DRN-4484769

The complaint

Mr B complains that Scottish Equitable Plc trading as Aegon switched his pension investment funds without his authority or informing him and mismanaged those investments resulting in losses. He wants compensation for the losses.

What happened

Mr B joined a Group Personal Pension Plan (the plan) with Aegon in 2001, selecting a retirement age of 60, which would be in 2019. Aegon wrote to him about taking his benefits as this approached and he decided to defer this until 2020. But Mr B didn't take his benefits in 2020 and continued to pay contributions. He says he subsequently realised that Aegon had switched the investment of his plan on 1 January 2021 to the Retirement Fund. He said this had performed poorly, with his plan value falling by around £40,000 between January 2021 and 31 December 2022. Whereas the fund he'd been switched out of performed much better and his plan would have only lost around £2,000 if he'd remained in it.

Mr B complained to Aegon. It didn't uphold his complaint. It said he'd chosen a lifestyle investment strategy, with the fund automatically switched at the end of the year following the retirement date. It said the annual statements it had provided explained that values could fluctuate and weren't guaranteed. Mr B said Aegon hadn't answered his complaint fully. It said it administered the pension and didn't provide financial advice, so it couldn't have contacted him to suggest changes to the investments held. It said the automatic switch investment had been made in line with the policy terms and conditions (T&C's). And the investment returns were due to market conditions which had been impacted by factors such as rising interest rates and the war in Ukraine.

Mr B felt his questions weren't being answered properly and Aegon wasn't taking responsibility for the poor performance of the investment fund, which was supposed to be low risk.

Mr B referred his complaint to our service. Our investigator looked into the complaint, but she didn't uphold it.

Our investigator said the fund swich was in line with policy conditions. As the T&Cs provided for the lifestyle funds Mr B selected on the application form to be switched to the Retirement Fund on 1 January following the selected pension date, which is what had happened. She said a financial adviser had been appointed on the plan from 2001 until February 2023, and it was normally the role of the adviser to consider fund switches and policy terms.

She said investment returns weren't guaranteed even with "low risk" investments, and this was made clear on the annual statements Aegon had sent. She said as the Retirement Fund mostly invested in fixed interest securities, returns had been negatively impacted by rising interest rates, Covid, the war in Ukraine and other factors with many investors similarly affected. She said Aegon wasn't responsible for the way investment markets had performed and there was no evidence it had mismanaged the funds.

Mr B didn't agree, he asked for a copy of the application he'd completed in 2001. This was provided. He said had Aegon advised him his fund was being switched he would have reviewed the situation. He said the Retirement Fund had performed poorly and Aegon accepted no responsibility for this. He said the T&Cs Aegon had referred to were different from those issued in 2001, and it hadn't followed the originals correctly. He said nowhere was "*Retirement Date*" defined or what would happen if this were changed. And he said that documents from 2001, didn't mention investment in the Retirement Fund.

As Mr B doesn't agree it has come to me to decide.

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 I am not upholding the complaint.

I know this will disappoint Mr B, so I'll explain why I've reached this decision.

I've taken account of everything Mr B has said and the evidence he has provided, and I understand the great concern the sharp reduction in value has caused him. But it isn't reasonable to hold Aegon responsible for this. It wasn't providing Mr B with advice about his investments and couldn't make any changes without instructions from him or his financial adviser. I haven't seen details of what services, if any, had been agreed with the adviser. But I think he was prompted by Aegon to review his investment decisions as his retirement approached. And Mr B had provided instructions when he started the plan to invest some of his contributions in a lifestyle strategy.

This involved a retirement date investment with a specific end date. Initially this was 2019 to match the selected pension age. It may be that this approach was recommended by the financial adviser who originally helped Mr B's employer set the scheme up. As this date drew nearer the investment balance was gradually adjusted to reduce the exposure to assets such as equities and property with an increasing amount held in fixed interest investments and cash.

With Aegon this process takes place over a six-year period with progressive switches into fixed interest investments, specifically the Long Gilt Fund. So, at the end of the fifth year around 75% will be invested in this fund. And by the selected retirement age the allocation would be 75% Long Gilt and 25% in Cash. When the six-year period starts Aegon assign a year suffix to the fund name, *"SE Balanced 2019"* in this case, as can be seen on the annual statement from 2015.

This is a common approach aimed at matching the "maturing" pension investment to the cost of buying an annuity, which was the default benefit option at the time Mr B took out the plan. This approach would generally be expected to reduce risk as the expected retirement date drew nearer. Because if interest rates were to rise whilst this would typically result in a fall in the capital value of fixed interest investments, it could be expected this would be balanced out by a simultaneous rise in annuity rates. Providing the intention was still to purchase an annuity. But this doesn't eliminate risk and as noted on Aegon's annual statements sent to Mr B it was important to review the investment strategy adopted to ensure it remained appropriate.

When Mr B decided to defer taking his pension for a year, he completed a form from Aegon, which said:

> *"You may be invested in a fund that changes its investment mix as you approach your retirement date, for example a lifestyle fund or Retirement Target fund.*
>
> *Please remember even if you're invested in such a fund you should still review your investments on a regular basis, particularly if your financial needs or personal circumstances change. Please tick only one of the following boxes."*

Mr B ticked the box confirming that:

> *"I wish to align my fund(s) to my new selected retirement date"*

His fund was then modified to the fund maturing in 2020 rather than 2019, the asset mix of which would have been similar to the 2019 version, given it was still near the expected benefit date.

The annual statement dated 23 May 2020 shows the plan being split between the Cash fund and the SE Balanced 2020 fund. Mr B says he wasn't advised about the change in January 2021 but as a target dated fund (now 2020 rather than 2019) this particular investment would always end then. And it was clear from the annual statement sent to Mr B dated 1 June 2021 that he was invested in the Retirement and Cash funds. This statement showed his plan value had declined by around £10,000 over the year.

Both annual statements said the following:

> *"A lifestyle fund is designed to automatically change the mix of your investments as you approach retirement.*
>
> *Your fund currently targets one of three retirement outcomes – you can:*
> - *Remain invested with the option to take an income from your pension pot;*
> - *Buy an annuity (guaranteed income), or*
> - *Take your whole pension as a cash sum.*
>
> *You should check whether this is still how you want to take your benefits. You can find out more about lifestyle funds at <u>www.aegon.co.uk</u>."*

The Retirement Fund targets the purchase of an annuity – the strategy selected back in 2001. Other options had become available since then, one reason why Aegon had updated the plans T&Cs over the years. But as I've noted, it couldn't change the investment strategy without an instruction from Mr B to do so.

Aegon also wrote to Mr B on 19 August 2020 as his revised retirement age approached. The title of the letter was *"Turning your pension savings into a retirement income".* It gave the plan value and set out the various retirement options available. It suggested Mr B take financial advice. And that if it didn't hear from him, it would delay his retirement date for five years and;

> *"If you're invested in a lifestyle fund, when we delay your retirement date, this date and the year your fund is targeting may be different. This could result in the mix of your investments not being the most appropriate for you. That's why it's important you tell us if you want your fund to match the new retirement date as we'll then switch you into the appropriate version of your current lifestyle."*

So, I think Mr B was provided with a great deal of information about his arrangements both before and after his original retirement age. And that it was clear Aegon wasn't providing advice, and the onus was on him to review his arrangement. Aegon could provide him with information and further explanation if required and it provided him with contact details to do this. So, it was Mr B's responsibility to check these pre-selected investment choices remained suitable for his needs.

And it is important to note that there was no sudden change in the investment asset allocation from that held in the SE Balanced Fund 2020 when the plan moved to the Retirement Fund. This would be broadly the same at around 25% in cash and 75% in long dated Gilts. The lifestyle strategy Mr B had selected at outset targeted purchasing an annuity, the same aim as the Retirement Fund. And in the proceeding years the assets held in the target date fund had become aligned to that objective. That means I can't uphold his complaint about the switch into the Retirement Fund. Which was automatic following the maturity of the target date fund for 2020, meaning Aegon hasn't made any error.

The performance of the Retirement Fund

Mr B says this was meant to be a lower risk fund and the investment managers had failed to manage it effectively and mitigate losses.

There's no evidence Aegon wasn't managing the investment fund according to the fund objective or "mandate". Which was to mostly hold long dated UK Government bonds (Gilts) and cash type assets. Gilts are generally considered to be lower risk investments over the longer term. But in certain situations, such as political and economic uncertainty, the value of such investments can still fall sharply, which is unfortunately what happened.

The background here was the expectation and then reality of rapidly rising interest rates worldwide and specific economic "shocks" such as the war in Ukraine and Liz Truss' brief Premiership which occurred during the period. Fixed interest asset prices fell sharply from December 2021, after Mr B had been sent both the annual statement and reminder letter about his revised retirement date. But this type of investment had produced positive returns in the two to three years before then.

The mandate required Aegon to invest 75% of the fund in one type of asset - long dated Gilts. And Aegon's fund produced similar returns to the sector average of all funds investing in the same type of assets. So, I think there was little the fund managers could have done to reduce losses given the very broadly based fall in values of this type of asset.

The terms and conditions and other points

Mr B says the T&Cs were changed. They've been updated, as the terms allowed them to be. As noted there have been significant changes to pensions legislation since Mr B took the plan out in 2001. So, it would be surprising if the T&Cs hadn't been updated as a result.

Mr B says there was no reference to the Retirement Fund in 2001 and provided a document from the time listing the available funds for his plan. But the page from the original T&Cs he also provided does refer to the Retirement Fund. These say that before the *"Pension Date"* (which is defined as the *"expected date of retirement"*) the Retirement Fund is not available as a lifestyle fund. But that all investment *"in a lifestyle fund"* would be switched to the Retirement Fund on 1 January *"immediately following the Pension Date".*

As the Retirement Fund couldn't be accessed until the pension date had passed it wouldn't generally be available for investment when the plan was being taken out. Therefore, I wouldn't expect it to have appeared on the list of available investment funds. But it is clear that lifestyle funds would be switched automatically to the Retirement Fund once the expected retirement age was passed.

Mr B says that the T&Cs refer to *"pension date"* and define this as being age 65 or *"such other date as set out on the schedule"*, which in his case was age 60. He says his schedule was never changed. And he says nowhere is *"retirement date"* defined, or what would happen if this was changed. And consequently, any change should have been made to his plan on 1 January 2020 not 2021.

But I disagree. Retirement date, pension date and expected retirement age all account to the same thing, and I don't agree there is any ambiguity in the meaning of these terms. The T&C's specifically state that if the *"expected date"* is changed, it wouldn't change the date for lifestyling purposes, unless specifically instructed to do so by the policyholder. And Mr B did specifically instruct this, by signing a form titled *"Instruction to change your retirement date"* on 4 September 2019. I think he did this fully in the knowledge that he was changing the date he expected to take his benefits; however phrased, from age 60 to age 61. And as noted above he specifically instructed that the investment strategy be aligned to that new date, rather than left untouched.

It's very unfortunate that Mr B's investment fell in value as it did. But this was due to investment market conditions outside Aegon's control. It appears to have operated the lifestyle investment choice selected by Mr B as it should have and hasn't made any error or treated him unfairly. So, I can't uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 23 February 2024.

Nigel Bracken
Ombudsman