

The complaint

Mrs W has complained about the administration and performance of her pension held with Scottish Widows Limited (Scottish Widows). Following Mrs W's request to amend her retirement date, the underlying investment funds held within the pension were changed in line with the existing lifestyling option.

Mrs W states she was unaware that this lifestyling option was based on the purchase of an annuity at retirement, and that she had in fact been planning on taking a flexible income in retirement. Had Mrs W been made aware of this issue, she would have altered the underlying investments accordingly. Mrs W states this issue led to a £10,000 drop in the value of her pension.

Mrs W also complained about the poor service received from Scottish Widows from January 2022 onwards in relation to the issues above.

What happened

In January 2022 Mrs W requested an amendment to the retirement date on her Scottish Widows pension policy. This brought the retirement date forward by one year to July 2022.

The pension was invested as per the "adventurous targeting annuity" strategy and as such a change to the retirement date would result in a change to the underlying investment funds held within the pension.

Prior to making any changes, Scottish Widows emailed Mrs W to ask if she would like the lifestyling strategy on the policy amended in line with the new retirement date. The email explained that lifestyling was the process by which funds are moved towards safer investments as the policyholder moves closer to their retirement date.

Following confirmation from Mrs W, the retirement date was amended, and the underlying investments were re-aligned with this new date.

Having received updates about the value of her pension and noticing that this had fallen by around £10,000 in the six months since the changes requested above, Mrs W (with the help of the pension administrator at her employer) requested further information from Scottish Widows as to why the value had changed so significantly.

There were several emails back and forth between Scottish Widows and Mrs W / her employers pension administrator, however in July 2022 Mrs W's frustration with the information and answers being given to her queries led to a formal complaint being made.

On 17 August 2022 Scottish Widows issued their first response to the complaint.

This response accepted that wait times Mrs W had suffered when trying to make contact over the phone had been too long and offered £25 by way of compensation.

Regarding the underlying investments held within the pension and their performance, Scottish Widows explained that they had managed the investments in line with Mrs W's

chosen strategy. Additionally, it was explained that whilst the strategy was intended to move monies towards lower risk funds as retirement approached, an element of investment risk remained. As such Scottish Widows did not consider themselves responsible for the reduced value of the pension as this had been caused by wider investment market conditions outside of Scottish Widows' control.

Following further questions from Mrs W, a second response from Scottish Widows was issued on 20 October 2022.

Whilst the overall investigation outcome was not changed this response corrected some information that Scottish Widows had previously given about the differences between the investment strategies which targeted an annuity purchase and those which targeted a flexible access drawdown strategy.

This letter also said that Scottish Widows contact customers as they approach retirement to explain their choices. This was typically done by issuing warm-up letters each year once the customer came within five years of their retirement date.

Mrs W replied stating that she had not received any such letters and as such a third complaint response was issued by Scottish Widows on 13 January 2023.

This letter apologised for the fact that the warm-up letters that are usually issued to policyholders as they approach retirement were in fact not sent to Mrs W. The letter offered £100 to compensate for this.

The letter also explained that Scottish Widows were rejecting Mrs W's request to re-work her pension as though it were targeting flexible access (rather than an annuity purchase).

Despite the fact the warm-up letters were not sent, Scottish Widows stated that full information on the investment strategy being taken by the pension, and the underlying investments held within it, was included on pension statements that had been sent to Mrs W each year. As such they considered Mrs W had been provided with all the information needed to manage her pension appropriately.

On 10 February 2023 Mrs W wrote to Scottish Widows again to explain that the offer of £100 was not considered sufficient and that given the issues she had faced, Mrs W felt that her pension should be re-worked as though she had been targeting flexi-access drawdown in the last five years to her retirement.

On 2 March 2023 Scottish Widows wrote to Mrs W again to explain that despite the additional information provided, it was still felt that the £100 offer to apologise for the missing letters was sufficient. An additional £25 was however offered to cover the inconvenience caused when a member of staff did not contact Mrs W at an agreed time.

Mrs W did not agree with the outcome reached by Scottish Widows and referred her complaint to this service in March 2023.

Our investigator looked into things and concluded Scottish Widows response was reasonable. Whilst it was accepted the retirement warm-up letters were not sent, our investigator agreed that the annual statements which had been received by Mrs W did contain all the information necessary. Our investigator also concluded that Scottish Widows could not be held accountable for the performance of the investments held within the pension.

Mrs W did not agree.

In response to the findings issued Mrs W explained that she did not believe our investigator had fully considered both parts of her complaint and that the issues around the poor service received from Scottish Widows should be considered in more detail. Mrs W explained that the payment of £150 (in three parts) was not considered appropriate given the level of service provided.

Additionally, Mrs W disagreed with the conclusion that the annual statements provided enough information for her to manage her pension.

As such Mrs W requested that both elements of her complaint be reconsidered.

The investigator looked into things again but explained that they did not believe their outcome needed to be changed. The investigator did accept that the complaints process had been a long one however explained that complaint handling was not a regulated activity and as such could not be considered by this service.

Whilst incorrect information had been provided by Scottish Widows in September 2022 about how the lifestyling strategy differed in relation to the annuity purchase and flexible income options, our investigator noted that this incorrect information was given in September 2022, after Mrs W's pension had fallen in value and as such the financial impact of this would have been minimal, especially given the information was corrected on 20 October 2022.

Finally, with regard to the missed warning letters, our investigator re-iterated the point that they considered enough information had been provided within the annual statements which had been received by Mrs W.

As no agreement could be reached, the case has been passed to me.

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.

To ensure Mrs W's complaint points are covered fully here I have dealt with them individually below.

Firstly, I have considered the value of Mrs W's pension and those factors which impacted it.

Customers expecting to utilise an annuity at retirement typically encash all their pension monies (after their tax-free cash entitlement) and use the proceeds to purchase an annuity at their chosen retirement date.

Those expecting to utilise a flexible drawdown solution at retirement typically keep their pension monies invested over their retirement years and access their funds as they see fit over time.

Given these different strategies require different access to the pension monies, the lifestyling strategies applied to each option are also different. The lifestyling strategy applied to those targeting a flexible drawdown income in retirement typically leaves more of the pension invested in higher risk investments, as a greater proportion of the monies will remain invested even after retirement.

I note that prior to the amendment request made by Mrs W in January 2022, the pension was invested as per the "adventurous targeting annuity" strategy. Scottish Widows have

confirmed that this was not the default option for Mrs W's contributions, and as such must have been a specific choice made by Mrs W when the policy commenced.

The premiums were invested in line with this strategy, which would automatically move the monies to lower risk funds as retirement approaches. This is typically done to protect the fund value and limit the possibility of significant falls in value close to retirement when the policyholder has limited time to recover any losses.

In this case this was done by gradually moving the pension monies into the Scottish Widows Pension Protector fund and cash fund. As explained by the investigator, the Scottish Widows Pension Protector fund is predominantly comprised of investment bonds. Whilst this is historically a lower risk, less volatile asset than equities, unfortunately the move of more of Mrs W's monies into this fund coincided with a significant drop in the value of the bonds within the protector fund. This drop in value was due to global investment market conditions and not by any error or mismanagement on Scottish Widows' part.

This issue was exacerbated by the change of Mrs W's retirement date from 2023 to 2022, which moved even more of the pension monies into this fund and resulted in the circa £10,000 losses noted in Mrs W's complaint.

As per our investigators findings I do not hold Scottish Widows responsible for these losses. Scottish Widows are not Mrs W's financial advisers and did not choose which investments to make on Mrs W's behalf. This overall investment strategy was chosen by Mrs W at the outset of the pension plan, with Scottish Widows being responsible for making and managing the investments as instructed.

As above, the fall in value of the investments held by Mrs W's pension was caused by global investment market conditions rather than any investment mismanagement on Scottish Widows' part. Given this I do not consider it reasonable to hold Scottish Widows responsible for the investment losses incurred.

I have given further consideration to Mrs W's point that she had not been aware her pension monies were being invested based on an annuity purchase at retirement, with her intention now being flexible drawdown.

Additionally, Mrs W stated that had she been aware her pension was invested targeting an annuity purchase, this could have been amended and the underlying investments changed to target flexible access drawdown. This would therefore have avoided the £10,000 loss to her pension.

Within their responses to the complaint Scottish Widows have accepted that warm-up letters usually sent to policyholders as they approach retirement were not sent to Mrs W. These letters are sent once a policyholder is within five years from retirement with all five of these not sent to Mrs W. These letters remind the policy holder retirement is approaching prompting them to consider their options.

Mrs W has stated that had these letters been sent, she would have contacted Scottish Widows, realised her pension was being managed based on an annuity purchase and made the necessary changes.

Scottish Widows, whilst accepting the warm-up letters were not sent, stated that all the required information was contained within Mrs W's annual pension statements and as such they did not believe the missing warm-up letters would have affected Mrs W's actions.

Our investigator agreed with Scottish Widows' rationale, and I have reached the same

conclusion.

Firstly, I would like to be clear that it is impossible for me to know exactly what Mrs W would have done had Scottish Widows acted differently and sent the warm-up letters as it should have done. As such I have based my decision on the evidence available, the balance of probabilities and the principles of fairness and reasonableness.

I appreciate the commentary from Mrs W stating that she is an inexperienced customer, and the relevant information was contained within 32-page documents. However, pension statements should be considered a primary source of information regarding a policy, and I would expect their content to be considered carefully.

Having looked at the statements issued by Scottish Widows, as well as containing the information about what investment strategy is being used, they ask questions of the reader throughout. These questions included a "What can you do next?" section which further asked, "Have you reviewed the funds you're invested in and the other funds and investment options available to you?".

The statements also detailed the premiums contributed to the plan in the previous year and where the policy monies had been invested. As Mrs W moved towards retirement, these sections showed more monies progressively being moved towards the Pension Protector fund over time.

Further questions such as "Are these funds still right for you?" and "Is it time to review your pension and retirement options?" made it clear that Mrs W should review her pension planning regularly and provided contact information for Scottish Widows and the Pension Wise service.

Given the number of prompts contained within these pension statements, I have concluded that Scottish Widows did provide Mrs W with all the information needed about her pension and how it was being managed, and do not believe there is enough evidence to state that the warm-up letters would have altered Mrs W's actions in any way.

As such, I do not believe Scottish Widows need to take any action in relation to re-modelling the pension to take into account a different investment strategy.

That said, it is clear Scottish Widows did make an administrative error in not sending the warm-up letters and as such it is reasonable for them to make an offer to Mrs W both as an apology and to cover any inconvenience caused.

I have considered Mrs W's point that it was not one, but five letters that Scottish Widows neglected to send. However, I have again reached the same conclusion as our investigator in that I consider the £100 offered to be reasonable.

This is on the basis that the information contained in those letters had already been provided by Scottish Widows in the annual statements sent, and on the basis that I have concluded the missing letters did not cause any actual financial loss.

Whilst I am upholding this complaint, I am not asking Scottish Widows to take any further action in relation to the issues above.

Having come to the decision above, I have gone on to consider the servicing issues raised by Mrs W.

Regarding the initial request made by Mrs W asking for the retirement age on her pension to

be changed, I cannot see any area where Scottish Widows' service was inappropriate. Upon receipt of the request, confirmation was sought from Mrs W regarding the lifestyling on the policy in a timely manner.

Once Mrs W had provided confirmation that the underlying investments should be changed in line with this new retirement date, the policy was changed as requested without delay.

From the timeline of events above the servicing issues faced by Mrs W seem to commence in June 2022 following the fall in value of the pension.

Here I can see that Scottish Widows' responses to the queries being made by Mrs W did not provide the detailed answers being sought.

Whilst I can appreciate Mrs W's frustrations, Scottish Widows were attempting to answer the questions asked, with these responses providing information on the features and benefits of the policy, the risks associated with the underlying investments, and links to where policy and fund documentation could be found.

When it became clear that the responses given had not provided the answers sought by Mrs W, and that Mrs W was unhappy about the information provided, a complaint was registered in a timely manner.

I can see from this point the process was elongated with three formal complaint responses as each response led to further questions being raised. I can also see that during this complaint process, some of the information provided to Mrs W was incorrect.

I would however repeat the point made by our investigator that at the time incorrect information was provided, the pension had already dropped in value with incorrect information being corrected quickly.

Having looked at the redress offered by Scottish Widows for the extended wait times suffered by Mrs W in June / July 2023, and for the lack of a call back at an agreed time, I have concluded the £25 amounts for each of these as reasonable and in line with what I would expect a business to offer in such circumstances. As such I am not instructing Scottish Widows to take any further action in respect of these issues.

Whilst I appreciate that this chain of events must have caused frustration, especially given the fall in value of the pension, I must agree with the point made by our investigator that complaint handling itself is not a regulated activity and as such is not something which falls within my remit.

Overall, I have concluded that whilst Scottish Widows did make an error in not sending Mrs W the warm-up letters as she approached retirement, all the information needed to enable Mrs W to manage her pension appropriately was included in the annual statements received. Even if the warm-up letters had been sent, I do not consider there to be sufficient evidence to suggest these would have altered Mrs W's actions. As such the £100 offered to compensate for the administrative error made is reasonable.

With regard to the servicing issues faced by Mrs W, having considered the timeline of events above, I have concluded the majority of the issues relate to Scottish Widows handling of the complaint, as such this falls outside of my remit. The two identifiable issues (of call wait times and contact not being made as agreed) have been accepted by Scottish Widows with reasonable offers made by way of apology.

As such, whilst I am upholding this complaint, I do not require any further action to be taken

by Scottish Widows.

Putting things right

As Scottish Widows Limited have already paid the redress above, no further action is required.

My final decision

I am upholding this complaint due to the errors made by Scottish Widows Limited, however, as appropriate redress has already been paid, no further action is required.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 17 August 2023.

John Rogowski
Ombudsman