DRN-4537231

The complaint

Mr B complains that the investment return on his Prudential Assurance Company Limited (Prudential) pension plan has been poor returning less than the amount invested, after more than thirty years. He wants compensation for the poor management he says has occurred.

What happened

Mr B joined his employers' occupational money purchase pension scheme in 1990. He left that employer and subsequently emigrated from the UK and had no contact with Prudential for many years before it traced him via the Department of Work and Pensions in December 2022. As the plan has been assigned to Mr B personally our service can consider his complaint.

Prudential provided information about his plan in July 2023. And Mr B was surprised the value was only around £470 given the time that had passed, as he thought an initial contribution of around £500 had been paid. He said the performance of the with profits fund he'd been invested in must have been unacceptably poor and he raised a complaint about this, saying his plan should be worth at least £1,000.

Prudential didn't accept the complaint. It said the value it had quoted was correct. It said the with profit fund aimed to smooth out investment returns, by passing returns to investors through annual bonuses and potentially a terminal or maturity bonus. It said terminal bonuses weren't guaranteed and the amount payable would depend on the performance of the underlying with profits fund.

Mr B referred his complaint to our service. He said given the performance of investments in general since 1990, he questioned how the plan could be worth less than was invested. He said a return of only 2% per annum would have doubled its value. He said poor investment management, excessive charges and fees must be responsible.

Our investigator looked into it, but she didn't uphold the complaint.

She said when the plan started the expectation would have been that contributions would have been paid for many years rather than a one-off payment. She said Prudential appeared to have applied charges that were in line with the terms and conditions (T&C's) of the plan and that investment returns weren't guaranteed.

Mr B didn't agree. He said no investment index had lost money over the 33 years he'd been invested. He requested details of Prudential's underlying investment performance and details of the fees and charges involved. Our investigator sent Mr B information about the charges and a copy of the T&C's. She said charges had reduced the value of his fund, but Prudential didn't appear to have made any error.

As Mr B doesn't agree it has come 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.

Having done so I am not upholding the complaint.

I understand Mr B's frustration over what has happened, but I don't think Prudential has made any error or not acted within the T&C's applying to his plan.

Mr B initially complained about poor investment returns and then about the impact of charges. And I think the explanation here is more to do with the charges that were applied than the investment returns themselves. Actual investment returns haven't been as high as were considered likely to be achieved back in 1990. The charges on the plan weren't untypical for the time but compared to more modern pension contracts these were high and were significantly "front end loaded." That meant if contributions were only paid for a short period rather than the potential 30 or so years to the selected retirement age, the negative impact of those charges could be dramatic.

Given the time that has passed Prudential's records are quite limited. It says Mr B joined the plan in February 1990 and left his employer in August 1990. It has provided a transaction summary statement for the plan. This shows seven monthly contributions of £112.50 were paid between February and August 1990. It also shows a further contribution in April 1993, which Prudential hasn't been able to explain if Mr B had left the employer eight months earlier.

Each of these contributions was subject to a 5% initial charge. A £50 member charge was applied immediately and in October 1990, a £433.13 *"Set Up Charge"* was deducted. So, from £787.50 in contributions, £522.50 in charges were deducted in the first few months.

Subsequently there was an annual member charge. Initially this was £12 but this increased over time and reached £44.29 by 2015 before reducing to £24 in 2016, then in 2017. The investment return on Mr B's fund was the annual with profit bonus rate declared each year by Prudential, which was subject to a minimum of 4%. Reflecting changing investment conditions, most insurers began reducing annual bonus rates in the mid to late 1990's. Prudential's reduced from 7.5% in 1993 to the guaranteed minimum 4% by 2003.

Having done some basic calculations, the declining bonus rate and increasing member charge reached a tipping point in around 2003 and the value of Mr B's fund began reducing on an annual basis as the charges deducted exceeded the "growth added". Only when the member charge was cancelled in 2017 did the fund value start to increase.

This explains what has happened to Mr B's investment. And I've considered whether this was fair. As I've noted whilst the charges would now be considered to be very high, they weren't untypical for this type of contract at the time. And there were no rules that capped charges as applied subsequently for Stakeholder and then auto enrolment pension plans. There's no evidence that Prudential has applied any charges that weren't set out in the T&C's. I've asked it about the *"Set Up Charge"* and it has confirmed this wasn't paid as commission but was an *"installation charge"* it deducted for providing the plan.

There are no records of the information Mr B would have been provided with when he joined the pension scheme. But this would have set out details of the charges involved. Had contributions continued then the impact of these front-end charges would have been reduced. And as the pensions marketplace changed older contracts like these would have been seen as being expensive and more competitive alternatives were often accessed by transferring. But Prudential wasn't providing Mr B with advice, and it was his responsibility to consider the ongoing suitability of his arrangements and he appears to have lost contact with this one.

There's also no evidence Prudential hasn't applied the bonuses it declared to Mr B's plan correctly or treated him any differently from any other customer in this regard. And, as it has pointed out investment returns aren't guaranteed. So, rather than there being any specific investment mismanagement the reason for the poor return Mr B's plan achieved was the short contribution period and the relatively high historical charges.

Whilst the outcome is clearly unsatisfactory for Mr B, Prudential does appear to have followed the T&Cs and applied declared bonuses correctly. So, there is no evidence he has been treated unfairly or unreasonably. And that means I can't uphold his complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 21 March 2024.

Nigel Bracken
Ombudsman