DRN-4486222

The complaint

Mr B complains that ReAssure Limited did not manage his pension fund in line with his expectations and he's suffered financial loss as a result.

What happened

Mr B had a personal pension policy with Legal & General (L&G). This was a Buy-Out Plan which commenced after his benefits were transferred away from a previous employer's occupational pension scheme ("OPS"). The policy commenced in 1986 and was invested in the With Profits fund.

As a result of a business acquisition, Mr B's personal pension was transferred from L&G to ReAssure at the end of 2019 and so ReAssure is responsible for his policy and for dealing with this complaint. I'll refer to ReAssure throughout this decision.

Mr B says that, given how long his policy had been in place (from around 1986), he was expecting it to be worth in excess of £320,000. He says that's in line with the amount former colleagues were receiving from their pension policies held with other providers. And he thinks it's also in line with stock market growth over the period since the policy was taken out. He says the policy has not been managed in line with his expectations.

Mr B says his policy had a feature known as a guaranteed minimum pension (GMP). The value of his pension, as shown on his annual statement dated March 2021, was almost £79,000. Mr B says ReAssure had to increase this in order to cover the GMP amount. He hasn't been able to take any tax free cash and his pension payments are much less than he would've expected. He complained to ReAssure.

ReAssure looked into his complaint. It said there were many factors that needed to be taken into consideration as the fund value was not solely down to fund performance. It said, for example, that the age, length of service, amount transferred, continuing contributions and other factors would all impact on fund value. ReAssure said it had operated Mr B's policy under the terms and conditions which applied and it had provided an appropriate top up to cover the cost of the guarantees he was entitled to. It did not accept it had done anything wrong.

Mr B did not agree. He referred his complaint to our service. Our investigator looked into his complaint. He said Mr B had held a "with profits" policy. There were a number of factors which affected the rate of return including the amount of risk taken. He said he hadn't seen any evidence to support what Mr B said about mismanagement of his pension and he wasn't aware that the regulator, the Financial Conduct Authority (FCA), had any concerns over the way ReAssure handled the pension fund.

Our investigator said it wasn't helpful to draw comparisons with how Mr B's colleagues' pensions had performed since there were a number of factors involved including age, length of service and contributions made. So, our investigator wasn't persuaded, on balance, that ReAssure had mismanaged the pension fund.

Because Mr B did not agree, the complaint has been passed to me to decide.

What I've decided – and why

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

Guaranteed Minimum Pension (GMP)

First, I'd just explain what a GMP is. Mr B was a member of an OPS which chose to opt-out of the State Earnings-Related Pension Scheme (SERPS). SERPS was a top-up to the basic state pension payable at the employee's state pension age. Because the OPS opted out of SERPS it was required to agree to pay its employees a minimum level of benefits at state pension age. This was known as the GMP and was to ensure that employees didn't lose out as a result of the OPS being contracted out of SERPS.

When the OPS transferred away the benefits, the Buy-out Policy was taken out with L&G. Under the terms of the Buy-Out policy L&G was obliged to agree to pay Mr B an annual pension at least equal to the GMP when he reached age 65 years, irrespective of the value of his pension funds at that time. So, L&G and now ReAssure were obliged to honour the GMP.

ReAssure has agreed to honour the GMP amount. In order to do that it says it's had to uplift the value of the policy by a significant sum. The amount transferred to the new provider was over £145,000. Whereas the value of Mr B's policy at that time was just over £83,000. So, I'm satisfied ReAssure has agreed to comply with its obligations to cover the GMP entitlement as required under the terms of the policy.

Nevertheless, Mr B argues that if ReAssure had managed his fund correctly, or invested it in a "better fund" it would have been worth a lot more. So, I've thought further about what Mr B has said.

Annual Increases added to the Policy

The Buy-Out policy was invested in the L&G With Profits fund. Mr B didn't make any further contributions to the policy. He received annual statements for the policy. I've looked at the annual statements (including statements issued in 2004, 2006, 2011, 2016, 2018 and 2019). These show the information that was provided to Mr B about his policy and how it was performing.

All of these statements indicate that Mr B's policy was invested in the With Profits fund. They also show that the value of the policy increased each year by 5%. This was referred to as CAI (which means Contractual Annual Interest).

The terms and conditions for the policy indicate that CAI was a non-discretionary addition. So, each year Mr B was entitled to this payment irrespective of how markets were performing.

The terms and conditions also stated that the With Profits fund would participate in the profits of L&G from time to time and bonuses would be declared annually by L&G. However where the policy provided for a GMP, L&G reserved the right to declare a lower bonus on all buy-out policies than those declared on other L&G pension contracts. And, where a guaranteed increase, such as a CAI, was greater than any annual bonus that might otherwise be payable only the guaranteed increase would be paid.

There's no indication that Mr B received any annual bonuses, in addition to the CAI, during the periods covered by the statements I've looked at. As mentioned above annual bonuses were not guaranteed under the terms of the policy.

I can see, from the statements I've examined, that increases of 5% have been applied to Mr B's policy each year.

ReAssure has now provided further information which shows that after the policy was transferred to it on 31 December 2019, an increase of 5% was applied on the 31 December 2020 and again on 31 December 2021. ReAssure also says that, in addition, an annual bonus of £455.01 was paid on 31 December 2020 and again on 31 December 2021. Mr B decided to transfer the policy away in March 2022 – so no further bonus was payable after that date.

Having reviewed the information provided by ReAssure, I've not seen any evidence that indicates it failed to manage Mr B's pension in line with the terms and conditions of the policy or that it has otherwise acted unfairly or unreasonably in the way that it managed the policy.

Mr B says he would've expected his policy to grow at the same rate as stock market performance over the period - which he says averaged 10%. But, having considered the information provided annually to Mr B, I'm satisfied ReAssure provided enough information to make him aware that the value of his policy, and the annual increases he was receiving, were not reflective of changes in the stock market. He was receiving an annual increase of 5% each year.

Although Mr B told us he didn't take a lot of notice of the statements he was getting and assumed that his policy was growing in line with the stock market, I'm satisfied, on balance, he would have had enough information to query the annual increases he was receiving - especially if he thought, as he now says, that the policy should have been increasing in line with stock market performance. The statements showed that the annual increase was 5%. There's no evidence he challenged the return he was receiving prior to the date when he made his complaint.

<u>The Performance of the With Profits Fund</u>
Mr B says that if the policy had been invested in a "better performing" fund it would have been worth a lot more.

As mentioned above the annual statements he'd been sent showed that his policy was invested in the With Profits fund from inception. The statements also indicated it was transferred into the LG With-Profits Fund within ReAssure with effect from September 2020. It is the case that under the terms of his policy Mr B was entitled, subject to what I've said above, to annual and terminal bonuses. But these were not guaranteed.

There are specific rules that have to be followed regarding bonus declarations for a With Profits fund. These are set out in the PPFM (Principles and Practices of Financial Management). ReAssure publishes its PPFM online. It sets out the approach taken by ReAssure to settling its annual bonus rates.

Decisions about bonus declarations are taken by the board of ReAssure after considering advice received from its With Profits actuary. ReAssure takes account of a number of factors which include (but are not limited to) historic returns, bonuses previously declared, the effect of smoothing, running costs, the effect of any guarantees written into policies and various other adjustments. These are all explained in the PPFM.

As our investigator said there's nothing to indicate that the Regulator, the Financial Conduct Authority (FCA), has expressed any concerns about ReAssure's management of this fund.

Having considered everything here, including the terms and conditions for the policy, the annual statements and the information set out in the PPFM, I'm satisfied, on balance, ReAssure didn't do anything wrong, or that it has otherwise acted unfairly or unreasonably, when it increased the value of Mr B's pension in line with the terms and conditions of the policy.

Although Mr B has told us that other colleagues (who he says were in the same situation as himself) have obtained much greater returns from other providers, it's not possible to make accurate or fair comparisons of this nature. There are many factors which can impact on the value of a pension fund – including for example age, length of service, value at the date of transfer and any decisions which Mr B's colleagues may have made about how the funds were subsequently invested. So, I agree with our investigator when he said that comparisons of this nature are not a fair way to assess investment performance.

From the information provided to me I'm persuaded, on balance, that ReAssure has managed Mr B's pension in line with the terms and conditions of the policy. It's also confirmed to us that, as it was required to do, it uplifted the policy amount to the level required to honour the GMP Mr B was entitled to be paid when he transferred the pension to another provider. I think that was fair and reasonable. I don't require ReAssure to have to do anything further.

My final decision

For the reasons given above I do not uphold this complaint about ReAssure Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 5 January 2024.

Irene Martin
Ombudsman