

## **complaint**

Mr C has complained that his pension fund held with The Prudential Assurance Company Limited (“Prudential”) has dropped shortly before he wanted to take his benefits.

## **background**

I issued a provisional decision in December 2017. A copy of that decision is attached and forms part of this final decision.

In my provisional decision I set out the background to this complaint and I explained why I didn't think Prudential had unfairly reduced Mr C's pension fund value.

I explained that I'd take into account any more information either Mr C or Prudential wanted to give me before I issued a final decision.

Prudential responded to say it had no further information or points it wanted me to consider.

Mr C responded with some further information. He explained that he left his pension with Prudential for eighteen months after it reached maturity in September 2015. He didn't move it elsewhere as Prudential said he had a 'special pension guarantee', which he thought was valuable. Mr C says Prudential asked him when he wanted to start taking his pension income and he started to think about this in January 2017. But he says around this time he found out he could get what he thought was a better deal on the open market, so he didn't think the 'special pension guarantee' was particularly valuable. He says he would've taken his pension earlier, and may have had the higher transfer value, if he'd known this earlier.

## **my findings**

I've again 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 going to change the conclusions of my provisional decision.

In the letter Prudential sent to Mr C on 22 February 2017 it says:

### ***'Your valuable pension income guarantee***

*You have a valuable guaranteed minimum income with your Prudential pension. This guarantee is not a feature of all pensions and you could be entitled to a competitive level of income if you wanted to consider taking an income for life with us...*

*It's important you understand the income guarantee you gave before making any decisions. To help with this, we have included the yearly income available with your guarantee an [sic] two annuity options. These aren't the only options available – but as you should shop around, they will help you compare the income available from you Prudential income guarantee with what is on offer elsewhere...*

The letter goes on to give two examples of the annual income available if Mr C took the maximum tax free cash available as a lump sum, one with no guaranteed period and one with a 10 year guarantee. But it went on to say *'the values are not guaranteed and can change on a daily basis.'*

I think the 'special pension guarantee' Mr C referred to was the basic annuity and guaranteed bonuses that he had accumulated over the life of the pension that, once set, couldn't be taken away.

But I also think Prudential made it clear enough that the figures he was given weren't guaranteed and could change – in fact they varied between November 2016 and April 2017 as set out in my provisional decision. And the transfer value in April 2017 was still higher than the value in November 2016 even with the variations in value.

Mr C says that, if he'd known he could've got a better deal on the open market earlier, he could've moved his pension earlier and may have got a higher transfer value. But I think Prudential told Mr C to 'shop around', and I haven't seen he was told the Prudential annuity was the best available at the time. So I think it was up to Mr C to look for the best available deal that suited his particular circumstances at the time he wanted to take his pension benefits. And when he did so, unfortunately the transfer value of his pension had fallen for the reasons set out in my provisional decision.

I understand why Mr C is frustrated that his transfer value fell, but I don't think Prudential said anything to make him think it was guaranteed not to go down. And I can't see that Prudential did anything to stop or delay Mr C moving his pension earlier than he did, which might have meant the transfer value was higher.

#### **my final decision**

My final decision is that I don't uphold Mr C's complaint against The Prudential Assurance Company Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 12 February 2018.

Mark Hutchings  
**ombudsman**

## provisional decision

### complaint

Mr C has complained that his pension fund held with The Prudential Assurance Company Limited (“Prudential”) has dropped shortly before he wanted to take his benefits.

### background

Mr C had a Prudential Personal Retirement Plan. In February 2017 he was told that the fund value was around £122,000, but a month later he was told it had dropped to around £106,000. Mr C thought he’d lost out as he’d planned on taking his pension in May 2017 and he didn’t think that was fair.

In April 2017 Prudential wrote back to Mr C to say the difference in the fund value was right and was due to a change in the non-guaranteed bonus rates and to the conversion factor used to generate a fund value. But it apologised that Mr C hadn’t received a call back when it had been promised and paid £25 because of this.

Mr C wasn’t happy with Prudential’s response, so he brought his complaint to this service. One of our investigators looked into the complaint, but didn’t think Prudential had done anything wrong. But Mr C disagreed, so the complaint was passed to me for a decision.

### my provisional findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

On 22 February 2017 Prudential sent Mr C a letter that said his ‘fund value’ was around £122,000, but it also said *‘this is an approximate figure and it can change’*, so I don’t think this was a firm figure. In March 2017, Mr C told Prudential that he wanted to take an annuity using his pension fund, but he was told his pension fund value had fallen by around £17,000. Prudential said this was because the fund value given was a projected figure of what the fund would be worth a month later, but it had fallen due to changes to rates on 1 April.

Mr C’s pension plan was a deferred annuity contract, so with his contributions he bought parts of a basic annuity, instead of building up a fund to use later to buy an annuity. The annuity was backed by a with-profits fund, so if the underlying fund did well bonuses would be attached, so Mr C’s annuity value would go up. And once guaranteed bonuses were given, they couldn’t be taken away.

I’ve seen how Mr C’s pension value went up and down over time. Prudential have given us figures for his annuity and transfer value, each has been worked out a month in advance. I’ve set this out in the following table

	23 November 2016		22 March 2017		17 April 2017	
	annuity (£)	transfer value (£)	annuity (£)	transfer value (£)	annuity (£)	transfer value (£)
basic annuity	2,847.84	44,158.53	2,927.17	52,115.22	2,947.40	48,932.76
guaranteed bonuses	3,025.26	46,909.60	3,120.24	55,552.63	3,141.81	52,160.36
non-guaranteed bonuses	697.30	10,812.32	828.04	14,742.39	328.89	5,460.24
TOTAL	6,570.40	101,880.45	6,875.45	122,410.24	6,418.10	106,553.36

So the guaranteed annuity Mr C was able to take (the basic annuity and guaranteed bonuses) went up with each valuation. The fall in annuity was because the non-guaranteed bonus fell after the bonus rates changed on 1 April 2017.

The transfer value did fall between March and April 2017. That's because the fall in the non-guaranteed bonus meant the headline annuity reduced in value. And his annuity had to be 'converted' into a transfer value that took into account a number of different factors and the conversion rate changed on 1 April 2017. So although Mr C's annuity fell by around 6% the overall transfer value fell by around 13%. But Mr C wanted to take an annuity when he called in March 2017 and not transfer it or take a lump sum, so I don't think the fund value was something he actually wanted to use at the time.

Mr C's pension was backed by a with-profits fund. Prudential are required to operate the fund in accordance with their Principles and Practices of Financial Management document ("PPFM"). Any bonus payment when Mr C retired was aimed to reflect the overall growth of the fund and give him a fair share of it.

The regulator, the Financial Conduct Authority ("FCA"), has set down principles and rules that businesses must follow when working out and applying bonuses in with-profit funds. The FCA Handbook sets this out in some detail, but in particular a business must '*pay due regard to the interest of its customers and treat them fairly*' (Principle 6).

There is a part of the FCA Handbook that deals with with-profits funds, the Conduct of Business Sourcebook (COBS 20). Here it says:

*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 20.2.1(1))*

and

*A firm must have good reason to believe that its pay-outs on individual with-profits policies are fair.(COBS 20.2.3)*

Prudential publishes its PPFM document that sets out how it manages its with-profits funds and it's accountable to the FCA in doing this. It's required to appoint a with-profits actuary and the FCA provides rules and guidance on their duties. Prudential also has an independent With-Profits Committee whose remit is to protect the interests of the with-profits policyholders and ensure that they are treated fairly.

The Financial Ombudsman Service was set up to handle individual complaints about financial products from consumers. This service is not able to carry out a forensic audit of Prudential's management and operation of its with-profits funds - as explained above, it is the regulator that monitors the management of these funds. Prudential exercised its commercial discretion in setting returns and bonus rates on the fund that backed Mr C's pension, and that decision will have a wider impact on all investors, not just on him. Mr C can report this to the FCA if he thinks himself and others haven't been treated fairly, however I am not aware of it having any concerns about the operation of this fund.

Here I think Prudential has exercised its commercial discretion in setting the bonus rate, which is reflected in the transfer value. And I haven't seen any evidence that Prudential has mismanaged the fund. It follows I don't think Prudential has unfairly reduced Mr C's fund value.

Mr C has told this service that when he called Prudential in March 2017 he didn't know what type of annuity he wanted. Plus Mr C is married, so I think he would've wanted to see quotations so he could compare the cost of providing potential benefits for his wife. Mr C has also said he was speaking to a

financial advisor at the time and that he's gone on to move his pension to a flexible drawdown rather than take an annuity.

So I think if Mr C had said he wanted to take his benefits he would've needed quotations showing the different options available.

Prudential has said the figures given to Mr C were examples of the annuity he could've taken and the fund value. If he'd asked for specific quotes these could've been arranged for him and be guaranteed for a period of time. But any quotes given on or after 17 March 2017 would take into account the rate change on 1 April. So I don't think Mr C would've been able to accept a quotation based on a pre-1 April figure as, by 17 March, it was out of date and too late.

**my provisional decision**

For the reasons set out above, I currently don't intend to uphold Mr C's complaint against The Prudential Assurance Company Limited.

Mr C and The Prudential Assurance Company Limited should now let me have any more information they'd like me to think about before I issue a final decision.

Mark Hutchings  
**ombudsman**