DRN-4384562

The complaint

Mr M complains that his pension with Prudential Assurance Limited fell in value close to his retirement. Mr M says that he doesn't recall selecting the funds that his pension was invested in.

Mr M would now like Prudential to recompense him for his investment loses.

What happened

In 1996, Mr M took out a personal pension with Prudential with a planned retirement age of 60. At the outset, his monies were invested in a managed equity fund. Despite the plan's initial retirement date being set to his 60th birthday, which he reached in 2020, Mr M didn't draw his pension at that point and left his monies invested.

In 2020, Mr M's pension was valued at £99,959 but by January 2023, the value of his pot had fallen to £90,473. Mr M raised a complaint with Prudential about the customer service he'd received from them following a number of queries he'd needed to raise, and Prudential upheld that complaint and offered him £200 for the trouble that they'd caused him.

Mr M was unhappy with Prudential's response, so he referred his complaint to this service – but importantly, he raised a different complaint point to the one raised in his original letter to Prudential. Mr M told us that he didn't recall ever selecting the funds his pension was invested in and he felt that, as he neared retirement, he would've expected Prudential to have moved his monies in to safer, lower risk investments.

As Mr M had raised a new issue that Prudential hadn't been given the opportunity to respond to, our Investigator approached them for comment. Prudential explained that Mr M's pension included their lifestyle feature. That meant, as he neared retirement, his monies were gradually moved to lower risk investments, but they weren't totally risk free. Prudential explained that didn't think they had done anything wrong.

The complaint was then considered by one of our Investigators. He concluded that Prudential had treated Mr M fairly. Given the nature of the lifestyle feature on Mr M's plan, his monies had been phased to lower risk investments, but as Prudential had already pointed out, those weren't totally risk free and meant that his funds could still fall in value.

Mr M however, disagreed with our Investigator's findings. In summary, he said that he still didn't see how Prudential were able to switch his funds without first telling him. He says, had the monies been switched to cash or gilts, that would've been fine but they weren't. He went on to say that he'd have preferred Prudential to have kept his monies where they were.

Our Investigator was not persuaded to change his view as he didn't believe that Mr M had presented any new arguments that he'd not already considered or responded to. Mr M then asked the Investigator to pass the case to an Ombudsman to review that outcome.

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.

I think it’s important for me to note that I very much recognise Mr M’s strength of feeling about this matter. He has provided submissions to support his complaint, which I’ve read and considered very carefully. However, I hope that Mr M won’t take the fact that my findings focus on what I consider to be the central issues, and not in as much detail as he has outlined, as a discourtesy.

The purpose of my decision isn’t to address every single point raised. My role is to consider the evidence presented by Mr M and Prudential to reach what I think is an independent, fair and reasonable decision based on the facts of the case. In deciding what’s fair and reasonable, I must consider the relevant law, regulation and best industry practice, but it is for me to decide, based on the available information that I've been given, what's more likely than not to have happened.

I can imagine how concerned Mr M must have been, seeing the value of his pension fund fall in value as he neared taking his benefits. Losing money at any time can be worrisome, and that’s even more so when nearing retirement. But, having carefully considered both sets of submissions, I’m broadly in agreement with our Investigator and for the same reasons – and as such, I am not upholding Mr M’s complaint and I’ll explain why.

Our Investigator has already explained in some detail to Mr M how the lifestyle option, which applies to his pension plan, works. There’s not an awful lot I can add other than to briefly summarise the management approach that’s taken with the feature. Lifestyling is where investments within the pension plan are gradually moved into lower risk funds, such as fixed interest funds, as the scheme member approaches their selected retirement date. The result is that when the member wants to start taking benefits upon retirement, their pension is invested largely in a mix of investments which are less exposed to stock market volatility but still offer some growth potential. But importantly, this approach doesn’t remove all of the risks and that’s because those fixed interest funds are impacted by changes in interest rates. As interest rates rise, as they have done on a number of occasions over the last two to three years, a fall in the value of those fixed interest funds is then often seen.

But importantly, at the same time there will typically be an increase in annuity rates (an annuity is a product that provides the consumer with a guaranteed income for life in exchange for their pension lump sum). So, although Mr M’s fund value had fallen, its annuity purchasing power may appreciate. This is different to a loss that might be incurred in a higher risk fund when annuity rates might be falling. Obviously, that would only be beneficial if Mr M was taking a guaranteed income rather than accessing his monies flexibly.

I also think that it’s important to acknowledge that Prudential have no control over how investment markets perform and unfortunately, Mr M’s pension, like those of many other consumers, has been impacted by significant world events such as the pandemic, the war in Ukraine and the wider economy in general over the last 24 months.

As I’ve already explained, Mr M took his pension out back in 1996, so I’m not really surprised that he doesn’t remember much about the choices he made back then. And, that’s why all consumers need to ensure that they keep an eye on their funds, more so as retirement nears. I’ve looked carefully at three years’ worth of annual statements Prudential provided. The statements all provide clear warnings that the benefits from the plan aren’t guaranteed and that Mr M should regularly review his investments to ensure that they're on track to meet his objectives. They also highlight that if Mr M is in any doubt about how his pension is being managed, he should contact them, or importantly, speak to a financial adviser. So, I'm satisfied that Prudential were indicating the need for Mr M to start considering his options and this can be seen as early as the 2016 statement.

Allied to this, it appears that Mr M wasn't paying Prudential to provide him with any financial advice. As such, their primary responsibility was to manage his pension to his selected fund and risk choice – and from what I can see, they've done just that. Mr M has said that Prudential should have moved his money to cash or gilts given that they knew he was retiring at 60 years old. However, they did move his monies into lower risk funds as he approached 60 but, they weren't zero risk funds. Had Mr M wanted personalised guidance on whether the funds he was invested in were appropriate for his circumstances or whether, as he says, his money should've been moved to cash, he would've needed to have paid for either a financial adviser to provide that guidance to him or sought fact-based information from Prudential. That's because Prudential's role is to manage the money in line with the risk profile of the fund until they've been specifically told to do so otherwise by the plan holder or their financial adviser.

In support of his complaint, Mr M submitted the key features brochure he received from the time he took his plan out. He pointed to a section that stated his pension included a feature called 'pension protector' – he felt that should've stopped his pension monies from falling in value immediately before he retired. I've had a look at the brochure that Mr M has sent in. The 'pension protector' feature is just another name for the lifestyling feature, which as I've already explained, gradually moves policy holder's monies to lower risk funds the closer they get to retirement. But, as I've already highlighted, the funds that the policy holders' monies are moved to are not totally risk free. That's because, as Prudential moves monies out of equities, it phases the funds into bond and fixed interest securities, the value of which can fall as well as rise in value.

So, I can't say that Prudential have acted unfairly, nor can I hold them responsible for a fall in the value of a pension fund due to the current market conditions. And, whilst I appreciate Mr M will be disappointed, I'm not upholding his complaint.

My final decision

I'm not upholding Mr M's complaint and as such, I do not require Prudential Assurance Limited to take any further action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 10 November 2023.

Simon Fox
Ombudsman