

## **complaint**

Mrs T has complained about the advice she received from The Prudential Assurance Company Limited to start a Free Standing Additional Voluntary Contributions (FSAVC) plan.

## **background**

Mrs T met an adviser from Prudential in 1991. At the time, Mrs T was employed as a teacher and was a member of the Teachers' pension scheme. The adviser recommended Mrs T take out an FSAVC plan to top up her benefits at retirement. Mrs T started the FSAVC in October 1991 with a monthly contribution of £40.

Mrs T's representative complained to Prudential about the advice she was given. Prudential reviewed the complaint and thought that part of it should be upheld. It said it wasn't satisfied that Mrs T was made aware of the difference in charging structures between the FSAVC and the in-house AVC option available through Mrs T's employer. Prudential carried out a loss calculation to compare the difference between the costs of the FSAVC and the AVC. And it offered redress to Mrs T.

Mrs T's representative didn't think the offer was fair. So it referred the complaint to this service. It's said that if the adviser had made Mrs T aware of the option to purchase added years through her employer, then she would've taken this option.

The investigator that considered the complaint didn't think that it should be upheld. He said that he couldn't say with certainty that Mrs T would've chosen to buy added years, even if Prudential had made her aware of this option. He explained that added years tend to be expensive and there was no indication that Mrs T had wanted to invest at a substantially higher level to save for her future.

Mrs T's representative didn't agree with the investigator so the matter has been passed to me for consideration.

## **my findings**

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

Prudential has already acknowledged that it may not have given Mrs T sufficient information to make her aware of the difference between the charging structures of an FSAVC and the in-house AVC option. So it's already completed a loss calculation based on the assumption that Mrs T would've opted to join the in-house AVC scheme as opposed to taking out the FSAVC. Mrs T doesn't think the redress offered is fair. So the issue I must consider is the appropriate way to put this right.

In considering what Mrs T should've been advised to do and what she's likely to have done if all the options had been explained to her, it is important to consider the circumstances at the time of the advice without the benefit of hindsight.

I consider that, at that time, it would've been seen as feasible that the money purchase AVC could outperform an added years arrangement. The cost of providing added years would've been determined by the Government Actuary on a conservative basis. Mrs T's employer didn't intentionally subsidise the added years arrangement in the same way as it funded the

main scheme benefits. Instead, the level of contributions set at the beginning was worked out on what was intended to be a 'cost neutral' basis.

As a result of using conservative assumptions, the costs of the added years arrangement to the scheme would've appeared high. This means that on a realistic set of assumptions the benefits that could be provided by the money purchase AVC arrangement could be greater than those of the added years arrangement.

If Mrs T had paid for added years she would've had to give up a set percentage of her salary. So the amount she paid would've increased as her pay increased over the years. Mrs T was only contributing £40 per month to the FSAVC. Therefore, on the balance of probabilities, I'm unable to say that she would've chosen to purchase added years as this represented an inflexible and expensive option for her.

Now, with the benefit of hindsight, we know that Mrs T would've been better off with the added years. And a major factor in this is that the investment returns achieved have been much lower than expected. But that was not anticipated at the time and as I've said, I can't use hindsight when making my decision.

It's clear that at the time of the advice the in-house AVC scheme offered by Mrs T's employer cost less than the FSAVC arrangement that she was sold. And I do think that Prudential should've advised Mrs T to consider contributing to the AVC arrangement instead taking out an FSAVC plan. Prudential agrees with this and has offered to pay Mrs T compensation in line with the requirements of the FSAVC review set down by the regulator. This is what I'd award in these circumstances and so I don't make any further award.

### **my final decision**

For the reasons set out above, I don't uphold this complaint.

The offer The Prudential Assurance Company Limited had made is in my opinion fair and reasonable so I make no further award. I leave it for Mrs T to decide whether she wants to accept the offer from the business.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 17 July 2017.

Lorna Goulding  
**ombudsman**