

## **complaint**

Mr D complains that The Prudential Assurance Company Limited has changed the terms of his pension policy.

## **background**

Mr D has a deferred annuity policy with Prudential and in February 2018 they sent him an early retirement quotation. Mr D contacted Prudential querying why it was about 20% lower than what he was quoted in August 2017.

Prudential explained this was because they'd changed the transfer and commutation basis they use to calculate early retirement quotations. This was following a review to ensure the basis they use provides a fair value, complies with policy terms and satisfies legal requirements. Consequently some policyholders, like Mr D, had been impacted by this change with their quoted income reduced. This change took effect on 11 December 2017.

Mr D contacted our service about this matter. Our investigator obtained further clarification from Prudential about the reasons for the drop in value but he didn't think there was anything further we could do. Mr D continued to correspond with Prudential after this and it came to light that the majority of the reduction in benefits between August 2017 and February 2018 wasn't as a result of a change in the transfer and commutation basis used. But rather it was due to the removal of paying an additional pension as a result of correcting a calculation error in relation to Guaranteed Minimum Pension (GMP) benefits.

Mr D complained about the removal of the additional pension benefit. He felt it was a change of the policy terms and so he, along with other policyholders, should've been notified about it.

Prudential explained the additional pension is no longer generated under the new calculation method to reflect the fact GMP benefits will be paid from GMP pension age when a member retires early. They didn't think this was a change to the policy and said term 3.1.2 indicates that their early retirement calculation may produce an additional pension from the GMP benefits, it doesn't say it will. They also added that they don't write to policyholders when making changes to the assumptions they use to calculate early retirement benefits, as such changes are permitted under the terms of the policy,

Prudential did however accept they should've explained this to Mr D sooner and that their initial explanation for the reduction was misleading. They apologised to Mr D for this and provided £300 for the distress and inconvenience this caused.

Mr D referred the matter to our service. Our investigator looked in to it but he didn't uphold it. He said Prudential had confirmed that although the current assumptions used in their calculations meant no additional pension was payable at this time this could change in the future. And so he thought this was in line with the wording of the policy as it says an additional pension may be payable. The investigator also didn't think Prudential had to notify Mr D, or other policyholders, about this as nothing had significantly changed about how the policy works.

Mr D disagreed and so the matter has been passed to me to 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. Having done so, I've come to same conclusions as the investigator and for largely the same reasons.

Policy term 3.1.2 says:

*'Where the Commencement Date is prior to the Normal Retirement Date and the GMP Pension Date, an additional amount of pension (the 'additional pension') that is not Guaranteed Minimum Pension may become payable due to the application of clause 3.1.1(b) on any Pension Component described as Guaranteed Minimum Pension.'*

The above term explains that the additional pension may become payable. I'm therefore satisfied it isn't a guaranteed pension benefit or something Prudential is necessarily obliged to pay Mr D.

I appreciate Mr D's disappointment with Prudential's decision to change the assumptions they use in their calculations as it led to a significant drop in value of the early retirement quotation he received – due to no additional pension being paid. And that in Mr D's view this has been a change in the policy terms as the additional pension has effectively been removed. I understand Mr D considers this is supported by emails sent by Prudential that say the term 'has no practical application' and is 'redundant'.

I've carefully considered this point and while I sympathise with the impact this has had on Mr D, I disagree that there has been a change of the policy terms and I'll explain why.

As I've explained, I consider the terms of the policy are clear in setting out that the additional pension isn't guaranteed as it says it may be payable. I'm also aware Prudential has since confirmed that although the assumptions used in their calculations mean the additional pension isn't payable at this time, they've said this could change in the future. I appreciate Mr D has questioned the likeliness of this actually happening but nevertheless, I'm satisfied that - depending on whether Prudential change the assumptions they use in the future along with on what basis – it could. It follows that I'm satisfied Prudential are providing benefits to Mr D in line with the policy terms.

I appreciate Mr D has said that if he'd been told of the changes sooner, he could've taken benefits earlier and therefore received the additional pension that was included as part of the August 2017 quotation. But as I don't consider Prudential has made a change to the policy terms, I don't think they were required to notify Mr D about this or that they had to obtain his consent before doing so.

In any event, the changes came in to effect on 11 December 2017 which was after the August 2017 quotation had expired. So even if Mr D had been told at this time, he still wouldn't have been able to obtain the additional pension as he would've had to request a new early retirement quotation calculated using the new assumptions.

I realise this outcome will come as a disappointment to Mr D but for the reasons I've explained I don't think Prudential has changed the terms of the policy. Or that they've acted wrongly by not notifying him of the change they made to the assumptions they use to calculate pension benefits.

I have however considered the trouble and upset Prudential caused Mr D by not providing him with the relevant information sooner upon requesting an explanation for the drop in value of the early retirement quotation. Having done so I think the £300 they've paid Mr D is a reasonable amount in recognition of this. So I'm not going to ask them to increase this further.

**my final decision**

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 25 March 2019.

Daniel O'Dell  
**ombudsman**