

complaint

Mr T complains about a drop in value of his retirement annuity pension policy with The Prudential Assurance Company Limited.

background

Mr T said he wanted to maximise his savings due to lack of pension. For that reason he had deferred taking his retirement annuity from Prudential and also deferred another policy and his state pension. He thought this would allow his policy to increase in value subject to some risks.

He'd arranged a meeting with an adviser from the Prudential who confirmed a fund value of around £50,000 and fund growth of over 5%. He'd been told the fund would need to be moved to allow him to take it as cash rather than any of the other options. He was told there'd be charges. On the basis of what was said he decided to use other savings first that had a lower return before drawing on this policy.

In March 2017 the policy showed a value of over £50,000. The following day showed a value of nearly £8,000 less, but he hadn't been notified about the reduction. If transfer fees and management fees were added in the reduction would be over £13,000 or nearly 23%.

The Prudential said that his pension was a with profits deferred annuity contract that was annuity based as opposed to fund based. The policy benefits contained parts that were guaranteed and parts that weren't. The unguaranteed part could fluctuate in value and affect the transfer value. The reduction in the transfer value was due to a change in the bonus declaration to reflect performance of the underlying with profits fund. This had been affected by changes in returns.

It later said that the reduction in the value wasn't just due to the terminal bonus reduction but also due to changes in the calculation to convert the pension from the annuity to a transfer value. The transfer value reflected that pension and the underlying investment in a with profits fund. In mid 2017 it did a bonus review which applied to future transfer quotes and reduced the transfer value.

The investigator said that as the bonus wasn't guaranteed she didn't think Prudential had done anything wrong.

Mr T didn't agree. He said this was a different explanation to the one given in the past by the Prudential. His annual statement showed with profits increased from 3% to 14% in 2017 and wasn't clear whether the guaranteed minimum payment included the guaranteed bonus. The Prudential confirmed that the basic pension was increased by the guaranteed bonus but the terminal bonus and conversion rate weren't guaranteed. The references to interest rates weren't to base rates but the rates that applied to the yields on gilts that are linked to interest rate returns.

Having asked for further information Mr T said his complaint was not about the 5.6% which he realised was an example of past performance and not guaranteed for the future. His focus was the reduction in the transfer value by over £8,000. He said his decision not to crystallise the policy was based on the annual bonus statements up to 31 December 2015, (received July 2016) and reinforced in conversation with the Prudential adviser in January 2017.

He felt the explanations for this change given by the Prudential contrasted with statements in annual bonus statement documents for 2015 and 2016. In particular the more recent statement commented on performance and talked about returns, before charges and the effects of smoothing, of 14.5%. Whereas his transfer value reduced by 15.45% at a time when the fund performance was growing.

The Prudential said the fund value was calculated without the non guaranteed bonuses. It later said the reduction in value was due to a reduction in non guaranteed bonuses. He said this was contradictory given they said these bonuses weren't included.

He also said that as he hadn't drawn his policy or transfer value he hadn't benefited from the terminal and final bonuses that might be added at that time. He noted they were not guaranteed and can potentially go up or down at any time.

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 took out a retirement annuity policy with Prudential in 1977 with a selected retirement date of 2015. Such a policy was set up to provide a pension for life from retirement. When set up, the policy would not have offered a lump sum alternative such as now represented by the transfer value.

As the Prudential has indicated the transfer value is calculated by converting the right to a pension for life into a one off sum that can be transferred to another tax approved pension scheme. The calculation used to convert pension to transfer value uses a number of assumptions that can change with time. For example increases in average life expectancy and changes in returns on investments that typically underpin the pension when in payment.

This means the Transfer value isn't a direct reflection of the with profits fund that underpins and can affect the amount of the pension for life.

In this situation it seems that Prudential changed some of the assumptions used to convert the value of the pension for life in to a transfer value. The result was a significant reduction in the transfer value.

It doesn't seem that Mr T was given any warning that this would happen. As he says based on many years of statements and values he wouldn't have anticipated such a reduction. He says he therefore made a decision in the light of that historic information and the discussions with the Prudential's adviser. In effect he is saying that he assumed the pattern of increase would continue for the future.

I need to consider whether it was reasonable for Mr T to rely on the historic information and adviser conversation in making that assumption.

I have considered the information provided. I note the Prudential adviser didn't make a note of his conversation with Mr T as he didn't buy any new products. The regulator does not require this. But while Mr T didn't buy anything new it is clear he made a decision to defer taking his annuity or taking a transfer, based on that conversation and the historic information.

I have seen a policy communication including a transfer value. This includes a statement to the effect that the values shown are not guaranteed. In effect this is warning that it shouldn't be relied upon. Mr T hasn't said the adviser confirmed the Transfer value was a minimum value. While future growth was discussed he says he understood the 5.6% was not a guaranteed future rate. So based on this I don't think it was reasonable to assume that the historic pattern of values meant that his transfer value would continue to go up or that it was of a particular value or couldn't reduce in value.

Mr T says the explanations from The Prudential have been inconsistent. I agree that it can be confusing when annual statements reflect good growth in a with profits fund but then show a reduction in the transfer value. However as his adviser explained

“your pension is not like a conventional pension fund where the fund accumulates or falls through direct fund performance and then at retirement you purchase a conventional annuity. Your money is linked to the main With Profits fund but is calculated as mentioned above on a number of factors (yearly annuity, life expectancy, interest rates) which are variable...Granted, it is not straightforward at all and so cannot be compared to other pension products very easily.”

It seems that changes in those factors affected the transfer value. This is why it is possible for the transfer value to fall while with profits grew. So I don't agree that the statements contradict.

I have considered whether the Prudential had the right to change the factors that are used to convert the pension into a transfer value. I have seen a sample copy of a retirement annuity policy document from the same time as the one Mr T has. This does not set out detailed provisions about the calculation of transfer values as these were not required at the time the policy was set up. However as a matter of general commercial principles I would expect the Prudential to be able to change the assumptions or factors used to calculate these to allow it reflect external changes.

Even if I am wrong in all of this I would need to show that Mr T had suffered a loss in order to make an award. As Mr T hasn't taken the transfer value he has not suffered any loss as yet.

So while I am sorry to disappoint Mr T I don't think The Prudential has acted unreasonably in making the change in his transfer value.

my final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 6 September 2017.

Colette Bewley
ombudsman