

## complaint

Mr R complains that The Prudential Assurance Company Limited (Prudential) didn't give him information about bonuses applied to his pension policies. He also says the final and terminal bonuses should be larger.

## background

In August 2015 Prudential sent Mr R details of his retirement benefits. Mr R queried the figures – in particular the terminal and final bonuses for his plans.

Prudential said that its quotation systems didn't show a breakdown of any values quoted, including the amount of non-guaranteed bonus. And it didn't have the facility to provide this.

Prudential sent Mr R an illustration. It showed a total annuity of £8,306.28, payable annually in arrears. Mr R said he'd worked out the combined amount of the final and terminal bonuses as £214.26 – which he said was '*derisory*'. He'd been told when he took out the policy that final and terminal bonuses could be substantial and materially increase the basic annuity. Information he'd got over the years didn't contradict that. He asked Prudential what terminal and final bonuses it had declared that year for policies such as his.

Prudential explained Mr R's policies were deferred annuity contracts. The benefits were made up of separate elements, some of which were guaranteed (the basic annuity and annual bonuses) and others that weren't (final bonuses and underlying interest rates). Bonuses are allocated to policyholders as their share of the returns on their premiums invested in Prudential's with-profits funds.

Unlike other pension plans the income level at retirement isn't dictated by the fund value at retirement. Mr R's policies had a pre-determined income rate – which Prudential said was very competitive in comparison to current standard and enhanced annuity rates and not affected by the bonuses (reversionary, terminal and final).

Prudential added that final bonuses weren't guaranteed and can represent a significant proportion of the total retirement benefits available. Any final bonus is dependent upon factors such as age at retirement, sex of the policyholder, premium frequency and the benefit commencement.

Transfer values had been issued which Mr R could compare with other annuity providers to make sure he was getting the most competitive income possible.

Mr R asked us to look into his concerns.

Our adjudicator upheld Mr R's complaint in part. She said Prudential could have done more to help Mr R understand how his final fund value was reached. She acknowledged there are times when a business might withhold commercially sensitive information. But she said in this case providing a breakdown was directly relevant.

She asked Prudential to get a breakdown of each bonus applied to the plans, as separate figures. She also recommended a payment of £100 be made for Mr R's trouble and upset.

Prudential provided the breakdown, which showed the amount Mr R would get as a basic annuity, reversionary bonus, terminal bonus and final bonus. It said the information wasn't

readily available, which is why it didn't give it to Mr R. And Prudential agreed to the suggested payment of £100.

Mr R said Prudential should be able to give him a specific figure for the amount of annuity payable as terminal bonus. He didn't understand why Prudential was able to give details of the annual bonuses expressed as a sum to be added to the basic annuity, but couldn't do the same for the terminal bonus.

Prudential said it didn't have the facility to express the terminal bonus portion of the annuity as a separate figure.

Mr R also wanted to know how his final fund value was calculated. He thought there had been discrepancies in the way bonuses were applied to each of his plans. He said the amount of terminal bonus added to each plan was very different – 45% for the smaller plan and 3% for the larger plan, when expressed as a percentage. He was more concerned about this because Prudential couldn't give him the specific figures mentioned above.

Prudential has since provided more details:

Pol No	27/10/16 Total current value	Terminal Bonus £*included in the total value	Terminal Bonus %
1	£145,637.04	£3,150.74	2.163419
2	£67,523.43	£19,724.87	29.21189

But Prudential maintained that it doesn't have the facility to express the terminal bonus portion of the annuities as separate figures

Our adjudicator said there were separate bonus rates for each plan which in her view partly explained the variation in terminal bonus between the plans. She also said that the final and terminal bonus weren't guaranteed. She directed Mr R to the Principles and Practices of Financial Management (PPFM) document which sets out how Prudential manages its with-profits fund.

### **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 understand providing a breakdown of bonuses on a with-profits plan is more information than Prudential would usually provide to its customers. But given the circumstances and the direct relevance to Mr R's pension plans, I'd agree that Prudential could have done more to help Mr R understand how his final fund values were reached. Specifically, it could have provided the breakdown earlier than it did.

I agree that Prudential should pay Mr R £100 for the delay in providing the information. When thinking about this amount I've considered the length of the delay. But not having that information shouldn't have prevented Mr R from taking his pension.

Mr R has said there are discrepancies between how bonuses have been applied to each of his plans. He's said he paid a much greater premium on one plan, yet received a smaller terminal bonus.

The plans were both invested in the with-profits fund but the start dates for each were different. Given the level of bonus paid is in part based on the performance of the fund over the period of investment, it's perhaps not surprising that the amount paid in terminal bonus is significantly different.

With-profits funds can appear opaque. It can be difficult to know what a plan is worth, how its value had been calculated and whether bonuses have been fairly applied. So I can understand Mr R's concerns.

And with-profits fund providers do have significant discretion about how they operate this type of fund. But they are still accountable to the industry regulator for the way in which they manage their with-profit funds. The adjudicator has already referred Mr R to the Principles and Practices of Financial Management (PPFM). Prudential has to act in accordance with the PPFM.

Prudential must also have a with-profits actuary. He or she must carry out his or her duties in accordance with the rules set and the guidance provided by the regulator. Prudential also has an independent with-profits committee to protect the interests of its with-profits policyholders such as Mr R and ensure they are treated fairly.

The Conduct of Business Sourcebook sets out how such funds should be run:

COBS 20.2.1 states:

*(1) With profits business, by virtue of its nature and the extent of discretion applied by firms in its operation, involves numerous potential conflicts of interest that might give rise to the unfair treatment of policyholders.*

COBS 20.2.3 states:

*A firm must have good reason to believe that its pay-outs on individual with-profits policies are fair.*

As far as I'm aware the regulator hasn't identified any concerns with the way Prudential has managed its with-profit fund.

It's also important to note that the amount of bonus declared each year for the fund is a matter for Prudential's commercial discretion – and so not something we'd usually get involved in – and will vary. And that, while bonuses once applied can't be withdrawn, they're not guaranteed. The policy documentation provided at the time of sale says:

*"...bonuses depend on profits earned in the Ordinary Branch of the Prudential, the actual bonuses may be greater or less than those assumed, and cannot be guaranteed."*

I think Mr R recognises that – although he's disappointed that his expectations weren't met. But he has said himself that the financial markets over the last few years have had an impact on his plans. That's no doubt true. But, even before then, investment returns weren't matching earlier, not unreasonably held, expectations.

From what I've seen I don't think Prudential has done anything wrong - either in how it's applied the bonuses or the amounts in total. I don't think there's any more information Prudential can usefully provide. I know Mr R is likely to remain dissatisfied but – aside from what I've said about Prudential not providing a breakdown sooner – I don't think his complaint can be upheld.

**my final decision**

I uphold Mr R's complaint in part only. Prudential should pay Mr R £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 21 December 2016.

Lesley Stead  
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