Ombudsman's Determination

Applicant Mr S

Scheme LV= Employee Pension Scheme (**the Scheme**)

Respondent The Trustees of the LV= Employee Pension Scheme (**the Trustee**)

Outcome

1. I do not uphold Mr S' complaint, and no further action is required by the Trustee.

Complaint summary

2. Mr S complained that his pension value reduced by more than £100,000 in less than a year without any indication from the Trustees. He stated there was no information provided to him that explained the level at which this could happen due to market conditions fluctuating, and he should have been notified.

3. Mr S also stated in his application to The Pensions Ombudsman (**TPO**) his annual pension figure had reduced.

4. Mr S requested the reinstatement of £100,000 and compensation for his stress, time and effort.

Background information, including submissions from the parties

5. On 13 October 2021, the administrator of the Scheme, Willis Towers Watson (**WTW**) provided a retirement quotation to Mr S (**the 2021 statement**). His date of retirement as noted on the statement was 7 October 2023. The 2021 statement gave Mr S two options to take his retirement benefits from the Scheme: -

   - Option 1 – A full pension of £14,648.14 a year that was the "Scheme pension at retirement including an Additional Voluntary Contribution (**AVC**) pension".

   - Option 2 - A lump sum of £82,466.04 and a reduced pension of £12,369.91 a year. The pension again included "an Additional Voluntary Contribution pension".

6. The 2021 statement also included the following warnings:

> "Additional Voluntary Contributions. The current estimated value of your AVC fund is £14,554.50. The value of your AVC fund is not guaranteed and may change once you have reached your retirement date"; and

> "Your actual benefits will be worked out at the time they are due to be paid, based on the Trust Deed and Rules and the laws in force at the time you take your benefits."

7. On 23 May 2022, following Mr S' request, an illustration for a Cash Equivalent Transfer Value[1] (**CETV**) was produced and provided to him (**the 2022 illustration**). This confirmed the transfer value of £577,253.63. The 2022 illustration included the following guidance: -

> "Transfer agreement. This needs to be filled in and signed by you and a representative of the new scheme. Please return the form to us before 23 August 2022 which is three months from the guarantee date."

> "The transfer value guarantee date is 23 May 2022."

> "Please return the fully completed 'Transfer agreement' (signed by both you and the receiving pension plan) before the guarantee expiry date of 23 August 2022 to hold the transfer value quoted in the statement. If we receive the 'Transfer agreement' after the guarantee expiry date of 23 August 2022, we will work out the transfer value again and it may be higher or lower than the value quoted on the enclosed statement. If the final transfer value goes up or goes down by less than 10% of the value shown on the statement, we will go ahead and pay the revised transfer value."

> "If you want to take this guaranteed cash equivalent, you must fill in the enclosed form within three months of the guarantee date shown on the statement. After that date, the guarantee ends and the Trustees will not provide a new statement until 12 months after the date you asked for this statement".

8. On 3 March 2023, WTW provided a retirement quotation to Mr S (**the 2023 statement**). His date of retirement as noted on the statement was 7 October 2023. The 2023 statement gave Mr S two options to take his retirement benefits from the Scheme: -

- Option 1 – A full pension of £15,018.54 a year that was the "Scheme pension at retirement including an Additional Voluntary Contribution pension".

[1] Under Part 4 of the Pension Schemes Act 1993 certain members have the right to a 'cash equivalent' of their rights under the scheme. This means that should the member wish to transfer out of the scheme, their accrued entitlement under the scheme must be calculated and valued, and assets equal to that monetary value must be made available for transfer. This is sometimes referred to as the cash equivalent transfer value, or 'CETV'. In a defined benefit arrangement, the CETV is guaranteed for a set period of time (see section 95 of the Pension Schemes Act 1993).

- Option 2 - A lump sum of £81,858.84 and a reduced pension of £11,946.91 a year. The pension again included “an Additional Voluntary Contribution pension”.

9. The 2023 statement also included the following:

   “Additional Voluntary Contributions (AVCs). The current estimated value of your AVC fund is £8,845.46. The value of your AVC fund is not guaranteed and may change once you have reached your retirement date”; and

   “Your actual benefits will be worked out at the time they are due to be paid, based on the Trust Deed and Rules and the laws in force at the time you take your benefits.”

10. On 21 April 2023, a CETV illustration was provided to Mr S which confirmed a guaranteed transfer value of £472,420.94 (**the 2023 illustration**).

11. Between 31 May 2023 and 07 June 2023, WTW responded to Mr S by email to address his questions and concerns he raised about the CETV calculations and reduction in value. During these exchanges WTW stated it did not agree to Mr S’ request to reinstate the original CETV as per the 2022 illustration.

12. On 8 June 2023, Mr S confirmed he wanted to complain through the Scheme’s Internal Dispute Resolution Procedure (**IDRP**). His email of complaint stated:

    “I wish to raise a complaint regarding the drastic reduction in pension transfer value and the lack of information provided by the trustees in relation to its value and the market.”

13. On 10 August 2023, the IDRP Stage One response letter was provided to Mr S. His complaint was not upheld and the primary points made in this letter were as follows: -

    - A CETV represents the expected cost of providing a member’s benefits within the Scheme. As such, each time a CETV is issued, the value will differ depending upon various factors.

    - The 2022 illustration highlighted the CETV was guaranteed until 23 August 2022 and it should not have been relied upon after that date.

    - The information already provided by WTW was repeated to explain CETVs are calculated using various factors such as age, gender and benefits to be valued. It was explained that the calculations also take into account market conditions at the time of calculation and the transfer value basis, which is the actuarial assumptions made in respect of life expectancy and future inflation rates. Also, there are many reasons why a CETV value can change and the main reason in this case was the change in markets over the period. The Trustee stated, “There was an increase in market-implied gilt yields between the two quotes, which means that the expected cost of providing your Scheme benefits when you retire is now lower than it was expected to be in 2022. This means that the CETV is also lower, as it represents that expected cost as a lump sum value.”

- There was no requirement for the Trustee or WTW to have provided more information to explain how CETVs are calculated or possible market fluctuations. The IDRP response stated: “As markets can change quickly and are subject to fluctuation, both up and down, it would not be appropriate to include more detailed information regarding this when providing CETVs”.

- Whilst the CETV may change over time, this does not reflect a change to the pension entitlement he is due in the Scheme.

- It is not the Trustee’s or WTW’s role to provide financial advice and the potential need for Mr S to seek such guidance was highlighted to him in the 2022 illustration.

14. On 10 August 2023, Mr S provided his response to confirm he remained dissatisfied, and his complaint should move to the next stage. He stated in his email that he did not agree with the view of the Trustee or WTW, and that, “The Trustee must be aware that the transfer value plays a significant part in a retirement plan therefore they have a duty to provide better and fuller information regarding the market and possible affects”.

15. On 13 October 2023, the IDRP Stage Two letter was issued to Mr S. The complaint was again not upheld, and this was for the same reasons as set out in the Stage One response.

16. The Trustee’s further submission to TPO reiterated its position which for the reasons it had explained to Mr S, had not changed. In response to Mr S’ new point raised in his TPO application that his annual pension had reduced, the Trustee stated: -

    - This was a drop in value between the Option 2 estimate contained in the 2021 statement and the 2023 statement.

    - Both quotes were for a retirement date of 7 October 2023. Under option 2, the 2021 statement refers to a tax-free lump sum of £82,466.04 and a scheme pension of £12,369.91 a year. The 2023 statement refers to a tax-free lump sum of £81,858.84 and a scheme pension of £11,946.91 a year.

    - The Trustee explained that the reason for this difference is that Mr S’ AVCs decreased in value between 2021 and 2023, which reduced the option 2 figures provided.

    - It confirmed that Mr S had taken his pension benefits based on option 2.

17. Mr S’ further submission to TPO stated that:

    - The Trustee provided insufficient warning regarding how significantly a pension fund can drop in value, especially relevant in today’s market of greater pension freedom.

- His annual pension and lump sum reduced, and this came as a huge surprise. He had now learned it was due to the AVCs' value reducing and questioned why this is the case. He stated: "Surely if the trustees can vary the pension fund based on the market (and what they can purchase with the fund) without affecting my yearly pension, how can they be allowed to also reduce my yearly pension and lump sum."

Adjudicator's Opinion

18. Mr S' complaint was considered by one of our Adjudicators who concluded that no further action was required by the Trustee. The Adjudicator's findings are summarised in paragraphs 19 to 24 below.

19. The Adjudicator considered The Occupational Pension Schemes (Transfer Values) Regulations 1996 (**the 1996 Regulations**) and highlighted that these stated the Trustee must calculate CETV illustrations on an actuarial basis by using economic, financial, and demographic assumptions, with advice from the Scheme's actuary, while also considering the Scheme's investment strategy to achieve a "best estimate" of the cost of providing the benefits a member is entitled to in the Scheme.

20. The Adjudicator concluded that the Trustee had satisfied its responsibility under the 1996 Regulations by ensuring that Mr S has received appropriately calculated CETV illustrations.

21. The Adjudicator reviewed the content of the 2022 illustration issued to Mr S to establish whether he was appropriately notified that the CETV quoted in that document could change. The conclusion was that the information provided to Mr S in this letter was sufficient to make him aware that the CETV was not guaranteed beyond the expiry date of 23 August 2022 and that any future CETV could increase or decrease.

22. The Adjudicator stated Mr S did not accept the CETV provided in the 2022 illustration before the expiry date and for this reason and also because of the information made clear to him in the 2022 illustration about how the CETV could change, it was not reasonable for him to have relied on that document and the CETV quoted in it as part of his retirement plans.

23. The Adjudicator also went on to state there was no requirement for the Trustee to have provided Mr S with any information beyond that contained in the 2022 illustration and that this document gave Mr S information that was sufficient to allow him to consider what may occur in terms of a change in CETV amount.

24. The Adjudicator noted that Mr S had not transferred his pension but had instead chosen to draw his benefits from the Scheme, so he had subsequently not incurred the loss of the difference between the CETV values he was seeking.

25. With regards to Mr S' comments about the reduction in his annual pension and lump sum between the 2021 statement and the 2023 statement, the Adjudicator was satisfied Mr S had been notified this could occur through the information provided to him in the 2021 statement.

26. Mr S did not accept the Adjudicator's Opinion, and the complaint was passed to me to consider. No further additional evidence or information has been provided by Mr S or the Trustee.

27. I agree with the Adjudicator's Opinion.

Ombudsman's decision

28. Mr S' complaint is primarily about the reduction in his CETV between May 2022 and April 2023. He has stated the Trustee did not provide him with enough information about market fluctuations and how much his CETV might reduce. As part of his submissions to TPO he also stated that his annual pension had reduced.

29. The reasoning for the change in the CETV has already been outlined in the Adjudicator's Opinion. Mr S has not disputed the method of calculation as part of his complaint and there is nothing to suggest it was incorrectly recalculated.

30. The 1996 Regulations prescribe what information trustees are required to provide in respect of a CETV. The transfer packs provided by the Trustee comply with those provisions and there is no requirement to provide the sort of warnings suggested by Mr S.

31. I have considered the information the Trustee provided to Mr S following his request for a CETV and while I note that Mr S was expecting more specific reference to the level at which his CETV could reduce, I am satisfied the information provided was in accordance with its legal obligations and that in any event it was clear that the CETV could change. For example, and notably, the pack included a statement that: "*Please return the fully completed 'Transfer agreement' (signed by both you and the receiving pension plan)* ***before the guarantee expiry date of 23 August 2022 to hold the transfer value quoted in the statement****.* ***If we receive the 'Transfer agreement' after the guarantee expiry date of 23 August 2022, we will work out the transfer value again and it may be higher or lower than the value quoted on the enclosed statement.***" (my emphasis).

32. I sympathise with Mr S, as the change in the CETV between 2022 and 2023 was significant. However, the 2022 illustration clearly highlighted that his CETV could reduce and that this could be by more than 10%. So, he should reasonably have been aware of what may happen while he was deciding his retirement plans.

33. The CETV in the 2022 illustration was guaranteed for three months. Mr S did not accept this value within the guarantee period, and he subsequently put into payment his benefits from the Scheme. Consequently, Mr S is no longer entitled to the CETV stated in the 2022 illustration, and he cannot claim the reduction in his CETV between 2022 and 2023 as financial loss.

34. On the matter of the AVC reduction, the 2021 statement makes clear reference to the possible reduction of the AVC fund, so I find that Mr S was suitably notified that this could happen.

35. I do not uphold Mr S' complaint.

Dominic Harris
Pensions Ombudsman
12 September 2025