

The complaint

Miss H complained about the amount of a transfer value provided by Legal and General Assurance Society Limited (L & G). She felt she had lost out.

What happened

Miss H said that she asked for a transfer value quote for her pension on two occasions, a few years apart. The difference in the values was about £33,000 and also meant her tax-free cash sum was lower as well. The second transfer value was much lower than the first and she was concerned that L & G had mismanaged her investments or pension. She felt there was a lack of transparency about how the transfer amount was calculated and why it had changed so much. It didn't feel fair that L & G could refuse to share their calculations because it was business sensitive. If the money supporting the pension wasn't invested why did it fall in value and why was it subject to market conditions. How bad would the reduction need to be before this service would intervene. She felt it would be fairer if the loss was shared between L & G and her. She felt there was a great injustice but she lacked any power to get recompense. The transfer value mattered a lot as it affected how much lump sum she could get. She also didn't understand how L & G were calculating the amount of lump sum it did. She felt she had lost money and that wasn't right or fair.

L & G said Miss H was a member of a defined benefit pension scheme of a former employer. That scheme had arranged for L & G to take on liability for all of its pension. Mrs H now had the benefit of a deferred annuity contract. In effect a contract to pay her broadly what her employer's would have paid her. This was a defined benefit pension and her entitlement didn't have a fund or pot value underpinning it. It confirmed it was possible to transfer the entitlement to another pension scheme and the amount transferred was calculated by an actuary. While the transfer amount could change the actual pension payable by L & G did not. Even though the transfer amount had reduced her underlying pension had not changed. It didn't accept her complaint as it hadn't done anything wrong.

The investigator said that they thought L & G had been clear in explaining why the transfer value had reduced and this was due to external facts not mismanagement or investment. Miss H had a defined benefit pension and its amount was not affected by external changes. Miss H hadn't suffered any financial loss and she didn't think L & G had made a mistake so no redress was payable.

Miss H didn't agree. She said she had been told that the lower transfer amount was what another insurance company would need to pay her the annuity amount she had with L & G. But she didn't think this was right and didn't think another company would pay her future pension for that amount. She couldn't check the calculations. She wanted them to show her another insurance company that would pay her pension for that amount of money. That would help because it would demonstrate to her that the transfer amount was correct. It was unfair that her cash sum was linked to her scheme pension. That felt unfair because L & G could just change their assumptions. Using an argument that the calculation was business sensitive meant there was no way to challenge it.

The investigator didn't change their mind and said this service couldn't get quotes from other

companies. Further it was not the purpose of this service to regulate L & G but to deal with complaints. .

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.

I can understand that Miss H feels she has lost £30,000. It is clear that had she taken the transfer amount offered in 2020 she would have been able to transfer around £30,000 more than she could have in 2024. I think most people would have stopped to ask why there was such a material difference in the amount and what had happened in the meantime. I think it was natural for her to ask if there has been some kind of mismanagement that has resulted in this reduction. But just because the amounts have changed does not mean that an error has been made.

As L & G explained to her she has the benefit of a defined benefit pension. That means that L & G has to pay her a pension no matter how good or bad investment performance is, and no matter how high or low interest and inflation rates are throughout the whole of her life. When it took on liability for her pension, it accepted that risk. I can see that the transfer quotations issued in 2020 and 2024 explained this because they said:-

The benefits under this Policy are not reliant upon the performance of investments held by Legal & General. The benefits were secured by the payment of a single premium by the former Trustees when the arrangement was taken over by Legal & General; It is not possible to adjust the structure of the Policy benefits provided.

Unlike a defined contribution scheme (where the transfer amount could vary from day to day depending on the value of the underlying investments), this scheme gave Miss H a transfer value quote that was guaranteed for a fixed period. The quotations made this clear and said the following.

This transfer value is guaranteed until (relevant date). Legal & General will not be able to issue another transfer value quotation until after this date. Please be aware that volatility in the financial markets may have a significant impact on any value offered in the future. Any new transfer value provided after the guarantee period has ended may be higher or lower than that shown within this quotation.

As L & G said, if and when she decided to take that pension she would have only two options, to take the pension or to take a lump sum and reduced pension.

Some people opt instead to convert the defined benefit pension into a defined contribution pension in order to access other options. Miss H mentions that she was thinking of doing this by transferring to another pension. She would then take the tax-free lump sum, typically 25% and leave the rest invested to take from time to time in future. However, I understand she has now taken a lump sum and pension from L & G.

In order to make an award against L & G I need to decide that it has done something wrong. Having considered the evidence I don't think it has. I say that because:-

1. The transfer amount offered to Miss H is calculated in accordance with prescribed requirements set down by law. L & G has confirmed these were prepared in accordance with those requirements. While I cannot check the calculation this confirmation and the reasons given by L & G for the difference in the value seems reasonable.

2. The transfer statements did explain that the amounts quoted could be volatile and the amount was not reliant on investment performance. So I think L & G gave Miss H information to explain that the transfer amount might vary, which is what happened.
3. I have listened to recordings of the calls with L & G when Miss H (and her representative) made her complaint. She quite reasonably asked for an explanation of the fall in value of the transfer amount. I think L & G did explain the reason for the difference in value. But I can understand that given the material difference in the amounts Miss H still left feeling that she had missed out and that it was unfair.

So based on the evidence it seems that the transfer amount was prepared correctly and I have no evidence to show it is wrong, so I cannot uphold this complaint.

My final decision

I don't uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 3 August 2024.

Colette Bewley
Ombudsman