DRN-4355458

The complaint

Mr M complains that Scottish Widows (trading as Clerical Medical) mismanaged his stakeholder pension plan.

What happened

In 2002, Mr M took out a stakeholder pension plan with Scottish Widows that had a lifestyle strategy in place. In 2005, Mr M transferred other funds in, for which a lifestyle strategy wasn't applied. In January 2022, Scottish Widows wrote to Mr M and said that if he didn't let it know what he wanted to do by his upcoming selected retirement age (SRA) of 65 it would extend this to 75. And, on 6 April 2022, Scottish Widows sent Mr M an annual statement which said his total policy value was worth £215,113.16, of which around £148,000 was invested in lifestyle funds.

On 21 June 2022, after sending Mr M a reminder about his SRA, Scottish Widows confirmed it had changed this to 75 as it hadn't received a response. It said that, in line with policy terms, it had switched Mr M's lifestyle funds to mirror the final stage of his strategy. And that Mr M could contact it to invest in other funds or change his SRA. The same day, it wrote to Mr M and confirmed that his investments in the Lifestyle Retirement Protection and Lifestyle Halifax funds had been switched into the non-lifestyle equivalents, called the Retirement Protection and Halifax funds, and it sent him a switch statement.

On 12 July 2022, Scottish Widows sent Mr M information that said his current policy value totalled £195,438.46 and it enclosed a statement with further details. And, on 28 July 2022, following a call from Mr M, it re-sent the June 2022 statement and referred him to its website for fund factsheets.

Mr M went on to write to Scottish Widows on a few occasions. He said, in summary, that it hadn't confirmed his investments, provided details of switches made in recent years or explained why it made these without his knowledge or approval. Including out of the Lifestyle Cautious and Lifestyle Non-equity funds into the Retirement Protection fund, which was failing despite the low-risk description. Mr M said that, while he couldn't find information about this fund on Scottish Widows' website, others said the value had fallen by 30%. And that the June 2022 statement only showed the sale of some of his units in lifestyle funds.

In response, Scottish Widows said that the lifestyle strategy meant that as Mr M approached his SRA of 65, his investments gradually moved to the final Lifestyle Retirement Protection and Lifestyle Halifax funds. And that upon reaching this Mr M's SRA was changed to 75 and he was switched into the non-lifestyle equivalents as per its process, as the 10-year lifestyle balancing to lower risk funds completed and it didn't hear back with alternative instructions. It enclosed a switch statement and said that a technical issue meant details of the Retirement Protection fund were temporarily removed from its website. And it confirmed that Mr M's investments from the transfer in 2005 were unaffected by lifestyling.

On 5 October 2022, Scottish Widows offered Mr M £50 compensation for recently sending him information he'd asked for at the start of August 2022. It confirmed that his transfer to another provider had been completed. And it sent Mr M a closing statement with an investment breakdown that showed a total plan value of £170,627.10, of which £105,690 was invested in the Retirement Protection and Halifax funds.

After writing to Scottish Widows again, Mr M brought his complaint to our Service. He added, in summary, that while the investment strategy was meant to be lower risk, the value dropped by around £50,000 within six months. Mr M said that Scottish Widows continued to invest his plan in funds failing to perform as described and that he wasn't told the risks. Mr M also said that Scottish Widows didn't send him information when requested, so he couldn't monitor that his pot was falling – he first received details of switches made since April 2022 in the October 2022 closing statement. And that he couldn't see the value of the Retirement Protection fund on its website, even after it said he would be able to.

Scottish Widows later offered Mr M a further £200 compensation for poor service and delay in responding to him, taking the total amount offered to £250.

One of our Investigators looked into it and said Scottish Widows followed the agreed investment approach and that it wasn't responsible for the fall in value, which was outside its control. He said that it had suggested Mr M seek advice or provide alternative investment instructions if he wasn't happy with these. And that he felt £250 in compensation was fair and reasonable to make up for the service it provided Mr M with.

Mr M didn't agree. He added, in summary, that Scottish Widows lack of transparency and mismanagement caused him a substantial loss. Mr M said that it didn't tell him what actions it would take if his SRA was deferred, including increasing his investment in the Retirement Protection fund that had been failing since the end of 2021. So he didn't know he needed to take action before transferring to another provider. Mr M believes Scottish Widows did this to prop itself up, instead of protecting his pot and that it concealed fund information from its website. Mr M said that it's well known that an increase in inflation and subsequent rise in interest rates would result in the fall of bond values. He also said Scottish Widows didn't make it clear that it was subcontracting management of lifestyle investments to a competing business, which couldn't have had his best interests in hand in that case.

So the complaint's been passed to me for a decision.

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.

Having done so, while I know Mr M will be disappointed, I'm not asking Scottish Widows to do anything more for largely the same reasons as the Investigator. I'll explain why.

The application Mr M completed when he took out his plan clearly said that if he didn't make an investment selection – I can see that he didn't – then this would be invested in the Balanced lifestyle programme. Lifestyle strategies usually seek to manage risks in the run up to someone's SRA, by gradually and automatically making changes which involve moving investments out of equity type investments and into fixed interest investments, such as gilts and bonds. These usually exhibit lower volatility over the long term. And gilts and annuity rates tend to move in opposite directions such that when interest rates increase, the value of long gilts go down and annuity rates go up. So the aim is that the level of retirement income is less likely to dramatically change if these move up or down in the run up to retirement.

I haven't seen anything to suggest Scottish Widows provided Mr M with advice when he took out his plan or that it was responsible for doing so. This means it was responsible for administering this, providing him with clear, fair and not mis-leading information and ensuring it followed the investment strategy.

I think Mr M is likely to have been provided with information about the lifestyle strategy at the time, which explained that Scottish Widows would automatically make certain fund changes as he approached his SRA. Mr M's annual statements said this and, while these didn't remind him which lifestyle strategy he was invested in, these clearly set out which funds were part of this and invited him to call with questions. In August 2018, Scottish Widows sent Mr M a guide that set out the strategies and explained that his funds would automatically start to be switched 10 years from his SRA. In September 2019, it reminded Mr M that his plan invested in a lifestyle strategy which assumed he'd buy an annuity at retirement. And, in September 2021, after Mr M asked it for information in July 2021, Scottish Widows sent him a breakdown of how his funds moved as part of lifestyling.

So Scottish Widows didn't need to receive a specific request from Mr M to make the switches it did. And I think it provided Mr M with enough information to make him reasonably aware of this and how his pension would be invested.

Mr M said that Scottish Widows' January 2022 letter didn't tell him the actions it would take in respect of his investments if his SRA was deferred, including increasing his investment in the Retirement Protection fund. But Scottish Widows has explained that the 10-year lifestyle balancing remained based on Mr M's SRA of 65. So I don't think this changed the switching it had already clearly explained that it would carry out. And I'm not persuaded Mr M would have provided alternative instructions if Scottish Widows had confirmed this in its letter. I say this because, despite evidence that Mr M was extremely concerned with the performance of his already significant investment in the Retirement Protection fund as early as July 2021 and that he knew he didn't want to take an annuity in retirement at that point, there's nothing to suggest he provided any alternative instructions.

Scottish Widows was responsible for following the investment strategy set out, while it was for Mr M to monitor the investment performance and decide whether or not these remained suitable for him. Mr M's plan – excluding that which he'd transferred in 2005 – was invested in the Retirement Protection and the Halifax fund in line with what Scottish Widows' guide set out that it should be at his SRA of 65. So I think it correctly followed the investment strategy set out in his case, in the absence of alternative instructions.

While lifestyle strategies usually seek to manage investment risks, these don't eliminate it. Fixed interest investments can still fall in value and sharply. And this was the case here, as Mr M's investment in the Retirement Protection fund – which largely invests in gilts – fell with sharp declines between June and September 2022. Scottish Widows has explained this was a result of market conditions though. This isn't something it could control and the funds appear to have achieved similar returns to the appropriate benchmark indices, indicating this performed broadly in line with comparable funds.

I think Scottish Widows made Mr M reasonably aware of the risks, as it explained in his annual statements that the amounts shown aren't guaranteed, his income at retirement could be higher or lower and it couldn't promise that this was what he'd receive. It told Mr M to ensure his investments remained suitable for him, recommending he seek advice. And the letter Scottish Widows sent to Mr M in September 2019 said that, while the lifestyle strategy *aimed* to protect his pension as he approached retirement, there were no guarantees, as did its January 2022 letter.

Mr M said Scottish Widows didn't send him information to monitor his investments until October 2022. While I recognise the June 2022 statement didn't reflect all the lifestyle switches that had taken place, Scottish Widows sent Mr M details of his investments on

12 July 2022 to his correct address. This said his total plan value was £195,438.46 and that the enclosed statement detailed his holdings, fund allocation and unit prices. Mr M could have compared this to his April 2022 statement, which showed a total plan value of £215,113.16. And while Mr M couldn't access information about the Retirement Protection fund on Scottish Widows website, he was able to obtain it from other websites. So I think Mr M had enough information to monitor the performance of his investments. And, in any case, Mr M didn't provide Scottish Widows with alternative instructions to minimise his losses despite having been unhappy with the performance for some time, until he later decided to transfer to another provider.

While I appreciate Mr M's unhappy with the business Scottish Widows uses to manage the investments within its lifestyle profile, this is a commercial decision and it isn't something I can interfere with – that's the role of the regulator of financial businesses. I think it made this information clear in the guide provided to Mr M in 2018. And, in any event and for the above reasons, I haven't seen anything to suggest Mr M's plan was mismanaged.

The service Scottish Widows provided Mr M with could have been better at times though. For example, the June 2022 switch statement it sent to him wasn't complete and he couldn't access some fund information on its website for some time. But Scottish Widows has apologised and offered Mr M £250 in total compensation and I think that's a fair and reasonable amount in the circumstances to make up for the frustration and inconvenience caused to him. So I'm not asking it to do anything further.

My final decision

For the reasons I've given, my final decision is Scottish Widows Limited should pay Mr M £250 in total compensation, if it hasn't already done so. I'm not asking it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 16 October 2023.

Holly Jackson
Ombudsman