

complaint

Mr K's complaint is about the enhanced annuity rate he received from The Prudential Assurance Company Limited ("Prudential") after he asked for an additional quote based on his medical condition. His complaint is that the original quotation he received should have been enhanced, rather than Prudential issuing him with a new quote. Mr K says that as a result, the annuity he is receiving is lower than it should be.

background

Mr K contacted Prudential in March 2013 for an annuity quote, in the run up to his 75th birthday. Prudential issued a standard quotation for a joint life annuity on the same day. After receiving this quotation, Mr K requested a quote for a single life annuity, which was issued by Prudential. This quote contained several options based on a pension fund value of £49,356.99. This included the option to take £12,399.25 as a tax-free cash lump sum and a yearly annuity of £2,926.44, payable monthly in advance at a level rate, and guaranteed for five years.

Mr K subsequently completed a medical questionnaire and requested an enhanced annuity quote. Approximately two weeks later, Mr K received an 'Enhanced Guaranteed Pension Annuity Re-quote'. This quote was based on a slightly higher pension fund value of £49,536.99. It offered £12,384.24 as a tax-free cash lump sum, and a level yearly annuity of £3,006.12, guaranteed for five years. The annuity rate provided by the Enhanced Guaranteed Pension Annuity Re-quote was guaranteed until 10 April 2013, provided Mr K submitted all of the completed paperwork before this date.

A few days later, Mr K complained to Prudential about the size of the enhancement and about the poor service he received during the annuity selection process. Two days later Mr K submitted his annuity application, selecting the enhanced annuity option and opting to take 25% of his pension fund as a tax-free cash lump sum.

In May 2013, Prudential sent Mr K a final quotation and a statement of his annuity payment details. These showed his tax-free cash lump sum as £12,310.93 and a yearly annuity of £2,988.36.

Prudential also issued its decision on Mr K's complaint in May 2013. In recognition of the number of calls Mr K had made to Prudential, and the inconvenience it had caused him, Prudential paid Mr K £150 as compensation. However, it concluded that the complaint could not be upheld because it considered that Mr K was receiving the correct annuity income in accordance with what he had selected.

Prudential had initially indicated that Mr K would now not be eligible to receive tax-free cash, as he had reached his 75th birthday before his annuity had been put into payment, and he was therefore ineligible under HMRC's rules. However, it subsequently agreed that it had caused delay, and therefore backdated the start date of his annuity to when it should have commenced. This allowed him to receive the tax-free cash lump sum.

As Mr K was not satisfied with this response from Prudential he referred his complaint to this service. The adjudicator investigating the complaint issued her findings setting out why, in her opinion, she was also unable to uphold the complaint. She stated that:

- Whenever an annuity quotation is issued it is calculated anew based on the circumstances, including the fund size and annuity rates offered, at that time.
- The decision to offer an enhancement and the conditions for doing so and rates given are solely within a business' commercial discretion.
- Prudential offered Mr K an enhanced annuity rate that was larger than the rate he could have received otherwise from Prudential. If Mr K was not happy with this rate, he could have cancelled his annuity and taken his pension fund to the open market.
- Prudential administered Mr K's annuity in line with its terms and conditions, in accordance with Mr K's selection.
- The difference in annuity income detailed on the enhanced quotation and the final quotation was due to a reduction in the terminal bonus on Mr K's with-profits fund, which was not confirmed until the annuity was finalised. This was not unreasonable as the annuity rate remained the same, but it was the fund value (which was not guaranteed) that was responsible for the change.

Mr K did not agree with the adjudicator's findings. He submitted ten points confirming his concerns about Prudential. In summary, Mr K said:

- The original annuity quotes Prudential sent were not applicable to his circumstances, so he had requested an enhancement to the original quotes – it was not necessary to issue an entirely new quote.
- The enhanced quotation he requested was not sent in a timely manner. As a result he spent much time chasing Prudential up.
- He returned documents by recorded delivery, but these were not signed for by Prudential – this compounded his concern and the time he spent calling Prudential's offices.
- He has not received a final statement to explain the annuity income he receives.

Prudential said that as no new information had been provided, it had nothing further to add.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

I consider that Mr K's complaint has two elements – the annuity rate he received and Prudential's customer service. I will address each in turn.

First, Mr K is unhappy that Prudential issued a new enhanced quotation instead of simply enhancing the earlier annuity rate provided to him. However, annuity rates are subject to underwriting and when Mr K asked for a medical enhancement quotation, Prudential was required to tailor the quote to Mr K's *specific* circumstances – for example using criteria such as his medical history to make more precise assumptions as to his likely mortality. The unenhanced or standard quote was based on *general* assumptions about mortality, but Mr K's circumstances may differ from these general assumptions. I do not consider it to be fair or reasonable to require Prudential to have used a combination of personalised and general assumptions, using only those favourable to Mr K, in order to enhance the standard quote. Because an enhanced quotation is bespoke and tailored to Mr K's specific circumstances, it was reasonable for a new quote to be produced.

The criteria used by Prudential to establish its annuity rate is commercially sensitive. And as such it is not routinely subject to disclosure to this service. Ultimately the criteria used to

calculate annuity rates, the emphasis Prudential's underwriters place on medical conditions, and the rates it chooses to offer are matters of Prudential's commercial discretion. I am satisfied that Prudential was exercising its legitimate business judgement when it calculated the annuity rates offered to Mr K, and I do not consider that it has acted unreasonably.

The actual annuity income Mr K receives is based upon the total value of the fund used to purchase the annuity, and the relevant annuity rate; that is to say the rate at which each pound of fund value secures an income. In this case, although Mr K's eventual annuity income differs to that illustrated on the quote he accepted, the annuity rate which Mr K accepted on the enhanced quote remained the same. The reason for the reduction in eventual income was as a result of the fund value (used to purchase the annuity) reducing.

I turn now to the second element of Mr K's complaint – the poor service he received whilst making his annuity purchase. I appreciate that there were customer service failings and that this caused Mr K distress and inconvenience. I can understand Mr K's frustration at the process of purchasing his annuity. Prudential admitted to these failings and paid Mr K £150 in compensation. Prudential also backdated Mr K's annuity so that he would not lose out on any income as a result of its poor customer service. Further, while Mr K believes that Prudential intentionally did not sign for Special Delivery packages he sent containing his annuity paperwork, the evidence demonstrates that regardless, Prudential acted on this paperwork and set up his annuity according to his selection.

Taking account of all of the circumstances, I consider the actions already taken by Prudential, including the £150 payment for distress and inconvenience, to be reasonable and in line with what this service would award. Therefore, I do not consider additional compensation to be warranted.

my final decision

I do not uphold the complaint, and therefore I make no award.

Venetia Trayhurn
ombudsman