result of extending the retirement date a final bonus of just over £16,000 had been added to Mr L's plan.

When Mr L later received an updated valuation from Prudential the estimated value of his pension plan had hardly changed from the one he received earlier in the year. So he queried this with Prudential – it didn't appear to him that the final bonus had been added to his plan. But it was explained to him by Prudential that an estimate of the final bonus had always been included in the valuations he had been sent – the only difference was that final bonus was now guaranteed. But Prudential accepted that its letter to Mr L could have been clearer and so offered him £50 compensation.

Mr L rejected that offer and brought his complaint to this service. His complaint has been assessed by one of our adjudicators. He didn't find that the way Prudential had added the final bonus to the account had been incorrect. But he agreed with Mr L that the letter he had been sent resulted in unnecessary confusion and trouble for Mr L. As a result he recommended that Prudential should pay Mr L a total of £150 as compensation.

Prudential didn't agree with that assessment – it thought that the offer of £50 compensation it had already made was sufficient. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr L accepts my decision it is legally binding on both parties.

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've also taken into account the law, any relevant regulatory rules and good industry practice at the time.

At the outset I should say that the role of this service isn't to regulate or punish businesses. Instead we look at individual complaints to identify whether a business has done something wrong. And if that is the case we would look to place consumers back into the position they would be if the mistake hadn't occurred.

The pension plan that Mr L held with Prudential was a “with profits” plan. Each year, depending on the investment returns, a bonus might be added to the investment. When it was added the amount of the bonus became guaranteed and formed part of the on-going investment. But the plan could also benefit from a final bonus. This would be paid when the pension plan matured and ensured that policy holders received a fair share of the underlying plan assets. Although the amount of this bonus would be estimated as part of the annual valuations sent to policy holders, it wasn’t guaranteed. So potentially, if investment returns were poor, no final bonus might be paid.

When Mr L’s pension plan reached his specified retirement age (for the protected rights portion of his plan) Prudential calculated the final bonus that was due at that time. And it added that to Mr L’s investment. At that point the final bonus became guaranteed and couldn’t be reduced when Mr L actually took his benefits. And Mr L’s plan started to be eligible for payment of an additional final bonus when his benefits were actually taken. And that was what Prudential meant by the letter it sent to Mr L in September 2017.

I agree with Mr L (and Prudential) that the letter didn’t explain the situation as well as it might have done. The final bonus that was added to Mr L’s pension had actually been included as an estimate in all the valuations he’d previously received. The only difference was that bonus moved from being an estimate to being guaranteed. And since the final guaranteed bonus was largely in line with the estimates that had previously been provided the overall value of Mr L’s pension didn’t change by much.

So what this all means is that I don’t think Prudential has done anything wrong, or failed to give Mr L the true value of the final bonus that was added to his pension plan. The valuation he was sent in July was similar to the valuation later in the year. But the difference was that the final bonus included in that valuation was no longer an estimate.

But as I said earlier I don’t think Prudential communicated this information to Mr L at all well. I don’t think it is reasonable to expect him to understand in detail how the valuation of his pension plan takes account of guaranteed annual bonuses and estimated final bonuses. And the letter he was sent could easily have been interpreted as suggesting that the previous value of Mr L’s pension had been increased by around £16,000.

I accept that isn’t what the letter meant, and so I think it is entirely reasonable that I don’t uphold that part of Mr L’s complaint. But I agree with Prudential that the letter caused Mr L some confusion and this resulted in him suffering from distress and inconvenience. I think an award of £150 is a reasonable amount of compensation for that upset.

my final decision

My final decision is that I uphold part of Mr L’s complaint. I don’t think Prudential has done anything wrong in how it has calculated the value of Mr L’s pension after the addition of the final bonus. But its communication of that fell short of what I think Mr L could reasonably expect.

I direct The Prudential Assurance Company Limited to pay the sum of £150 to Mr L on receipt of confirmation of his acceptance of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 24 November 2018.

Paul Reilly
ombudsman