DRN-4534695

The complaint

Ms R complains that Scottish Equitable Plc trading as Aegon (Aegon) didn't clearly explain the investment strategy that was implemented when she joined her employer's group personal pension plan (GPP) in 2017. She said the strategy, which was a "lifestyle" strategy and gradually switched her money into other assets as she approached her retirement, wasn't suitable for her – especially as she didn't intend to buy an annuity. She said if she'd been made aware of how lifestyling worked she would have invested into different funds. She would like Aegon to acknowledge its shortfall in communications and retrospectively reallocate her funds to the original "balanced" portfolio in which she was invested into.

What happened

In 2017 Ms R joined her employer's GPP - administered and managed by Aegon. Both her and the employer paid 3% of her earnings into the plan each month. The plan was due to run until her 65th birthday in December 2023, and the contributions were invested into the "Universal Lifestyle Collection" (ULC) which was the default strategy for the plan - although Ms R was able to switch her investment funds at any point.

In December 2019 Aegon wrote to Ms R to confirm that she was invested into its ULC and asking her to confirm her retirement date and whether she still intended to buy an annuity at retirement. Aegon suggested that if these factors had changed, she might need to review her investment strategy.

An annual statement from April 2022 noted the value of the plan to be £9,137.60. A further statement from January 2023 noted the value of the plan had fallen to £7,687.57.

In April 2023 Ms R's employer increased its monthly contribution to 8% of her salary.

In June 2023 Ms R wrote to Aegon requesting a retrospective change to her funds. She this was because she had recently found out her plan had lost 30% of its value in 2022 and she had now become aware this was because it was mainly invested in bonds. She said she'd not been made aware of how the ULC worked and, as she never intended to buy an annuity at retirement, wouldn't have selected that strategy if she had been aware. She said the first reference to "lifestyling" came in a letter from 2019 – which in any case she didn't think explained how her pension fund allocation was linked to her retirement date or an "annuity goal".

Aegon explained that by this time Ms R's plan was invested in approximately 75% of long gilts and the performance of such funds had fallen sharply since the beginning of 2022. It provided further background information to the gilt markets and the factors affecting it.
It said that it wasn't responsible for the external factors which had caused the fund to fall and didn't provide any financial advice, so the responsibility for ensuring that Ms R's investment strategy was suitable for her circumstances lay with her employer or its appointed financial representative. So it said it couldn't agree to a retrospective switch of her funds.

Ms R didn't agree with that outcome, so she brought her complaint to us where one of our investigators looked into the matter. She didn't think the complaint should be upheld making the following points:

- The welcome letter that Ms R received in 2017 did set out the fund she was invested in although it didn't specify this was "lifestyle" fund. But the 2019 letter, which asked Ms R to check her retirement age and to confirm whether she still intended to purchase an annuity, stated that she was invested in a lifestyle fund which was designed to put her on a retirement path to purchase an annuity.
- The annual statements Ms R received, in conjunction with the 2019 letter, ought to have made her aware that she was invested in a lifestyle fund.
- We wouldn't usually uphold complaints about performance alone unless we could evidence the advice to take out the plan was unsuitable or that the fund had been mismanaged. In this case Aegon didn't provide any advice and there was no evidence that it had mismanaged the fund.
- She thought Aegon had administered Ms R's pension plan in accordance with its terms and conditions and had implemented the lifestyling strategy as it had been instructed to do by the employer.

Ms R didn't agree. She said it was over two years after she took out the plan that Aegon first told her about the lifestyling strategy. She thought this was too late as the switching process was already underway and she had no information or opportunity to alert her to that process. She also said the letter she received in 2019 wasn't a clear explanation of "lifestyling" anyway.

She said her complaint wasn't simply about performance – or a lack of advice - but her expectation *of "full and proper information about the nature of the plan, and in particular, the nature of these peculiar aspects of their 'lifestyle' funds."*

She asked for her complaint to be referred to an ombudsman and so it's been passed to me to review.

Ms R then added some further points for consideration. She said:

- Aegon hadn't made it clear how lifestyling worked and in particular its relationship to the selected retirement age. She said that during the first two years of the plan she had no idea that "lifestyling fund reallocations" were taking place.
- The important point to note was that decisions about which investment strategy to undertake need to be made at the point of sale – and with all the relevant information to hand.
- Aegon's defence had been to direct the complaint to her employer who it said was responsible for providing information and advice about the implications of an investment strategy as well as the "costs, risks and investment detail" of the plan. But she didn't think that any of the literature that Aegon issued to her employer to pass on did refer to the lifestyle fund and how it worked.
- She thought Aegon had maladministered the plan – causing her to suffer a financial loss – because she didn't have the appropriate information on which to base her fund choices.

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.

And having done so I agree with the outcome reached by the investigator. I know this outcome will disappoint Ms R and I've seen the strength of her feelings through her submissions. But I don't think Aegon has done anything wrong here – so I'll explain my reasons.

Did Aegon explain the lifestyle investment strategy when the plan began?

Ms R says she wasn't made aware that she'd been invested into a "lifestyling" strategy when she joined her employers' GPP in 2017. She said she wasn't provided with *"full and proper information about the nature of the plan, and in particular, the nature of these peculiar aspects of their 'lifestyle' funds."*

So I've begun by looking at what information Ms R ought to have been provided with – or was available to her - in order to determine that part of her complaint.

In setting out my findings on this matter I've also taken into account that Aegon didn't provide any advice to Ms R. It was her employer, or any appointed representative it might have used, that was responsible for arranging any "advice" she was given. But that also means the employer was responsible for making Ms R aware of the (default) investment strategy that was used and how it worked. Of course this complaint isn't about the employer or an adviser, so I'm not aware of what literature Ms R was given or the nature of any conversations that took place before an application was submitted to Aegon. But in my view the responsibility to provide the information and explain it if required was with the employer.

Aegon's role in this process was to simply set up the plan – in accordance with the instruction it was given. But it did provide Ms R with a letter dated 20 September 2017 which confirmed that the plan had been accepted and set up. The letter confirmed that a policy schedule and a policy conditions booklet were enclosed as well as setting out the plan details. One of those details was to confirm the investment fund being used - which was *100% SE Universal 2023.*

I've also looked carefully at the "*welcome to your pension*" booklet that was provided which included the policy terms and conditions. The following extract is from the *contributions* and *investment funds* sections of the booklet.

"We offer a range of funds:
• for use as 'default investment strategies' and may change this range from time to time (see section 4.9,2).
• what we call 'compliant funds'; and
• other funds designed for active investors where charges are above the charges cap.
You can get more information about our funds at digital.feprecisionplus.com/ aegonportal

Alternatively, your GPP employer (normally on advice from the scheme adviser) may confirm a default investment strategy or a default fund to apply to your policy.

In any event, we will confirm the investment funds applying for contributions and transfer amounts in your policy schedule(s) or in other material that we send to you. (There is more information on the operation of investment funds available for your policy in section 5.)

<u>4.9.1 Default investment strategy or a default fund</u>.

If a default investment strategy or a default fund applies for your policy, we will confirm this in your policy schedule, and the following applies.

a. *All contributions and transfer amounts will be automatically invested in the default investment strategy or in the default fund.*

5.8 Lifestyle funds

The investment funds may include funds that we call 'lifestyle funds', A Lifestyle fund uses a two-stage investment strategy. In the early years, they're designed to grow your pension fund. In the second stage, during the last few years before you retire, these funds are designed to automatically change your mix of investments as you approach retirement.

5.8.1 a. Your pension date (being your expected retirement date) is taken into account for the purposes of a Lifestyle fund. That expected date may change (for example, a decision to retire early or late, or you ask us to change your pension date before it arises). When the expected date is to change, we will not automatically change the date for the purposes of the Lifestyle fund. Subject to the other provisions on lifestyle funds, we will make the change from the date we receive such an instruction in writing by you, but we will not apply the change retrospectively."

So the terms and conditions did state that Aegon would "*confirm the investment funds applying for contributions and transfer amounts in your policy schedule(s) or in other material that we send to you"* – which I'm satisfied it did in the 2017 letter.

I'm also satisfied that the sections above provided an in depth explanation of how lifestyling would work and that it was linked to Ms R's retirement date. That was supported by a later "glidepath" letter from 2019 which asked Ms R to confirm her retirement date and her intention to take an annuity in retirement. So I think Aegon did provide Ms R with the information it said it would in terms of confirmation of her investment fund and a detailed explanation of lifestyling. There's nothing to support the idea that it said it would provide anything further to explain that the SE Universal fund was a "lifestyling" fund and I think that responsibility was with the employer either verbally or through other documentation.

Of course the very crux of Ms R's main complaint is that she had no reason to associate the name of the fund (ULC) with "lifestyling" and the somewhat unique properties that such a strategy has – such as switching between different assets to try to reduce the risk profile across the plan leading up to retirement – without further authorisation from Ms R. But I think that information and link was available to Ms R and I say that for two reasons.

The terms and conditions state that, "*you can get more information about our funds at digital.feprecisionplus.com/ aegonportal",* So Ms R could have accessed this link to understand more about the ULC which would have confirmed it was lifestyle type investment.

But also my research has shown that a quick google of "SE Universal 2023" brings up the fund information sheet for that fund which clearly explains that the, "*fund objective uses a two-stage investment process called lifestyling, in the early years (the growth stage) it invests wholly in the Universal Balanced Collection (UBC). The UBC invests in a mix of different funds, from different fund managers, offering a mix of active and passive fund management, which means it doesn't rely on the performance of one manager or management style alone.*
Six years before the start of your target retirement year (the lifestyle stage), we'll progressively start switching your investment into our Long Gilt and (in the final year) Cash fund, with the aim of giving you more certainty about the level of annuity you'll be able to buy when you retire and to cater for your maximum tax- free cash entitlement, currently 25% of your pension pot. We review our lifestyle funds from time to time and may change how they work if we believe this to be in the best interests of investors."

I realise that Ms R might say that this information should have been more readily available to her and shouldn't have required her to carry out her own research at the point of sale. But as I've said previously, I think that was the employer's responsibility here and I'm satisfied that Aegon did make available to Ms R all the relevant parts of the information she needed to make an informed decision. It's 2017 letter did set out the investment funds that had been applied to her plan and did enclose policy information which explained how lifestyling worked. And the link between the ULC and "lifestyling" was available for her to make through the fund information and fact sheets that were freely obtainable. Indeed Ms R told Aegon in her July 2023 complaint that she had "*trawled through the Aegon T&Cs as well as the Universal Collection factsheet",* so she had been able to find that information albeit for her complaint rather than before she applied for the plan.

I do have some sympathy with Ms R here as clearly she may have taken a different course of action if she'd been fully aware of how the ULC would work when it was recommended to her. But I don't think Aegon did anything wrong in relation to that matter and I'm satisfied that it fulfilled its role as plan provider and administrator in this case.

But even if I am wrong in my assumption of what Ms R ought to have been able to do in 2017, I still have to take into account the letter Aegon send her in 2019. The letter confirmed that she was invested in the ULC which was "*designed to meet a retirement outcome of buying an annuity, which is a guaranteed income for life in 2023".* And that "*your fund is in the process of changing how it invests by moving into investments suited to the retirement outcome you're currently targeting – this happens automatically*."

It also said she should check her selected retirement age and consider whether she still intended to buy an annuity, and it explained that she could switch her funds at any time if she wanted to review them or could seek financial advice. It also signposted it's "*lifestyle funds hub for information on her current fund."*

So I think this letter made it clear how Ms R was invested and that she should review her circumstances - and this was before the value of the plan started to fall. So, with all this information to hand, I would have expected her to mitigate her position if required and to have identified that the ULC wasn't suitable for her. Aegon wasn't able to offer Ms R any advice on its funds or about the ongoing suitability of the ULC, so it was for Ms R to take action if she didn't think it was suitable at that time. That she didn't make any changes would assume that she was satisfied with the suitability of the funds. Therefore it wouldn't be fair to ask Aegon to make a retrospective fund change back to 2017 when Ms R should have mitigated her position in 2019 if she thought that was the right course of action.

I've already explained that Aegon wasn't responsible for any advice around the suitability of Ms R pension, and we wouldn't normally uphold a complaint on the balance of poor investment alone – unless it was linked to suitability, which wasn't the case here. But for completeness, and because Ms R did say that she was "*shocked to see that the value, net of ongoing contributions, dropped by 30% in 2022",* I've gone on to consider whether Aegon may have mismanaged the fund or taken any actions – such as not applying the lifestyling strategy correctly - which might have had a negative effect on Ms R's pension plan.

<u>Did Aegon manage the fund appropriately?</u>

I've already set out previously how lifestyling worked in respect of Ms R's investment in the ULC. The idea being a gradual switch of her funds from the Universal Balanced Collection into a Long Gilt fund, with a switch to 25% cash in the last year of the plan's term. So by 2022 75% of Ms R's funds were held in the Long Gilt fund. I've seen the fund fact sheet for that fund which sets out its objectives as "*to perform broadly in line with the ETSE IJK Gilts Over 15 Years Index, net of fees, by investing primarily in UK government bonds (gilts) with maturity dates of 15 years and longer.*"

It had a "*below average risk rating*" - defined as *"to try to provide better long-term growth prospects than a cash deposit, but are lower risk than funds investing largely in equities."*

And the "*risks specific to this fund*" were noted as:

"There is no guarantee the fund will meet its objective The value of an investment can fall as well as rise and investors could get back less than they originally invested. All funds carry a level of risk and the information below outlines the key risks for this fund.

Interest rate risk - interest rate changes could affect the value of bond investments Where long term interest rates rise, the value of bonds is likely to fall, and vice versa."

I think this sets out clearly what the lifestyling strategy was trying to do, by reducing the exposure to equities in the years leading up to retirement in favour of fixed interest assets which would usually carry less overall investment risk. Unfortunately, external factors during 2022 such as higher inflation and interest rates, led to the value of the gilts – and therefore Ms R's plan falling quite sharply.

I can understand Ms R's frustrations that this happened closer to the time she would have been due to draw her benefits – although I understand that she has now deferred this date by a further year. But there's no evidence to support the claim that Aegon either mismanaged the fund or didn't apply the lifestyling strategy in accordance with how it said it would. Indeed information from the fact sheet dated June 2023 showed the underlying fund itself had performed broadly in line with the benchmark it was set against, indicating that it didn't perform any worse than comparable funds. This was unfortunately simply a case of external factors, outside of Aegon's control, affecting an investment fund.

<u>*Summary*</u>

Although I haven't found any evidence to suggest that Aegon didn't manage the fund or the lifestyling strategy as it said it would, Ms R's principal complaint point was that Aegon failed to make her fully aware that she was invested in lifestyle funds and to explain the principle of how these would work. She said if she'd know in 2017 she would have taken a different course of investment action to avoid the very situation that confronted her in July 2023. But I think her employer was responsible for providing all the necessary and relevant information to clearly explain the nature of the apparent "default" investment that was applied.

However, I also think that Aegon did provide or direct Ms R to sufficient information that would have enabled her to better understand the ULC fund and how it worked in relation to lifestyling. I also think the letter she received in 2019 from Aegon went further in pointing out that she *was* invested into a lifestyling profile and encouraged her to either seek advice or make amendments to her investments if she no longer considered them appropriate for her retirement goals. I think Ms R should have mitigated her position at that time if she believed the strategy was unsuitable for her.
So, I can't reasonably support Ms R's claim for a retrospective fund switch because I don't think Aegon has acted unfairly here.

My final decision

For the reasons that I've given I don't uphold Ms R's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms R to accept or reject my decision before 19 February 2024.

Keith Lawrence
Ombudsman