DRN-4848378

The complaint

Mrs O complains that her Group Pension Plan (GPP), the protector fund, has fallen in value since July 2021.

What happened

Mrs O's GPP was set up in 2012, her retirement date was noted as November 2021. Her contributions were invested in line with Scottish Widows Limited's (Scottish Widows') '*Balanced (Targeting annuity) Pension Approach*'. This approach was designed for an investor intending to take an annuity at retirement, with the invested funds gradually being moved into the Pension Protector fund and Cash as the retirement date approached.

I've set out below a number of documents that I think are relevant to the complaint.

The Pension Investment Approach guide. This guide explains this Approach had been introduced in 2006 and was;

> *"designed to grow your pension over the long term while maintaining the risks along the retirement journey… offering you flexibility depending on your appetite for risk and how you want to access your retirement benefits."*

Mrs O's 2017 annual statement which sets out:

> *"The above funds are invested using our Balanced targeting annuity Pension Approach.*
>
> *Please refer to our Pension Investment Approach guide for further details.*
>
> *You should review the funds in which your plan invests from time to time to make sure they are still appropriate for you."*

Mrs O's annual statement dated June 2020. The GPP valuation is provided at around £25,000. The document suggests that Mrs O ought to review the funds her pension is invested in from time to time;

> *"ARE THESE FUNDS STILL RIGHT FOR YOU?*
>
> *You should review the funds in which your plan invests from time to time to make sure they are still appropriate for you."*

The statement goes on to explain that Mrs O can change the investments she's in. There is information about the funds Mrs O is invested in - the Pension Protector fund – which is noted as 'Balanced'. The definition of a Balanced fund is set out as:

> *"These investments carry a risk of loss to capital value but have the potential for capital growth and/or income over the medium to long-term. Typically, they do not have any guarantees and will fluctuate in capital value."*

There are two investment approaches which are noted as lower risk than the 'Balanced' approach. These are listed as 'Cautious' and 'Secure'. The cash held within Mrs O's fund is marked as Cautious.

Within the annual statement is an 'INVESTMEN NEWS' page. This provides Scottish Widow's general opinion of investment markets and conditions in light of the first Covid lockdown, and goes on to state:

> *"It is important that you consider your circumstances in relation to your overall financial position. Saving for your retirement is one of these important issues. It could be appropriate to seek independent financial advice"*

In May 2021, as Mrs O approached her selected retirement date, Scottish Widows wrote out to her. This letter provided a GPP valuation of around £25,000. Scottish Widows asked Mrs O to:

> *"Read through the enclosed Pension summary, Things to think about and the guides.*
>
> *Access free government guidance or speak with a financial adviser – details overleaf."*

The letter went on to provide information about where Mrs O could obtain advice:

> *"WHERE CAN I GET GUIDANCE OR ADVICE?*
>
> *We recommend you receive advice or guidance before making a final decision about which retirement option you'd like to select.*
>
> *You can:*
>
> > *• visit the government's website for free and impartial guidance at <u>www.pensionwise.gov.uk</u> or call 0800 138 3944*
> >
> > *• or contact your financial adviser. If you don't have one you can find one at www.unbiased.co.uk They may charge for any advice they give."*

By November 2021, the lifestyling strategy had completed the phasing of Mrs O's funds entirely into Cash and the Pension Protector fund. But Mrs O didn't retire at that point. Mrs O doesn't appear to have contacted Scottish Widows at this point and so her retirement date was increased automatically to the day before her 75th birthday, as had been explained would happen in the annual statements if Mrs O didn't contact Scottish Widows.

Shortly after this, Mrs O got in touch with Scottish Widows to amend her retirement date to November 2022. Scottish Widows wrote to Mrs O on 16 December 2021 to provide an endorsement showing the date had changed. This letter also set out:

> *"When you asked us to change your retirement date, you did not want us to realign the lifestyle investment strategy of your policy to your new retirement date, so your investments will continue to align to 25 November 2021. As your new retirement date is later than your current Lifestyle Target Date, this could mean you will be invested in lower risk funds earlier and for longer. Due to this, you may want to regularly review your investment or contact us if you decide you would prefer to realign your Lifestyle Target Date to your new retirement date."*

In 2022, Mrs O deferred her retirement date again, this time to November 2023. Another letter, as quoted above was sent to Mrs O, on 15 March 2022 confirming the updated retirement age.

In June 2022 Mrs O's annual statement provided a GPP valuation of around £20,600.

Mrs O contacted Scottish Widows in June 2023 to raise a complaint. She said that she was unhappy with the reasoning given by Scottish Widows as to why there had been a decrease in the value of her GPP. She pointed to Scottish Widows' Investment News of December 2021 (excerpt below) and suggested that interest rate rises were obvious at that point and so a lower proportion of bonds and fixed interest securities should have been allocated during 2021.

Scottish Widows '*INVESTMENT NEWS'* dated 15 December 2021. This document sets out Scottish Widow's opinion on various investments:

> *"Most plans are invested in equities (also known as company shares), bonds (which essentially act as loans to government agency or corporation and are often considered lower-risk, lower-return investments than equities) or a combination of both.*
>
> *Your plan can gain or lose value. You may get back less than you paid in. This will depend on the underlying investments it holds and how the markets for those investments have performed.*
>
> *Lets look at how equities and bonds performed over the last 12 months and what could affect them looking ahead."*

The document goes on to discuss equities, bonds and other assets. And then sets out:

> *"This is the opinion of Scottish Widows as at 15th December 2021. Investment markets and conditions can change rapidly, and your performance will depend on the specific investments in your plan, which may include assets other than equities and bonds. These views shouldn't be relied on when making investment decisions."*

Mrs O also complained that the lifestyling strategy was not a balanced fund based on Scottish Widow's definition. And that there had been a lack of discussion in respect of realigning the lifestyle investment strategy to her deferred retirement date.

Scottish Widows responded to Mrs O's complaint in August 2023. The first final response letter issued incorrectly stated that they were upholding the complaint. A second final response was issued in which Scottish Widows apologised for the initial poorly written response. The letter also said that Scottish Widows did not accept responsibility for the loss in value suffered by Mrs O's GPP but they offered £300 by way of an apology for the service they had provided to her.

Mrs O remained unhappy so she referred her complaint to this service. An investigator reviewed matters but didn't uphold the complaint. They said that the drop in fund value was due to market conditions and not anything that Scottish Widows had done wrong and so they couldn't hold them responsible for it. And they thought the offer of £300 redress was a fair way for Scottish Widows to compensate her when considering the service Mrs O had received. I understand the £300 has been paid by Scottish Widows.

Mrs O didn't agree with the assessment and asked for her complaint to be considered by an Ombudsman.

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 understand this will come as a disappointment to Mrs O but having done so I am not upholding her complaint. I'll go on to explain why.

When considering what's fair and reasonable in the circumstances, I need to take account of relevant law and regulations, regulator's rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice at the relevant time.

I can understand why Mrs O is frustrated with the drop in value of her pension fund and why this has given her cause to worry. However, I can only uphold this complaint if I think Scottish Widows has caused the drop in value. And based on everything I have seen, I don't think they have.

The final years leading to Mrs O's intended retirement date coincided with changes in the market due to economic and political instability because of events such as the pandemic and the Russian war. These events affected the markets greatly and quickly. Which in turn affected the value of Mrs O's pension, as well as most investment products generally.

<u>Realignment of Mrs O's lifestyling strategy</u>

Mrs O has suggested that Scottish Widows should have discussed with her the option of realigning the lifestyle investment strategy, with her deferred retirement date, in more detail.

Scottish Widows are the administrator of Mrs O's GPP. They are not able to provide Mrs O with individual advice, and they're not able to change her investments without instruction from her, or a representative she has instructed. After Mrs O asked Scottish Widows to extend her retirement date, on both occasions, they issued her with correspondence confirming that it had been extended. Within those letters Scottish Widows provided information about what Mrs O's funds were invested in – and asked her to contact them if she decided to realign her lifestyling date with her new retirement date.

As I set out above – Scottish Widows are not able to provide Mrs O with advice. I think they did the right thing here, following Mrs O's decision to move her retirement date. This was to provide her with clear information in order that she could make an informed decision about what she wanted to do. Scottish Widows would not have been able to have a conversation with Mrs O, in which they discussed her circumstances, to assess if realigning her lifestyling strategy with her new retirement date was best for her. It was for Mrs O to establish that herself, or with the help of a free service such as pension wise – or an independent financial adviser. As such I am not upholding this part of Mrs O's complaint.

<u>Lifestyling strategy</u>

Mrs O has said that the lifestyling strategy she was invested in was not a balanced fund based on Scottish Widow's description of a balanced fund. It is worth noting that when selecting the lifestyling approach, Mrs O was given the choice of three risk categories. These were Adventurous, Balanced and Cautious. All of these lifestyle strategies aimed to switch investments within the investor's pension, gradually, as their selected retirement year approached. At the point of retirement, 25% of the funds would be in the Scottish Widows cash fund and 75% of the funds would be invested in the Pension Protector fund. That was irrespective of the level of risk that had been chosen. If Mrs O had chosen the adventurous risk option, her funds would have initially been invested in higher risk funds, but by November 2021 would have been invested in the same way I have described above - 25% of the funds would be in the Scottish Widows cash fund and 75% of the funds invested in the Pension Protector fund. So, whichever level of risk an investor selected, by their selected year of retirement, the mix of funds was the same.

That's because it was usual, in 2012, when Mrs O took out the GPP with Scottish Widows, to have a lifestyling approach that involved starting with investments spread across shares and bonds (the mix of which was dependant on the investor's risk level selection). This would then gradually switch into cash and bonds, which were thought to be less risky than shares. So eventually 25% of the policy would end up in cash (because 25% of the fund could then be taken as a tax-free lump sum). The remaining 75% would all end up in the Pension Protector fund (in bonds). This is because bonds were commonly used at that time to hedge against rises or falls in annuity rates (the amount of income £1 of pension fund will buy).

Based on the statements I have been provided with, the value of Mrs O's GPP appears to have largely been increasing until June 2020. In June 2021, the value remained at a similar value as it had been in June 2020. So, by November 2021, when Mrs O's pension began to see a loss in value, it had already been completely lifestyled. Which meant that it was no longer invested in a 'Balanced' portfolio. Instead, the switch to investments that were conducive to purchasing an annuity had already completed.

As set out above, bonds were chosen for lifestyling investors pensions in preparation for them to purchase an annuity. Because, essentially, annuity rates vary in line with interest rates. But if market interest rates fall, bonds that pay a certain rate of interest become more attractive - so their face value would likely increase. This meant the value of the Pension Protector fund would go up and this would offset the reduction in income from Mrs O getting a lower annuity rate. However, the reverse was also possible: if interest rates increased, the value of the Pension Protector investment was likely to decrease but the annuity rate would correspondingly increase, giving Mrs O broadly the same level of annuity income in the end, despite having a lower fund.

The definition Scottish Widows provides within the annual statements Mrs O received, set out that the investments within the fund carry a risk of loss to capital value, have no guarantees and will fluctuate in capital value.

I appreciate that it must have been shocking for Mrs O to see her pension value decrease so close to her retirement, when she had limited time to see an improvement. But, if she had decided that she would no longer take an annuity at retirement, or that she wanted to amend her retirement strategy, it was up to her to seek advice where necessary. And then instruct Scottish Widows to invest her funds differently if that is what she decided.

Mrs O has pointed to investment news that Scottish Widow's published in December 2021. That text provided some information which was Scottish Widow's opinion of the past year and some thoughts about what was to come. They made it clear that investment decisions shouldn't be made based on those comments. I've also had sight of the investment news page within Mrs O's 2020 annual statement. This provided Scottish Widow's thoughts as Covid had just swept the country and we entered our first lock down. This page makes it clear that Mrs O should consider her circumstances, and suggests it may be appropriate for her to seek financial advice.

Based on everything I have seen, I think Scottish Widows did what they should have by providing Mrs O with clear information about where her fund was invested. And they pointed her to the free pension guidance service – Pension Wise, which she could have utilised, but didn't. They also provided information to her about the investment space in Mrs O's June 2020 statement, that it was turbulent. And they suggested that she seek independent financial advice.

I've not seen anything to suggest that Scottish Widows mis-managed Mrs O's fund, and so they're not responsible for the decrease in it's value. Scottish Widows have awarded and paid Mrs O £300 compensation which I think is enough considering all of the circumstances. I appreciate this will come as a disappointment to Mrs O, but I've not found that Scottish Widows are responsible for a decrease in her fund value, so I'm not upholding her complaint.

My final decision

I don't uphold Mrs O's complaint about SCOTTISH WIDOWS LIMITED.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 10 February 2025.

Cassie Lauder
Ombudsman