

complaint

Mrs H has complained that in 1992 she was badly advised by The Prudential Assurance Company Limited (referred to from now on as Prudential) to start an in-house Additional Voluntary (AVC) money purchase arrangement rather than to buy added years.

background

When Mrs H joined her employer's Occupational Pension Scheme (OPS) she would have been given a members booklet that set out that an individual could accrue extra pension benefits by paying in-house Additional Voluntary Contributions (AVC). These in-house AVCs could be used to either accrue benefits on a money purchase basis or could be used to buy additional service in the OPS.

In June 1992 when Mrs H met the Prudential representative a fact find was completed that recorded that Mrs H was aware that she could buy added years in the OPS. Mrs H however decided to pay her AVCs into the in-house money purchase AVC arrangement.

In 1992 the representative recorded that Mrs H was already paying into a Free Standing AVC (FSAVC) arrangement with another provider.

my findings

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

At the time of advice the regulator's code of conduct stated that a representative should:

- Have regard to the investor's financial position generally and to any rights that they may have under an OPS.

Life assurance company representatives therefore had to;

1. Point out that in-house AVC's were available
2. Explain that in house AVC's were likely to provide better value for money than an FSAVC arrangement.
3. Recommend investigation of the in-house AVC arrangement.

It is true that whilst the representative from the Prudential could not advise on the added years option he had to make sure that Mrs H was aware of the option to buy added years.

It is important to realise that the costs of any added years were expected to be met by the contributions from the member. The arrangement was not subsidised by the scheme. As a result the scheme actuary would have used a conservative set of assumptions when working out the cost of the added years arrangement. The use of the conservative set of assumptions would make the added years option appear expensive.

At the time of advice it was expected that on a realistic set of future assumptions the benefits from the money purchase arrangement would exceed those from the added years approach. This was not however guaranteed.

Of course it is known now with the benefit of hindsight that the actual experience since 1992 has been less favourable than was expected at the time and this has meant that the benefits from the added years approach would have been greater.

It is also important to note that if Mrs H had selected the added years approach that the contributions to the arrangement would have been expected to increase in line with increases in her salary.

Whilst I note that Mrs H had to retire early from her job due to ill health and took benefits early in 1999 this could not have been foreseen at the time that the money purchase contract was established in 1992.

I finally note that the contributions to the money purchase arrangement were invested in the Prudential with-profits fund and not in the deposit fund that was also available. In my opinion this indicates that Mrs H was willing to take some risks with her AVC investments. There is no evidence that Mrs H was unwilling to take any investment risk and on that basis the money purchase approach would have been expected to produce greater benefits on retirement. However as stated above this outcome was not guaranteed.

Whilst it is disappointing that the benefits from the money purchase AVC fund are lower than the benefits that the added years would have provided this could not have been foreseen at the time of advice in 1992. The advice in 1992 would have been reasonable, based on the expectation the money purchase arrangement would leave her with greater benefits than the added years approach. The business also appears to have made her aware of her options.

Overall, I consider Prudential didn't do anything wrong and I don't uphold Mrs H's complaint.

my final decision

I do not uphold this complaint against The Prudential Assurance Company Limited and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 1 March 2019.

Adrian Hudson
Ombudsman