DRN-4516544

The complaint

Mr A complained that the value of his pension funds fell significantly during 2022, at a greater rate than general market conditions could explain while managed by Phoenix Life Limited (Phoenix). He complained that Phoenix had not explained the basis on which his pension was valued. He asked for his fund value quoted at his scheduled retirement date to be provided to him so he could seek an open market option annuity or drawdown product.

What happened

Mr A originally opened a pension plan with Phoenix in December 1985, making regular monthly payments into the plan. The policy was established on a with profits basis with a guaranteed annuity if benefits were taken between the age of 55 and 75. Mr A's policy was set up with a scheduled retirement date (SRD) based on him taking a pension aged 65. The level of the guaranteed annuity was based upon contributions into the policy, his age at SRD and market performance. The market performance element was reflected by the addition of annual bonuses, with a non-guaranteed bonus possible on SRD.

In February 2017, Phoenix wrote to Mr A to remind him that his SRD was now approximately five years away and gave a current value of his benefits as c£58,000. It wrote again in May 2019 to remind him that he was approximately three years away from retirement, outline his options at retirement and gave a current plan value of c£78,000. On 13 December 2021, Phoenix sent Mr A a retirement options pack, which outlined different ways in which he could take his benefits, showing a current value of the benefits of c£107,000. This was followed with a further reminder on 20 April 2022, which stated a current value of the plan of c£96,000.

As his SRD approached, Mr A engaged an IFA to explore his open market annuity options. Phoenix wrote to his IFA on 14 November 2022 giving a current policy value of c£72,000.

Mr A subsequently complained to Phoenix in February 2023. He complained that the fall in the quoted current value of his benefits from c£107,000 to c£72,000 between December 2021 and November 2022 could not be explained by reductions in the value of publicly quoted stock market based investments. He also complained that the guaranteed annuity Phoenix offered was uncompetitive and lacked the features that other providers could offer, specifically a 20 year guarantee and 100% spousal benefit.

Phoenix investigated Mr A's complaint and issued a final response to him on 6 April 2023, not upholding his complaint. It explained that the type of policy Mr A had was designed to provide a guaranteed annuity on retirement. The current value of the funds quoted to him in annual policy statements were based upon the costs of providing this guaranteed annuity, rather than being based upon investments in underlying assets held in his name. As the cost of providing the guaranteed annuity changed on a daily basis, the current value also varied, and was based on the cost that day of providing the current guaranteed value of the annuity.

It went on to explain that the cost of providing his annuity had fallen substantially in the latter part of 2022, which had consequently depressed the current value of his benefits. While it understood Mr A's disappointment, it believed it had acted correctly.

Mr A was not satisfied with this response and brought his complaint to this service.

Our investigator reviewed the evidence and formed the view that the complaint should not be upheld as they felt that Phoenix had acted correctly in the way it had managed Mr A's policy

Following our investigators view, Mr A wrote to this service to say that he also felt that the communication from Phoenix over the years had not made how the quoted current value of benefits were dependent upon the level of the guaranteed annuity.

Mr A disagreed with the investigator's view, so the case has been passed to me to review the evidence again and make a final decision.

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.

Having done so, and considering the view of our investigator, I have reached the same conclusion and will not be upholding Mr A's complaint.

I can appreciate that this will be disappointing for him, so let me explain how I have reached my decision.

For me to uphold Mr A's complaint, I must be able to establish that Phoenix has acted incorrectly and to his detriment. That is because it is not the role of this service to punish a business, but to establish whether a business has made mistakes in respect of how it has treated the person bringing the complaint. Where it has, I have to determine how best the business should compensate the complainant to put them back into the position they would have been had the errors not occurred.

Given this, I have to look at whether Phoenix has made any mistakes in how it has treated Mr A, and I don't think it has.

Essentially, the pension policy Mr A took out in 1985 was always designed to provide him with a guaranteed annuity on retirement, in his case his 65th birthday. While we don't have the original documentation from the time of the sale, this will have been explained at the time and made clear in those documents. I do appreciate that this was a long time ago, and at a time when different financial regulations applied, but those initial documents would have contained the essential facts relating to the way in which the pension policy was designed. Although neither Mr A nor Phoenix have provided copies of these documents, I am satisfied that Mr A would have received them when he took out the policy.

I've also looked at the annual statements that Mr A received each year and am satisfied that it was made clear in these that he was invested on a with-profits basis.

In terms of the benefits Mr A could expect from his policy, his annual statements showed the benefits he had accrued in terms of:

Basic Annual pension	*£ [A]*
Plus previous bonuses of	*£ [B]*
Plus bonus for [Year]	*£ [C]*
Total Annual pension	*£ [A + B + C]*

These annual statements also went on to state:

If all premiums are paid, then the benefits available at the retirement date shown on your policy document will be the total annual pension plus any final bonus applied at that time. The amount of pension and cash option you actually receive will depend on various factors, such as your age and market interest rates available at that time.

From this, I am satisfied that Phoenix acted correctly when using the cost of providing his guaranteed annuity as the basis for the quoted value of the benefits.

I can certainly appreciate Mr A's disappointment that the value he was quoted on retirement was significantly lower than that quoted to him previously. Phoenix has explained that this reduction was because the value of his benefits was based upon the cost of providing his guaranteed annuity benefits. The cost of providing an annuity is based upon a number of factors, some which are specific to the individual such as their age and health, but other external factors also play a large part, particularly interest rates. Specifically, as interest rates rise, the cost of providing an annuity falls, which may have contributed to the reduction in fund value Mr A experienced in this instance.

I can also appreciate that Mr A is dissatisfied that Phoenix itself does not offer the type of annuity that he has said he wishes to purchase. It is not the role of this service to comment on the commercial decisions that any business takes in relation to which products it chooses to offer, and as Phoenix has made Mr A aware of his ability to look for a suitable product from another provider, I can't see that it has done anything wrong here either.

Mr A has also explained that he felt that Phoenix did not adequately explain the dependence of the fund value to the cost of providing the guaranteed annuity.

While the retirement options packs Mr A requested in 2017 and 2019, and those Phoenix sent him subsequently do indeed show a current value on the first page of the covering letter, they also include details of the current value of the guaranteed annuity he had accrued at that time. Taken in conjunction with the annual statements he received, I can't see that it has acted incorrectly in this respect either.

Consequently, and disappointing as it will be for Mr A to hear, I do not find that Phoenix has acted incorrectly and do not uphold his complaint.

My final decision

For the reasons explained above, I do not uphold Mr A's complaint.

As a result, I will not be asking Phoenix Life Limited to do anything else.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 19 February 2024.

Bill Catchpole
Ombudsman