

complaint

Mr P complains he was poorly advised to contract out of the State Earnings Related Pension Scheme (SERPS) by The Prudential Assurance Company Limited.

background

Mr P says he was advised by Prudential to contract out of SERPS in 1987. At the time he was 40 years old, employed and earning just over £13,000. Mr P's complaint is prompted by discussions he's had with HMRC. Following these discussions, Mr P says he's worse off from contracting out. Mr P complained to Prudential. It didn't uphold his complaint saying that Mr P was within the guidelines it set at the time to assess whether, or not, someone could benefit from contracting out of SERPS.

Mr P didn't agree and complained to this service. He says that the deductions taken from his state pension when compared with the pension income he'll receive from Prudential mean that he will be just under £20 per year worse off.

Our investigator didn't uphold Mr P's complaint. She felt that Mr P's personal and financial circumstances met the key requirements for contracting out of SERPS which justified Prudential's advice for Mr P to do so. She also pointed out that the pension's underlying investments were linked to the stock market; benefits weren't therefore guaranteed.

Mr P didn't agree with our investigator. He reiterated that, in his view, he'll get no benefit for contributing to a pension scheme which he says he's been paying into for 32 years. The case has now come to me for a 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. Having done so, I've come to the same conclusion as the investigator, and largely for the same reasons.

When the Government decided to allow individuals to contract out of SERPS (and offered incentives to do so), it didn't give advice about who should be advised to remain in SERPS and those for whom it was anticipated that contracting out would be beneficial. To provide clarity, pension providers made comparisons of the projected benefits from SERPS with those from a personal pension. These calculations were based on what were felt to be conservative assumptions of likely future investment returns at the time. In drawing up these comparisons, two key criteria were considered; age and earnings.

The rebates paid by the Government were one of the reasons where it could have been considered more attractive for younger individuals to contract out than those who were older. The age, where the provider's advice as to whether to contract out or not changed, is known as the 'pivotal age'. Mr P was under this pivotal age when he contracted out. Mr P's annual earnings at the time were slightly more than £13,000. This means that Mr P was above the minimum salary set by Prudential for individuals to contract out.

So, in the context of his age and earnings, Mr P was within the guidelines for potentially benefiting from contracting out of SERPS. But there was no guarantee that he would be better off. The amount paid into his personal pension was invested in the hope it would grow sufficiently so that the future benefits would be more than Mr P would have received had he

remained in SERPS. That depended on the growth achieved by the funds in which the pension was invested and the rates available at retirement for converting the pension fund into an annuity.

It's disappointing that investment returns have been lower than anticipated and annuity rates more expensive than expected at the time Mr P was advised to contract out. This means that the gains from contracting out are not as great as had been hoped. And I can understand Mr P's disappointment that he feels he may now receive less from the state pension than he would have if he'd remained in SERPS. But this doesn't mean the advice given at the time was unsuitable.

I appreciate that Mr P feels that there has been a negative impact on his state pension resulting from contracting out of SERPS, but I can't reasonably hold Prudential responsible for this. Taking everything into account, I'm not persuaded that Prudential's advice to contract out of SERPS was inappropriate.

my final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 23 February 2020.

Geoff Pearson
ombudsman