

complaint

Miss M has complained to The Prudential Assurance Company Limited about the sale of her Teachers' Additional Voluntary Contributions (TAVC) pension plan. She says that if she'd been given better information, she would've purchased added years in the Teachers' Pension Scheme (TPS) instead of setting up the TAVC plan.

background

Miss M took out a TAVC plan in 1994 after meeting with a representative from Prudential. The paperwork completed at the time of the sale confirms that Miss M was 36 years old and was earning £21,444 a year. Miss M had been a member of the TPS since 1980, when she was 22 years old.

The TAVC policy was set up with a starting contribution of 3.7% of Miss M's salary per year. Miss M increased contributions to her TAVC plan in September 1995 and May 1998. Miss M stopped making contributions for several months during 1999 and 2000. She made no further contributions to her TAVC after December 2004.

Miss M complained to Prudential in 2018. She argued that Prudential cannot prove they made her adequately aware of the alternatives to the TAVC and she was given the "hard sell" on this option only. She says Prudential's adviser persuaded her that the TAVC was preferable without making an effective comparison with the added years option so she wasn't able to make a fully informed decision.

Prudential reviewed Miss M's complaint but it didn't think it had done anything wrong. It said its representatives were only required to provide information about the added years option and it wasn't allowed to provide advice on added years. It thought its information was clear enough about the added years option. But even if it wasn't, Prudential didn't think Miss M would've have chosen to buy added years instead of contributing to her TAVC plan. Prudential said the TAVC offered flexibility and was expected to provide greater benefits than the added years option.

Unhappy with this response, Miss M referred her complaint to our service. One of our investigators considered her complaint but didn't uphold it. He didn't think Prudential gave clear enough information about her in-house options.

However, he didn't think it was likely Miss M would have bought past added years if she'd been given enough information. He noted she was only able to buy two added years. Whilst the added years would likely have cost less than Miss M contributed to her TAVC, he didn't think Miss M would have thought added years were the cost effective option. He said this because, at the time Miss M took out the TAVC plan, it would probably have been shown that the projected benefits from AVCs – based on what she was contributing – would be greater than the benefits of using this same contribution rate to purchase added years. Our investigator also thought Miss M would have wanted the flexibility offered by the TAVC, which she took advantage of by taking a break from her contributions before stopping them entirely.

Miss M disagreed, saying Prudential should have gone further and explained the generic differences between the TAVC and added years. She said that she would have bought added years had this been done. So this has come to me for a review and 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 agree with our investigator's conclusions, and for the same reasons.

The Prudential sales representative who sold Miss M her TAVC plan was only authorised to provide advice on Prudential products; he couldn't advise Miss M on the added years option. All the representative had to do was make Miss M aware that added years were an alternative option and refer her to the TPS booklet for further information.

The application form signed by Miss M when she took out her TAVC plan and the forms completed when she later amended her contributions mention the added years option. However, Miss M is unhappy with the information she was given and I can't see that Prudential referred her to the TPS booklet or her employer's scheme for more information about her in-house options. So I've considered whether it's likely Miss M would have chosen to buy added years if she'd been given this information.

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 Miss M's employer.

Miss M may have been eligible to buy two added years, which could have cost less than she was contributing to her TAVC plan. But Miss M seems to have had the capacity to save more, which the TAVC allowed her to do.

Having thought about whether Miss M would have used some of her contributions to buy added years instead, I'm still not persuaded she would've wanted to commit to this option. Miss M made use of the flexibility offered by the TAVC plan when she took a break from making contributions, which she wouldn't have been able to do with the added years option.

Miss M says she wasn't looking to take any excessive risks with her retirement planning, and the added years option would've provided a guaranteed benefit. Having considered the level of risk involved in the TAVC plan, it appears to be suitable for her circumstances at the time. Her plan was invested in a with-profits fund, which was relatively low risk. I've seen no evidence to suggest Miss M couldn't take any risk at all. And at the time, it would likely have been shown that the projected benefits from her TAVC plan would be greater than the benefits of using this same contribution rate to buy added years. So I don't think it's likely Miss M would have thought added years would be the more suitable or cost effective option for her compared to the projected benefits available from investing into her TAVC plan.

It's only with the benefit of hindsight that we know that Miss M may have been better off buying added years, and I can't use hindsight when making my decision. We now know investment returns achieved were much lower than expected. But as I've explained above, it's likely the AVCs were projected to provide greater benefits at the time of advice.

I realise my decision is likely to disappoint Miss M but, having taken all the available evidence into account, I'm not persuaded she would have bought added years if she'd been given clearer information by Prudential.

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 Miss M to accept or reject my decision before 6 March 2019.

Vicki Blackwood
ombudsman