complaint

Mr B is unhappy with the rate of interest The Prudential Assurance Company Limited has applied to the additional payment made to his pension.

background

Mr B started taking the benefits from his pension scheme in April 2014 by way of a monthly annuity.

In October 2015, Prudential wrote to Mr B explaining that the retirement factors it had used to calculate his pension had been revised. Prudential said the additional amount it was going to pay was £5,916.57. Prudential added interest to compensate Mr B for the late payment. It used the Bank of England base rate plus 1%.

Mr B wasn't happy with the interest rate Prudential used. He looked on our website and saw we awarded 8% simple. Prudential told him it thought the interest it had used was adequate and fair. Mr B then brought his complaint to our service.

One of our adjudicators looked into Mr B's complaint, and thought initially it should succeed. She said Prudential should have added interest at 8% a year simple. But the adjudicator then altered her opinion, and thought Prudential need not do anything more as the interest it had added was sufficient.

Subsequently, the complaint was reviewed by another adjudicator. She thought the previous adjudicator's first view was correct, and that Mr B's complaint should be upheld.

Prudential disagreed and made a number of comments:

- There was nothing wrong with the retirement factors originally used in calculating Mr B's benefits. It had simply made a decision to apply updated factors and ensure consumers weren't disadvantaged.
- The updated factors are to be applied to all future cases, and the re-calculation process included all members who had claimed their benefits during the time the factors were under consideration.
- Each customer involved in the re-calculation project (including Mr B) has benefited from Prudential's decision to apply the updated factors retrospectively.
- While it accepts this service recommends that interest of 8% simple should be added, this isn't obligatory.
- It believes interest of 1% more than Bank of England base rate is adequate compensation in a case such as this.

As the matter remains unresolved, it's been passed to me for review.

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 appreciate different views have been issued by the adjudicators who have looked at Mr B's complaint. But I agree with the assessment made by the most recent adjudicator that the complaint should succeed, and I'll explain why.

I've firstly considered if Prudential did anything wrong in the way it set up Mr B's pension benefits.

When Prudential sent us its file, it set out the circumstances that had led to Mr B's complaint. It said it was discovered that the conversion factors used to calculate his pension had been reviewed so as to treat similar customers on up-to-date terms. But the revised factors weren't broadcast to all teams that administered deferred annuities. A project team was then set up to re-calculate the benefits of each affected customer.

Prudential wrote to Mr B in October 2015 to tell him it had been discovered that the retirement factors used to calculate his benefits were incorrect. It apologised for this mistake.

I also note the letter Prudential sent Mr B in response to his complaint explained it had reviewed his pension and this showed he'd been underpaid. Because of this, Prudential aimed to place him back in the same position as if the error hadn't occurred.

On my reading of this information, it appears Mr B initially was paid a pension using retirement factors that were less beneficial than those made available to other Prudential customers. So while it has told us there was "nothing wrong" with the factors it used, Prudential clearly seems to have found these disadvantaged Mr B.

On balance, I think Prudential made an error in Mr B's pension, for which it seems to accept he should be compensated. I've therefore considered if the compensation it has offered is fair and reasonable.

Prudential has paid Mr B the missing annuity payments, and also increased his annuity going forward. So it's fully compensated him for this aspect of his loss. The only issue remaining is what level of interest should be applied to the delayed annuity payments.

Our website contains information about the approach we take towards compensating consumers, including where they have been deprived of money. I understand Prudential's comment that using simple interest of 8% a year isn't obligatory. I also accept there may be instances where a different method is appropriate.

But in this case, it's important to take account of the type of financial loss Mr B has suffered. He's received less income from his pension than he should have for a period of around three and a half years. While I don't know all Mr B's circumstances, I think it's reasonable to assume he was relying on his Prudential pension, at least in part, for his day-to-day expenses. Because of the underpayment, he's been denied access to this additional money.

In the circumstances, I think it would have been fair and reasonable for Prudential to have recognised this point and added simple interest at 8% a year.

my final decision

I uphold Mr B's complaint. To put matters right, The Prudential Assurance Company Limited should pay Mr B the difference between the compensation it has paid him, and the sum if it had added simple interest at the rate of 8% a year to the missed annuity payments. The Prudential Assurance Company Limited should pay this compensation within 28 days of being notified Mr B has accepted the decision. If it doesn't pay within this period, it should add 8% a year simple interest to the compensation amount from the date of this decision to the date of payment.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 6 October 2017.

Doug Mansell
ombudsman