DRN-4534732

The complaint

Mr L complains that Scottish Equitable Plc trading as Aegon failed to tell him his pension plan was invested in a lifestyle investment strategy where automatic changes were made, which he says caused him losses. He wants compensation for the losses incurred.

What happened

Mr L had a s32 buyout plan (the plan) with Aegon, arising from the transfer of Occupational Pension Scheme, which was set up in February 2010 with the help of a financial adviser. The plan had a selected retirement age of 60 in May 2020. Mr L didn't take his benefits then and says the annual statement from November 2020 showed a value of £107,900.52, invested in the *"SE Universal 2020"* fund. The 2021 statement showed a value of £109,023.58. But the statement from November 2022 showed a value of only £78,339.22 with the investment now in the Retirement Fund.

Mr L made some enquiries with Aegon, who said he was in a lifestyle investment strategy which had defaulted into the Retirement Fund in January 2021. Mr L raised a complaint making a number of points. In summary, he said Aegon had never told him he was invested in a lifestyle fund or about the switch into the Retirement Fund. That the annual statements contained only generic wordings without confirming whether a lifestyle fund was held. But Aegon's information on the Retirement Fund said it was meant to *"help preserve the size of the pension"* which it hadn't done so.

Aegon said it hadn't made any error. It said a lifestyle investment strategy had been selected by Mr L and his financial adviser when the plan started. And that it had followed the correct process in moving him to the Retirement Fund once he'd passed the plan's selected retirement age. It said the value of his investments wasn't guaranteed and the reduction was due to investment conditions. It said initially Mr L was invested in the Universal Lifestyle Collection fund (ULC) as confirmed on the annual statements sent to him. It also said it had written to him in October 2013 saying it had realised it had made an error in the lifestyling process. But had now switched his investment into the correct stage called the SE Universal 2020 fund. It said this letter also explained what a lifestyling fund was and that it was possible to switch to alternatives. And that subsequent statements referred to life styling and recommended that Mr L take financial advice if he wanted to review his arrangements.

Mr L didn't agree and wasn't happy about how Aegon had dealt with his complaint and made further points. Aegon set out further details of how the lifestyling strategy worked as an automated process.

Mr L referred his complaint to our service and our investigator looked into it, but she didn't uphold it.

Our investigator said the evidence showed that Aegon had informed Mr L that he was in a lifestyle fund based on documents sent to him between 2010 and 2013, and that he could switch out if this if he wanted to. And it appeared to have followed the lifestyling process as it should have done. And that the fall in the value of the fund was due to market conditions which were outside Aegon's control, rather than any maladministration.

Mr L said he didn't have the documents from 2010 to 2013 as these had been damaged whilst in storage. And he said subsequent annual statements didn't confirm that he was invested in a lifestyle fund although Aegon in responding to his complaint had claimed that they did. He said it wasn't obvious from the name of the fund (SE Universal 2020) that it was a lifestyle fund. And it wasn't listed as such on Aegon's website. He said the omissions and shortcomings on both the statements and Aegon's website were negligent and had been *"catastrophic"* for his pension savings.

As Mr L 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've taken account of everything Mr L 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 L with advice about his investments and couldn't make any changes without instructions from him. And Mr L had provided instructions when he started the plan to invest in a lifestyle strategy. And it was his responsibility to check that this remained appropriate for him.

This involved a retirement date investment with a specific end date in 2020 to match the selected pension age. 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. That means by the time the retirement date had been reached the vast majority of the fund would already be invested in the final asset allocation of around 75% long term Gilts and 25% cash. When the Universal 2020 fund ended investments defaulted into the Retirement Fund in line with the terms and conditions and this fund mirrored this final asset allocation. So, there was no sudden switch into fixed interest and cash and in Mr L's case this process had begun in 2013

That was a common approach aimed at matching the "maturing" pension investment to the cost of buying an annuity, which was still largely seen as the default benefit option at the time Mr L took out the plan. And would generally be expected to reduce risk as the selected retirement age approached. In part because if interest rates were to rise this would typically result in a fall in the capital value of fixed interest investments. But this could be expected to be balanced out by a simultaneous rise in annuity rates, providing the intention was still to purchase an annuity.

But it doesn't eliminate risk and as noted on Aegon's annual statements sent to Mr L the value of his investments wasn't guaranteed and could fall in value.

Mr L's main complaint point is that he didn't know he was in a lifestyle strategy because it wasn't clear from the annual statements. It's unfortunate he couldn't access the earlier records but as well as selecting this approach in 2010 Aegon had specifically written about it in 2013. And, as I've noted it wasn't responsible for investment decisions. And the annual statements do refer to lifestyling funds. And stated, if held, a possible drawback was they *"aren't tailored to your specific circumstances".*

And there were links to the fund factsheets on Aegon's website, which gave more information *"about how your fund works".* There are also prompts to consider reviewing the investments and to take financial advice if unsure. This information had been provided on statements since 2014.

I've looked at Aegon's website to see what information is available and it has recently been updated. So, I asked it what the relevant web pages said previously and it provided the version from 2021, which is very similar. Under the heading *"Lifestyle Fund Finder"* numerous funds were listed, including the Universal Fund. But in the notes about this section, it says that it doesn't produce separate fact sheets for lifestyle funds. But that information about asset allocation, risk rating and so on could be found under the main fund factsheet. And:

> *"If your fund name (on your annual statement or online) has a year number on it, we don't produce a factsheet. You can look at the "growth" fund factsheet below (your fund name minus the number) for a reminder of the fund objective, but because your fund is currently moving into investments suited to the outcome you're targeting (annuity purchase, flexible or cash) the asset allocation (mix of investment), risk rating and performance will be different from your fund …*
>
> *If you're not sure which is your fund, call us on …*

The November 2021 covering letter and statement confirmed the investment was now in the Retirement Fund and said:

> ***"If you have investment in a lifestyle fund***
>
> *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 www.aegon.co.uk."*

The Retirement Fund Mr L was invested in from January 2021 targeted the purchase of an annuity – the strategy selected back in 2010. Other options had become available since then as Aegon's letter referred to. But it couldn't change the investment strategy without an instruction to do so. And I do think there was relevant information available to Mr L and the onus was on him to check the investments not on Aegon. That also means I can't uphold his complaint about the not confirming the switch into the Retirement Fund, this was automatic following the end of the target date fund for 2020.

The performance of the Retirement Fund

Mr L says the Retirement Fund was meant to preserve the size of his pension and had failed to do so. His fund did fall in value, but annuity rates also increased and it's possible that the actual pension income that could have been provided through purchasing an annuity may have been preserved, despite the fall in capital value, which was its objective. But unfortunately, the fund didn't offer any guarantees over the capital value.

And 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 L had been sent the annual statement confirming he was invested in the Retirement Fund. 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.

It's very unfortunate that Mr L's investment suffered the losses it did, but it isn't reasonable to hold Aegon responsible for this. And I don't think it has made any error or treated him unfairly.

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 L to accept or reject my decision before 28 February 2024.

Nigel Bracken
Ombudsman