

## **The complaint**

Mrs A has complained about the drop in the value of the pension plan she held with Scottish Widows Limited, saying that a 20% reduction in that value so close to her retirement age cannot be justified.

## **What happened**

When Mrs A was around 12 months away from her retirement in September 2023, she looked at the information provided by Scottish Widows relating to her pension plan and noted that it had dropped by around 20%.

Mrs A then queried this with Scottish Widows, asking how a pension fund could lose so much money when it was so close to being taken.

In response, Scottish Widows said in summary that, due to an increase in interest rates, the performance of the particular fund in which Mrs A had been invested had been impacted.

But Mrs A countered that a rise in interest rates shouldn't have been unforeseeable to Scottish Widows and that it ought to have taken steps to mitigate the effects of this, and this should have been included in the fund management strategy. That it hadn't done so indicated in Mrs A's view a position of Scottish Widows not having managed the fund appropriately.

Further, Mrs A said, the information relating to fund performance hadn't answered her question relating to the fund management strategy. Mrs A also said that the plan had her retirement date recorded as age 75, but it had always been her intention to retire at 65.

Over the course of several letters in response to Mrs A's complaints, Scottish Widows set out the following position relating to them:

- Mrs A was invested in two funds – the Cash Fund and the Pension Protector Fund (PPF), the latter of which had exhibited the drop in value.
- The PPF aimed to produce a return which reflected the price of annuities, and was designed for individuals who would want to convert their pension fund into income for life – an annuity. It held bonds similar to those which were used to determine market annuity rates.
- If annuity rates became more expensive (as was likely when interest rates fell), then the PPF was also expected to increase in value by a broadly similar amount. And if annuities became less expensive (as was likely when interest rates rose), then the fund would reduce in value.
- Therefore, a reduction in the value of the fund simply reflected a reduction in the cost of buying an annuity. The overall level of income which would be received would be the same.

- It had provided the “Guide to Pension Investment Approach” along with the fact sheet for the PPF, which it considered would have answered Mrs A’s queries relating to the management of the fund. It set out the strategy, along with commentary relating to market conditions which might affect overall performance.
- With regard to Mrs A’s retirement age, it said that this had been 65, but when an individual reaches this age and hasn’t taken their retirement benefits, it was extended to the maximum possible age to take the benefits, which was age 75. But this didn’t affect Mrs A’s ability to take her pension benefits at any time before then.
- It acknowledged that Mrs A hadn’t received its letter of 12 September 2023, in which it included the documents referred to above, and addressed the matter of Mrs A’s retirement age, nor did Scottish Widows respond to a “chaser” Mrs A had also sent in October 2023.
- And so, in November 2023, it repeated the information and apologised for Mrs A not being responded to sooner, including a cheque for £100 in respect of the trouble and inconvenience caused to her.

Dissatisfied with the response to her complaint, however, Mrs A referred the matter to this service for review.

Having considered the matter, our investigator didn’t think that it should be upheld, saying the following in summary:

- This service wouldn’t normally consider a complaint about poor performance alone – we would only consider evidence of the fund management having been undertaken inappropriately, or information about the fund which had been potentially misleading.
- Having considered what Scottish Widows had said about the PPF, the investigator was satisfied that it had explained adequately why the fund had reduced in value. And she would be unable to elaborate further on that.
- Whilst Mrs A was doubtless disappointed with the performance of the PPF, the external market factors which influenced its value were outside of Scottish Widows’ control and the information provided to Mrs A had been clear in setting out that its value wasn’t guaranteed – and might fall.
- Further, the documentation Scottish Widows sent to Mrs A encouraged her to review her investment choices and ensure that these were appropriate, and to consider seeking financial advice to determine this.
- Mrs A’s plan had selected the pension investment approach (PIA), also referred to as “Lifestyling”, which automatically switched funds to more of a pension protection approach in the later years of a plan. This had been completed in Mrs A’s case by her normal retirement date.
- Although the investigator noted Mrs A’s point about the fund manager anticipating the effect of the increase in interest rates and taking mitigating action accordingly, it was up to the fund manager to decide upon the strategy of the fund – this wasn’t something she could comment upon.

- As Mrs A hadn't responded to Scottish Widows about taking her pension benefits by "NRD" at 65, the retirement date was automatically extended to 75. But as noted by Scottish Widows, Mrs A would still be able to access her pension benefits at any time before then.

Mrs A disagreed, however, saying the following in summary:

- She queried what was meant by "NRD", and said that she had no record of receiving letters about her forthcoming retirement.
- Whilst poor performance may not be a reason to uphold a complaint, her point was that Scottish Widows should have had adequate risk management techniques, tools or strategies to place a "hedge" against the risks when markets became volatile. The degree of loss so close to her retirement would suggest that the fund was overexposed to a particular asset class. Mrs A therefore challenged Scottish Widows' investment strategy, given that the fund was called the Pension Protector Fund.
- Although she may have been sent annual statements, she wasn't a fund manager and relied upon the actions of the fund managers to protect her interests. But this hadn't happened here.

In response, the investigator explained that "NRD" meant "normal retirement date", and Scottish Widows had confirmed that it had sent Mrs A letters to consider her options in advance of her NRD.

However, as Mrs A hadn't agreed with the investigator's view on the matter, she said that it would be referred to an ombudsman for review. As such, it's been referred to me to consider.

### **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, and whilst I know this might disappoint Mrs A, there's little which I think I can meaningfully add to what Scottish Widows and the investigator have already said relating to the PPF and the former's management of this.

I do understand what Mrs A has said about Scottish Widows reasonably being in a position to hedge against the effects of interest rate rises, but I think there may be some confusion here as to the purpose of the fund.

To clarify, its intent isn't to protect the pension fund, but rather the pension income which Mrs A could buy through an annuity. And this is why it's invested in the same financial instruments – bonds – which determine the cost of buying an annuity. And so, if the cost of buying an annuity increases due to increasing interest rates, it would be expected that the value of the PPF would rise in a broadly similar fashion. And if the cost of buying the annuity fell, then the value of the PPF would be expected to similarly drop. The value of the bonds is affected by interest rate fluctuations in a similar same way to the cost of annuities.

And so to "hedge" against interest rate fluctuations would be somewhat contrary to the aims of the fund, which was to ensure that the amount of annuity income the pension fund could buy would remain broadly the same. Therefore, irrespective of fluctuations in interest rates and the value of bonds, Mrs A's pension fund within the PPF would be able to buy the same or similar amount of annuity. And there was in any case a further "hedge" in the lifestyle

strategy in the form of the cash fund investment, which would maintain a safe, non volatile environment for some of Mrs A's pension fund.

In terms of how this principle was conveyed to investors, I note that the fund factsheets says the following with regard to the aim of the fund:

*"To provide a return consistent with the variations in market annuity rates with the aim of reducing annuity conversion risk."*

This therefore set out that it was the fund's objective to ensure the maintenance of the purchasing power of investors' money in the PPF when it came to buying an annuity income. And it did so by investing in a range of "fixed interest" securities, which would typically mean bonds.

I haven't seen any evidence which would suggest that Scottish Widows departed from that mandate in terms of its investment strategy. In fact, the drop in the value of the PPF when interest rates rose and the value of bonds fell would strongly suggest that it did indeed adhere to that fixed interest investment strategy. But importantly, to reemphasise the above point, as the cost of buying an annuity also fell, the position in terms of the resulting income would have been broadly neutral.

I've also noted what Mrs A has said about her normal retirement date. I think what Scottish Widows has said about deferring this to 75 is reasonable in the circumstances, and as Mrs A is in any case able to access her pension benefits at any time up that age, I don't think this will have disadvantaged her.

In closing, I've noted the payment made to Mrs A in respect of the communication difficulties between her and Scottish Widows, but given the circumstances and likely impact, I think £100 is probably an appropriate sum.

### **My final decision**

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 1 July 2024.

Philip Miller  
**Ombudsman**