

complaint

Mr L is unhappy with the transfer value applied to a pension plan he held with The Prudential Assurance Company Limited (Prudential).

background

Mr L had a Prudential Personal Retirement Plan (the plan) and was approaching retirement age. He sought advice from an independent financial adviser who asked Prudential for details of the plan in January 2017. Prudential responded on 23 January 2017 giving full details. It gave an indication of the basic amount of annuity and revisionary bonuses as well as a transfer value which it said was not guaranteed.

After taking advice, Mr L decided to transfer the plan to another provider. Prudential acknowledged his request on 6 March 2017 and gave a transfer value of £209,912. It said the transfer value was not guaranteed and the amount would be calculated at the date of payment. It provided a further transfer value dated 25 March 2017 of £209,367.69. But the amount actually transferred in June 2017 was £191,217.

Mr L complained – through his financial adviser – about the fall in transfer value and benefits. He said that as the values were given after the maturity date of the policy, they should've remained the same.

Prudential looked into Mr L's complaint. It issued its final response and explained how the transfer values are calculated on this type of plan. It said the value could fluctuate and it isn't a regulatory requirement to inform individual customers with these fluctuations. It said if the transfer value had fallen by 10% or more it would've let Mr L know. But in Mr L's case, the value fell by 8.67%.

Prudential said it usually calculated rates twice a year. It said when rates were calculated in January 2017, Mr L's transfer value increased by 22%, and when calculated in April 2017 it dropped by 9.2%. It said that as the sole purpose of the contract is to provide a guaranteed level of income in retirement, there was no explicit fund value associated with it. While it recognised that Mr L was disappointed by the drop in value, it pointed out that the income Mr L was entitled to under the contract had not changed. But the cost of providing that income had changed which resulted in the fluctuation of the transfer value.

Mr L didn't agree, so he referred his complaint to us. One of our investigators looked into it. She said, in summary, that Prudential had made Mr L's financial adviser aware that transfer values could fluctuate. And it had said rates would generally be reviewed on 1 January and 1 April each year. The investigator didn't feel Prudential had done anything wrong.

Mr L's financial adviser didn't agree. He said no warning was given of the significant change in rates and he'd have expected the value to have been 'locked' on maturity. He said Mr L was unhappy with how the transfer value was calculated as it was done using an annuity rate rather than a value of the underlying assets. He asked us to reconsider the complaint bearing these points in mind. Mr L's complaint has been referred to me for a final decision.

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 L's contract with Prudential was for the business to provide him with a specified amount of income in retirement in exchange for monthly premiums until the policy matured. It didn't build up a 'pot' of money with which Mr L could buy an annuity on retirement - as many more modern pension plans do.

Prudential took Mr L's premiums and invested them with those from other customers with a view to increasing the value of those contributions. As the value increased, it allocated bonuses to each plan which increased the amount of income that Prudential would be able to pay Mr L. Prudential referred to this 'income guarantee' in its letters to Mr L's financial adviser and in the transfer value quotation it sent on 6 March 2017.

In a letter to Mr L's financial adviser dated 23 January 2017 in response to a request for information about the plan, Prudential said *'traditionally our rates are updated on 1 January and 1 April each year, however we reserve the right to update our rates at any time.'* Prudential also explained how it calculated transfer values and that these may go up or down. It gave similar information in its letter of 6 March 2017.

Mr L was able to begin to take the income from the plan from 1 March 2017 – what his financial adviser calls the maturity date. But because of the nature of the contract, it's the income that was guaranteed – not the transfer value. So no crystallisation of the investment took place on 1 March 2017 – in other words, the value wasn't 'locked' as Mr L's financial adviser has suggested. Prudential was clear in its letters that the transfer value couldn't be guaranteed and it explained how it was calculated.

Mr L instructed Prudential to transfer his plan in June 2017. By then it had revised its rates (as it had said it would) and this resulted in a fall in the transfer value by 8.67%. As Prudential said in its final response it would have told Mr L if the value had fallen by 10% or more. This is in common with many other providers. As Mr L's plan didn't fall in value as far as that, I don't think it was wrong for Prudential to continue with the transfer without informing Mr L.

Strictly speaking, there isn't a fund value associated with Mr L's plan. But Prudential does have a responsibility to ensure any transfer value represents a fair share of the underlying assets of the with profits fund. If Mr L thinks his transfer value doesn't represent a fair share, or if he thinks Prudential's management of the with profits fund has unfairly disadvantaged him in relation to other policy holders, then that would be something to take up with the regulator, the Financial Conduct Authority. But in terms of this complaint, while I appreciate the fall in the transfer value of Mr L's plan will have disappointed him, I think Prudential did what I'd expect in terms of making his financial adviser aware that the value wasn't guaranteed and when its rates would be reviewed.

It follows that I don't uphold his complaint.

my final decision

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 20 March 2018.

Richard Hale
ombudsman