

Ombudsman's Determination

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| Applicant | Mrs L |
| Scheme | NCSR Retirement Benefit Scheme (the Scheme) |
| Respondent | JLT Benefit Solutions Limited (JLT) |

Outcome

1. I do not uphold Mrs L's complaint and no further action is required by JLT.
2. My reasons for reaching this decision are explained in more detail below.

Complaint summary

3. Mrs L considers that the figures quoted for her taking early retirement benefits from the Scheme is disproportionately lower than it would be should she retire at her normal retirement date (**NRD**).

Background information, including submissions from the parties

4. Mrs L was employed by the National Centre for Social Research (**NCSR**) and took redundancy in 2014.
5. She was subsequently provided with a preserved benefits statement, as at 13 June 2014 (**the 2014 statement**), which stated that her accrued annual pension at her date of leaving the Scheme was £13,533.90.
6. The notes accompanying this said:

"Early Retirement

You may currently apply to receive your benefits at any age on or after your 55th birthday.

If you wish to receive the benefits before your NRD/60th birthday, Trustee agreement may be required before any benefits can be paid. The pension will be reduced for early payment, and may only be taken if the pension taken exceeds any statutory minima."

7. In July 2014, Mrs L was sent a benefit statement in regard to her benefits from the Scheme. This said that her estimated total pension accrued up to 30 June 2014 was £13,559.16 per annum. The statement also stated that assuming she remained in the NCSR's employment until NRD, her 66th birthday, her total pension from that date was estimated to be £18,898.72 per annum.
8. In 2016, Mrs L made enquiries into taking early retirement at 31 August 2016.
9. On 9 September 2016, JLT provided Mrs L with a retirement quote for the above date (**the 2016 statement**) where her benefits were estimated as follows: an annual scheme pension of £9,636.88 (Option 1) or, a maximum tax free lump sum of £47,227.08 and a reduced annual scheme pension of £7,084.06 (Option 2).
10. On 28 November 2016, Mrs L wrote to JLT saying that she had been attempting to claim her pension since August but noticed that the figures in the recent statement she requested did not match those in the 2014 statement. She said she had been trying to speak to JLT about this but it had not returned her calls.
11. On 5 December 2016, JLT replied saying it had reviewed the calculations for an early retirement pension payable from her 55th birthday and was satisfied that these were correct. It said her NRD was 23 August 2027 and therefore it needed to reduce her benefits for early retirement where her benefits would be paid for a longer period of time. It said the benefits payable to her at age 55 were lower than her preserved benefits at her date of leaving because the RPI increase for the two years since she left was lower than the reduction required for taking benefits 11 years early.
12. Mrs L subsequently requested for her complaint to be considered under the Scheme's Internal Dispute Resolution Procedure (**IDRP**).
13. On 27 April 2018, JLT wrote to Mrs L saying:-
 - It had reviewed the calculations in the 2016 statement and found that her benefits were not calculated correctly. The right early retirement factor had been applied but one particular tranche of her benefits was incorrect. As a result, the correct value of her annual pension was around £12 higher.
 - So if she had chosen to take benefits from 23 August 2016 the following amounts would have applied: an annual scheme pension of £9,649.47 (Option 1), or a maximum tax free lump sum of £47,288.79 and a pension of £7,093.32 (Option 2).
 - If a member was to retire before their NRD, their pension would be reduced for each year and month they were retiring early. Early retirement factors were calculated by the Scheme Actuary and agreed by the Trustees as being fair value when considering the expected lifetime of pensioners.

- At present, the early retirement factor which applied was a reduction of 5% for each year, along with a partial adjustment in respect of each month a member was retiring early.
- The calculation of Mrs L's benefits was somewhat more complicated than other pension schemes because different tranches of her pension had different NRD's. The different tranches were treated as retiring 5, 9, 10 and 11 years early, meaning that different early retirement factors applied to her benefits.

14. On the same date, the Trustee of the Scheme wrote to Mrs L saying:-

- The current IDRPs were a two-stage process: complaints at the first stage were considered by NCSR's HR Manager and those at the second stage were considered by the Trustees of the Scheme. In Mrs L's case, in the interest of time, the Trustees had escalated the IDRPs and considered her complaint.
- The Trustees had independently reviewed Mrs L's retirement quotation and as set out in JLT's letter of 27 April 2018, one tranche of her benefits had been wrongly calculated and had now increased by £12 a year. All the other calculations were found to be correct. Further, the correct early retirement factor was applied.
- Mrs L's pension at her proposed early retirement date of 23 August 2016 was considerably lower than her accrued pension at her date of leaving due to early retirement factors. JLT's letter of 27 April 2018 explained what this was and how it had been applied.

15. Mrs L subsequently referred the matter to this Office. In her letter of complaint, she said that she was disappointed with the Trustees' decision that due to her request to receive pension benefits 11 years early and "based on Option 2 of the statement, the annual payments would equate to just over 50%." She added that while she was working at NCSR, there was an extremely high pension deficit, which the company had been resolving with extra annual payments. She said it seemed that she had been excluded from the financial repair of the Scheme, leading to her pension figures being less favourable.

16. In its formal response, JLT made the following points:-

- The full early retirement pension as at August 2016 was quoted as £9,649.47 per annum, approximately 71% of the accrued pension from the 2014 statement. This was detailed in JLT's letter of 27 April 2018.
- This letter also detailed the additional option of commuting a pension for a tax free lump sum and illustrated that the maximum lump sum available to Mrs L would result in a reduced annual pension of £7,093.32. It believed this was what Mrs L was referring to when she said her reduction was 50%. However, it was important to note that this pension had been reduced by early retirement factors

and allowed for the commutation of pension for a tax free lump sum, which was an additional payment.

- The funding position of the Scheme had no bearing on the agreed factors in use, or in any other way, on the calculation of benefits.

Adjudicator's Opinion

17. Mrs L's complaint was considered by one of our Adjudicators who concluded that no further action was required by JLT. The Adjudicator's findings are summarised below:-

- Mrs L had said that her pension had been reduced by 50%, but it was not fair to compare the £13,533 figure stated in the 2014 statement with the £7,093 figure in the (revised) 2016 benefit statement as the latter figure had a lump sum attached (£47,288), whereas the 2014 figure did not.
- A more reasonable comparison would be to compare figures for the pension only, which was the £13,533 figure stated in the 2014 statement, compared with a pension of £9,649 for benefits taken from 2016.
- The 2014 statement however provided a snapshot of Mrs L's pension at this point and not to retirement. Reduction factors apply should benefits be taken any earlier than the NRD, this being a reduction of 5% for each year these were taken earlier. Further, there were different NRD's which applied to Mrs L's benefits, so for some of her benefits the amount by which it was reduced was greater.
- Mrs L had also said that as the funding position of the Scheme had improved, her benefits should be increased. However, there was no evidence to suggest that her benefits had been decreased as a result of the deficit. Essentially, Mrs L's entitlement was and remained as set out in the Scheme's rules.
- Mrs L had disagreed with the above saying that her pension ten years ago was projected as £18,000 at retirement. However, this figure was calculated at NRD without early retirement factors applied. From the table in JLT's letter of 27 April 2018, her benefits had been revalued from 2014 to 2016, and then reduced according to early retirement factors.
- Further, the pension one would receive at 55 would be lower than at 65 where it was being paid on a longer basis as the Scheme's actuaries would have to adjust its value for earlier payment. Hence, a lower pension figure would be paid on a year on year basis but in turn paid for a longer period.
- It did not appear that JLT had made an administrative error in its approach to calculating Mrs L's benefits.

18. Mrs L did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. JLT has confirmed it has no further comment to make on the matter. I agree with the Adjudicator's Opinion and I will therefore only respond to the key points made by Mrs L for completeness.

Ombudsman's decision

19. Mrs L is concerned that JLT has reduced her benefits for early retirement disproportionately. I understand she feels that figures in recent early retirement quotes she received are inconsistent with previous ones.
20. However, JLT has applied the reduction factor set out in its Review of Actuarial Factors report, which the Trustees agreed to in March 2015. Whilst this Office is not an actuarial service that can verify the accuracy of JLT's calculations, in considering the general method which JLT has applied in calculating Mrs L's benefits, I am unable to find that it made an administrative error.
21. Mrs L has referred to a statement in which her pension was projected to be £18,000 per annum. I believe this be a statement from July 2014. Crucially, such a figure was given at NRD and on the basis of Mrs L remaining in the NCSR's employment until NRD, the assumption being that contributions would continue to this date. Mrs L had however left employment at this point, albeit recently, therefore, this part of the statement no longer applied to Mrs L.
22. I am satisfied that JLT has acted in accordance with the Scheme's rules in respect of the approach it has taken in applying the necessary reduction factors for the calculation of the Mrs L's pension benefit.
23. I do not uphold Mrs L's complaint.

Anthony Arter

Pensions Ombudsman
24 January 2019