

complaint

Mr B complained to The Prudential Assurance Company Limited about the sale of his Teachers additional voluntary contribution (TAVC) plan. He's used a Claims Management Company ("CMC") to make his complaint.

background

In 1995 Mr B set up an TAVC plan making a lump sum contribution of £1066.77. Prudential says that it doesn't think this TAVC was sold by one of its advisers, as it doesn't have any paperwork from the time of the sale. However, it does acknowledge Mr B met with Prudential in 1998, just before starting monthly contributions to his TAVC plan.

The paperwork completed at this time confirms that Mr B was working as a teacher and he was a member of the Teachers' Pension Scheme (TPS). He joined the TPS in 1974 and intended to retire at the age of 60. The paperwork also confirmed that Mr B was earning £21,591 and had £70 disposable income each month. The adviser followed the meeting up with a recommendation letter. This letter explained that he'd advised Mr B to make maximum contributions to his plan but as this wasn't affordable, Mr B arranged to contribute £30 per month to the TAVC plan.

Mr B's CMC complained to Prudential about the sale of the TAVC in 2017. However, many of the complaint points weren't relevant as they related to Mr B having been sold an FSAVC (free standing additional contribution) plan. But this wasn't the type of plan that Mr B had. He'd taken out an in-house TAVC plan, which was one of the options set up by the Department for Education to allow TPS members to top up their retirement benefits. The only complaint point that was relevant to the type of plan that Mr B held was in relation to added years. Mr B's CMC said that if he'd been given adequate information during the sale of the TAVC about this alternative option, he would have opted for this instead of contributing to the TAVC plan.

Prudential reviewed the complaint but it didn't think it had done anything wrong. It was satisfied that Mr B had been made aware of the option to buy added years and even if he hadn't been, it wasn't satisfied that Mr B would have chosen this option anyway.

Mr B didn't accept Prudential's response so his CMC referred the matter to this service for consideration.

One of our investigators reviewed the complaint but didn't think Prudential had done anything wrong. He said he thought Mr B had been given information about added years. But even if he hadn't, he didn't think he could fairly say that he would've made a different choice. The investigator explained that Mr B's disposable monthly income was £70, and he only contributed £30 per month to the TAVC. So he thought the option to purchase added years would've appeared too expensive and not as flexible as the TAVC.

Mr B and his CMC didn't accept the investigator's opinion so the matter has been passed to me to make 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. Having done so, I'm not upholding the complaint. I'll explain why.

I think it's very likely that when Mr B joined the TPS he was provided with a scheme booklet either by his employer or the scheme administrators. This booklet would've explained the various options he had for paying extra contributions to increase his pension provision – including the option of buying added years. So I think, on balance, Mr B had most likely been provided with information regarding the added years option, even before he took out the Prudential TAVC plan. But in case Mr B didn't receive a booklet when he joined the TPS, I've also thought about what happened in 1995 when the TAVC was set up and again in 1998 when he met with Prudential to set up monthly contributions to his plan.

Prudential hasn't been able to provide any paperwork from 1995 and it doesn't consider that it gave any advice to Mr B at this time. This means it's difficult for me to determine whether Prudential had an obligation to make Mr B aware of the option to buy added years. So as the evidence is inconclusive about what happened and what was discussed in 1995, I've thought about whether Mr B would've most likely opted for added years, rather than the TAVC policy, if he'd known that this was an alternative option. For the reasons set out below, I don't think I can say that he would've chosen added years in 1995 rather than taking out the TAVC policy.

The cost of added years of service in the TPS was determined by the Government Actuary using conservative assumptions of likely future investment experience. This made them more expensive than if a less conservative (or more optimistic) set of assumptions had been used. The aim was to make sure, as far as possible, that the cost of added years would be met by the members. The intention was that this would mean there would be no shortfall that would have to be picked up by the employer.

Mr B contributed a lump sum of £1066.77 to the TAVC but it would have cost him more than £4100, to buy one extra added year in the TPS. It seems likely that Mr B would have needed to purchase around 6 added years to retire on maximum benefits. So he would have needed to contribute a lump sum more than £25,000 in order to do this. Although there is no paperwork from the time of the sale, as Mr B only made this one lump sum payment, I think it's more likely than not that he wasn't in a position to contribute any more to his pension at that time. I do appreciate that he didn't need to buy all six years but I've not seen any evidence to suggest he was in a position to buy one added year. And at the time it would probably have been shown that the projected benefits from the TAVC would be greater than the benefits of purchasing one added year. So it's difficult to say now that Mr B would definitely have considered it the cost effective or affordable option, when compared with the projected benefits available from investing in the TAVC plan.

I've also considered sales paperwork from 1998. There's a section on the TAVC plan application form which asks if the applicant is currently paying additional contributions to the TPS, and one of the options that can be ticked is for added years. This section of the form hasn't been completed. But I don't think this necessarily suggests that added years weren't discussed. As far as I'm aware Mr B wasn't making any additional contributions to the TPS when he met with the adviser. So I don't think it's unreasonable for this part of the form to have been left blank as no information needed to be provided in this section.

And although the evidence is inconclusive about what was discussed, I do think there were a number of opportunities for Mr B to have become aware of the added years option. So I'm not satisfied that I should conclude he most likely wasn't told or didn't know about this option in 1998. However, in the event that Mr B wasn't aware of this option in 1998, I've thought about whether he would've most likely opted for added years, rather than the TAVC policy, if Prudential had definitely discussed this with him.

If Mr B had paid monthly for added years, rather than contributing to the TAVC, he would've had to give up a set percentage of his salary. The amount he paid would've increased as his pay increased over the years. And the information I've seen suggest that to receive the maximum benefit under the TPS, Mr B would have needed to contribute more than 11% of his salary, as each year would've cost around 1.95%. However, the paperwork confirms that Mr B has limited disposable income. So for the same reasons I've explained above, I don't think he would've considered added years to be an attractive or affordable option.

Given the above, I can't say that Prudential has done anything wrong so I'm not upholding the complaint.

my final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 10 August 2018.

Lorna Goulding
ombudsman