DRN-4534197

The complaint

Mr J complains that the Cash Equivalent Transfer Value (CETV) of his pension policy with Pension Insurance Corporation plc (Pension Insurance) fell by nearly 50% from April 2022 to February 2023. He thinks this is a mistake and it isn't fair. He doesn't accept Pension Insurance's explanation around market turbulence and volatility for the fall. He would like Pension Insurance to reinstate his plan to the value it held when it was first transferred by his employer.

What happened

Mr J belonged to an occupational pension scheme (OPS) from 1995 to 1998. But in 2022 the scheme transferred all the individual member pensions to a group deferred annuity scheme with Pension Insurance. The normal retirement age (NRA) of the scheme had been 65, and when he left the OPS Mr J's "earned annuity" was £1,658.85.

In short, by taking over the OPS, Pension Insurance had to guarantee that it would pay each member at least the equivalent benefits of what they would have received at NRA from the OPS.

Mr J says he hasn't been able to work since 2009, so in 2022 he contacted Pension Insurance to see if he could access his benefits under the ill health facility. He says he received the forms – including an up to date CETV of £105,214.10 – but due to his health failing further he didn't continue with the request. He says he was given access to the online portal in February 2023 which led him to discover that the transfer value had subsequently fallen to around £52,000.

So in August 2023 Mr J complained. He said that as he was approaching his 55th birthday he wanted to transfer his plan to another investment which better suited his needs. But the drop in transfer value meant he'd lost over £50,000 towards this objective. He said that having noted Pension Insurance's solvency ratio of 192%, he didn't understand why the fund had fallen so much. He said that due to his poor health he wanted to sort out his position now as opposed to waiting until age 65, so he asked Pension Insurance to restore his plan to the value it had been when it was first transferred.

Pension Insurance didn't uphold the complaint. It said that the assets it held had been reduced in value because of the recent rise in interest rates. And the fall in the value of these assets meant the transfer value it quoted was significantly lower. It didn't think it had any control over this market turbulence and so didn't agree that it had made any error in calculating the value.
It went on to explain that, as Mr J's pension was originally a defined benefit scheme, it's obliged to pay him the level of benefits he would have received from the scheme – so he was unaffected by the reduced transfer value and market turbulence.

Mr J didn't accept that response, so he brought his complaint to us where one of our investigators looked into the matter. He didn't think the complaint should be upheld. He made the following points in support of his assessment.

- If Mr J chose to access his pension he would still receive benefits equivalent to those he accrued within the OPS. So he wouldn't be disadvantaged at all.
- The transfer value simply reflected how much another provider would need to also provide equivalent benefits. Economic and market factors (rising interest rates) meant that Pension Insurance's underlying assets had improved in value so less money would be required to transfer to a new provider to provide those benefits.
- While transfer values had fallen in general – which wasn't something Pension Insurance was able to control – it didn't reflect the value of Mr J's deferred annuity, but the cash equivalent value if it was transferred.
- Mr J still retained all the benefits that he received when Pension Insurance set up his deferred annuity, and there was potential for his CETV to go up again if he wanted to transfer his benefits at a later date.
- He noted Mr J's point about Pension Insurance's solvency ratio but didn't think it had any effect on the transfer values – which were influenced by the other factors he'd already set out such as increasing interest rates.

Mr J didn't accept the assessment making the following points in response:

- He didn't think it was fair that Pension Insurance could "take" £50,000 of his pension pot value because of "market turbulence" and gain as a result. He didn't think it was right that Pension Insurance "could" still afford to pay his OPS equivalent benefits but using only around half of the money.
- He said he'd told his previous employer that he wasn't in favour of the benefits being transferred to Pension Insurance – but was told he had no option as the deal had been completed.
- He simply didn't feel it was right for Pension Insurance to only pay him £50,000 when his investment had been worth £107,000. This meant that he'd suffered a loss of half of his tax free cash lump sum that he intended to take if he was able to transfer to another provider.
- He didn't accept Pension Insurance's explanation that the value had fallen because of the "cost of living".
- He thought the "loss" he'd been subjected to amounted to "*corporate theft"* and could be something that many pension holders could experience in years to come.
- He thought we shouldn't be complicit in this issue and ought to protect consumers - which he thought was the reason we'd been set up.

He asked for his complaint to be referred to an ombudsman – so it's been passed to me to review.

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.

And having done so I've reached the same conclusion as the investigator. I don't think Pension Insurance has acted unfairly or done anything wrong here.
I was sorry to learn of Mr J's ongoing health issues, which were clearly the reason for him wanting to access his benefits in the first place, and I've seen how strongly he feels about this issue through his submissions. But I hope that my explanation of things here might at least bring him some closure on the subject – even if it isn't the outcome he hoped for.
I understand why Mr J is worried that he's lost around £50,000 of his pension plan's value and the distress and upset this has caused him. But, from what I've seen, I don't think he has. I'll explain my reasons below.

Should Mr J decide to stay with Pension Insurance then the issue of the transfer value is irrelevant. That's because Pension Insurance, when it took over the administration and management of his pension from the OPS, was obliged to provide him with the same benefits he would have got from the scheme – in line with the policy terms and conditions.

Mr J's OPS benefits were essentially 'fixed' by his accrued service and final pensionable salary when they were bought out by Pension Insurance. It's obliged to replicate those benefits - through Mr J's deferred annuity policy - and they are guaranteed regardless of how well or otherwise the investments held by Pension Insurance do. So Mr J, if he doesn't transfer away, should be aware that he can look forward to the same benefits he would have received from the OPS.

But Mr J says that when he checked the transfer value of his deferred annuity in February 2023 he'd lost around half of the previous value. He says this stopped him transferring the benefits at age 55 – when he wanted to draw his 25% tax free cash and use the residual fund flexibly because of his health issues. So I've considered carefully what happened here, and what obligations Pension Insurance might have had had around the transfer value.

I can understand Mr J's concerns here that the fall in the transfer value reduced the amount of money he has available. And he's right to say that the actual CETV is lower. But the transfer value Pension Insurance must pay represents the amount of money needed to provide equivalent benefits – that is how much it would cost the new provider to provide the pension that Mr J would be giving up by moving away from Pension Insurance.

Mr J has referred to the reduction in the value of his *pension pot* on a number of occasions throughout his complaint – which suggests he believes it is a pot of money, in his name, that fluctuates in value. But Mr J doesn't have a pension fund as such, his policy is a "deferred annuity" which is simply a promise from Pension Insurance to pay him what he would have got from his employer's OPS.

Pension Insurance doesn't have a separate fund of Mr J's money put to one side to pay him at retirement, but it will pay him from its overall assets at that time. I know Mr J says he didn't want Pension Insurance to take over the OPS and was told he had no option by his employer at the time. But that isn't Pension Insurance's fault and any complaint on that basis needs to be levelled at the employer.

So, as I've set out above, there isn't a fund of money allocated directly to Mr J. But Pension Insurance has to give him the option to transfer his benefits to another provider if he so wishes, and in that situation it has to offer a CETV – which I've explained "*represents the amount of money needed to provide equivalent benefits".* In this case that CETV reduced by around 50% from April 2022 to the point Mr J checked it again when he gained online portal access in February 2023.

But the CETV fell because economic conditions mean it will cost the new provider less to provide equivalent benefits.
Rising interest rates – which is what happened during this time - generally mean improved returns on the underlying assets held by Pension Insurance to pay for Mr J and other policyholders' annuities – so less money is needed to pay for the pensions it's contractually bound to provide.

Of more significance however is the increase in annuity rates meaning it costs less to buy a pension income. If Mr J had transferred out in February 2023 the amount he'd have got to put into his new pension arrangement would've been significantly less than he'd have got before. But if he then used that money to buy an annuity he'd have paid less than he would've done earlier. From some quick research on historical annuity rates it's clear they've increased greatly during the period in question. I've established that one main provider reported that annuity rates increased by around 20% from July 2022 to July 2023 – which would support the idea that Pension Insurance didn't need to provide the same CETV for the same benefits to be provided. So, the reduction in the transfer value is balanced by the fact that the purchasing power of the transfer value is higher.

Of course, Mr J's position is that his cash sum has fallen and if he'd accessed the benefits in April 2022 he would have got a greater tax free cash lump sum for example. But that would be to ignore that Mr J's plan wasn't simply an investment pot that fluctuated but a promise to pay an income equivalent to his OPS. The transfer value wasn't a reflection of his "pension pot" but a value aiming to guarantee his position by paying an amount that fairly represented the value of the benefits he'd be giving up by transferring his plan.

I note Mr J's point about Pension Insurance's solvency ratio and that this should have meant it didn't need to reduce the CETV. But like the investigator I don't think this is a factor in calculating CETVs. I've set out above the factors that I think did affect the value that was provided to Mr J.

I have some sympathy for Mr J's position here in as much as he was unable to take advantage of the higher CETV from 2022 because of his ill health – and the CETV isn't now as advantageous to his objectives as he expected. But that isn't Pension Insurance's responsibility. It's responsibility is to ensure it has sufficient reserves to meet the obligation to provide Mr J with the equivalent income he would have got from his OPS. And, if asked to issue a CETV, Pension Insurance needs to calculate it fairly and responsibly so that a new provider can also meet those annuity obligations.

In this case I think Pension Insurance did that and there's no evidence to support the claim that it miscalculated or provided incorrect figures. Furthermore, I don't agree that it has "taken" money from Mr J as the CETV didn't ever represent a "pot" of money that belonged to him – it was simply a notional figure that represented the capital required to provide his equivalent OPS income.

So I don't think Pension Insurance needs to restore Mr J's CETV back to the level it was originally - as I don't think it's done anything wrong here.

My final decision

For the reasons that I've given I don't uphold Mr J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 23 February 2024.

Keith Lawrence
Ombudsman