Ombudsman's Determination

Applicant	Mrs Y
Scheme	Franklin Templeton UK Retirement Benefits Plan (**the Plan**)
Respondents	Mercer Limited (**Mercer**) Franklin Templeton UK Limited (**the Trustee**)

Outcome

1. I do not uphold Mrs Y's complaint and no further action is required by the Trustee or Mercer.

Complaint summary

2. Mrs Y has complained that the transfer value she received in March 2017, was significantly lower than the transfer value she received in March 2016.

Background information, including submissions from the parties

3. In March 2016, Mrs Y was exploring the option of amalgamating her pensions after seeking financial advice. She received a transfer value quote from Mercer, in relation to her accrued benefits in the Plan, of £78,980. At this stage, she decided not to transfer as she did not believe it would add any financial value.

4. In March 2017, Mrs Y received a further transfer value quote of £53,120.

5. Mrs Y queried why the transfer value had decreased in value.

6. On 30 March 2017, Mercer wrote to Mrs Y to explain the decrease in value. It said the Plan was linked to assumptions based on the financial markets and so values changed on a month to month basis. A periodic review of the methodology was used to determine the transfer value assumptions in order to ensure the approach taken remained valid and aligned to the agreed funding and investment objectives. The Trustee completed a review in December 2016, which meant that transfer values had decreased.

7. Ms Y raised further queries about why the transfer value had decreased so significantly.

8. On 10 April 2017, Mercer wrote to Mrs Y and said that the transfer value was calculated based on the fund value relating to the contributions paid in that period or the actuarial value of her defined benefit “underpin pension”, which ever was higher (details of the email are shown in the Appendix).

9. Mrs Y raised a complaint under the Plan’s internal dispute resolution procedure (**IDRP**). She said she was dissatisfied with the general management of the Plan. She believed higher transfer values had previously been offered although the Plan was already in deficit which has had an adverse effect on remaining members.

10. On 29 September 2017, the Trustee provided its response under its internal dispute resolution procedure (**IDRP**). The Trustee said the quotations received in 2016 and 2017 reflected the funds at the time, but that these were subject to change.

Adjudicator’s Opinion

11. Mrs Y’s complaint was considered by one of our Adjudicators who concluded that no further action was required by the Trustee or Mercer. The Adjudicator’s findings are summarised below:-

    - The reduction in transfer value was not as a result of any maladministration by the Trustee or Mercer. Transfer values can fluctuate, and neither the Trustee nor Mercer can be held responsible for Mrs Y’s decision not to transfer out of the Plan in 2016, or when the transfer values were higher than they were in 2017.

    - Based on the available evidence, the Trustee acted correctly and in accordance with the legislative requirements. The Trustee was legally required to monitor and review the appropriateness of the actuarial assumptions and actuarial factors used in the calculation of transfer values.

    - A detailed explanation of the change in assumptions was given to Mrs Y in the email of 10 April 2017 and in the IDRP response, including the impact of the change in discount rate assumption. Mrs Y believes the explanations could be provided in a clearer manner, but in the Adjudicator’s view, Mercer and the Trustee have provided adequate explanations.

    - As the Trustee explained, the rationale for the change in assumptions was to protect the Plan against adverse funding implications caused by transfers out of the Plan, which were at historically high levels. The Trustee had a duty to take into account the financial interests of all members, including members who remained in the Plan. There is no evidence that an error has been made in how the benefits were calculated for members who have transferred out. In any event, we are only able to look at the individual circumstances of this complaint.

    - Mrs Y has not suffered an actual financial loss because she has not transferred her benefits out of the Plan. The value of her benefits will continue to fluctuate until she makes a decision about how she wishes to take her benefits. There is no evidence that there was any maladministration on the part of Mercer or the Trustee.

12. Mrs Y did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. Mrs Y provided her further comments which do not change the outcome. Mrs Y said the following:-

- She did not accept the loss on the underpin value of her pension was justified within such a short period of time.
- An article in the Financial Times dated 31 July 2016, said that Franklin Templeton were looking for a buy-out of the Plan. The article stated that of the 400 employees based in the UK, 20% were members of the defined benefit plan. This would equate to some 80 employees. Based on an average of between 6 to 11 employees transferring out each year since 2014, these are historically high levels. Taking into account the period of enhanced transfer values, this would have been detrimental to the scheme.
- It was the Trustee's responsibility to base transfer value decisions on the Plan's position at that time. The Plan was in deficit and as such was not in a financial position to offer enhanced transfer values and so hence remaining members were prejudiced.

13. The Trustee said in response to the Opinion and Mrs Y's comments:-

- The amount of information and explanations provided to Mrs Y on the reduction in transfer values should have been sufficient.
- The change in the transfer value was as a result of when Franklin Templeton decided not to proceed with a buy out rather than as a result of transfers out being of a historically high level.
- The remaining members have not been disadvantaged, they will still be paid their benefits in full.

14. I agree with the Adjudicator's Opinion and I will therefore only respond to the key points made by Mrs Y for completeness.

Ombudsman's decision

15. Mrs Y's complaint is that the transfer value quotation she received in March 2016 was considerably higher than the quotation she received in March 2017. Understandably, Mrs Y had concerns that the value had decreased and contacted Mercer and the Trustee to ask for an explanation of why there had been a reduction.

16. In its email of 10 April 2017, Mercer provided Mrs Y with a detailed explanation about the decrease in her transfer value. It said that between March 2016 and March 2017, the Trustee had updated its methodology for determining assumptions having taken

account of recent data on longevity and market conditions the effect of which had reduced transfer values. I consider this to be a sufficient explanation as to why Mrs Y's transfer value had decreased.

17. I appreciate that there was a significant change in value over a relatively short period of time. However, it is correct that, in accordance with its fiduciary duties, the Trustee should review transfer value assumptions and calculations on a regular basis.

18. Mrs Y believes the decrease in her transfer value is due to the Trustee allowing, in previous years, too many transfers to take place at a higher value. The Trustee has acknowledged that whilst there was an increase in transfers in 2013 and 2014 the reduction in transfer values was not a result of this. It explained that the reduction in transfer values was because Franklin Templeton decided not to proceed with a company buy out. Not to proceed with the buyout was a business decision and one which I cannot interfere with. However, once that decision had been made it was sensible approach taken by the Trustee to review the Plan's position and its methodology for calculating transfer values in light of the decision.

19. It is the Trustee's responsibility to take into consideration the deficit of the Plan and ensure that all members will receive their benefits from the Plan. This includes members who choose to claim their benefits or who transfer out of the Plan. I do not consider that Mercer or the Trustee have done anything wrong in reviewing its methodology to ensure that reasonable transfer values are provided which would not be to the detriment of people remaining in the Plan.

20. Mrs Y believes too much weight has been leant to the responses and information provided by Mercer and the Trustee. While I appreciate Mrs Y's concerns and frustration, in order to determine whether there has been maladministration, the explanation for the change in Mrs Y's transfer value quotations must be considered.

21. I do not uphold Mrs Ys complaint.

Anthony Arter

Pensions Ombudsman
22 October 2019

Appendix

Email from Mercer to Mrs Y dated 10 April 2017

“The underpin pension at the date you left the Plan (31/05/2012) was £1,609.35 p.a. This increases up to your normal retirement age of 65 at the rate of 5% per year in line with the Consumer Price Inflation (**CPI**), whichever is lower. It is then assumed to come into payment and increase at a rate of 5% of CPI (whichever is lower).

The value of your underpin pension is an estimated? amount of money the Plan would have to hold now to provide this pension. The Trustees need to make several assumptions in relation to future experience in order to calculate this (in particular the future level of investment returns and price inflation). These assumptions are influenced by financial conditions at the time of carrying out the calculation as well as projections into the future.

The assumptions are not guaranteed. The Trustees are expected to review the approach periodically to ensure it is suitable; this can lead to transfer values increasing or reducing.

Basis for actuarial assumptions

The Trustees updated their methodology for determining the assumptions between the transfer value quotes in 2016 and 2017. The changes led to a reduction in transfer value.

The main difference was a modification to the approach used to derive an assumption for increases to pensions in payment. The new approach gives rise to a lower assumed rate, which reduces the transfer value when considered in isolation.

In addition, the assumption for how long pension will be paid was updated to take account of more recently published data on longevity (which implies a reduced expectation for future life expectancy). Again, this reduces the transfer value.

The basis used reflects the Trustees’ best estimate of the cost of providing your benefits.

Impact of market conditions

The basis sets out how to relate assumptions to market conditions. Over the period, there was a small reduction in market expectation for price inflation over the longer-term – this reduces the value placed on the pension. The discount rate applied (to reflect that payments will not be made until a number of years into the future) fell slightly, which increases the value placed on the pension (i.e. a larger amount must notionally be set aside now in order to provide the same pension). Taken in isolation, the changes to market conditions have increased the value of the pension.

However, the net effect of the various changes (i.e. to the method and to financial conditions) is that the value of the underpin pension has reduced.

We have reviewed the arithmetic again for both calculations and confirm it is correct.”