DRN-4914820

The complaint

Mr P complains that Scottish Equitable Plc trading as Aegon (Aegon) mis-administered his personal pension plan (the plan) investments, causing losses of around £65,000. He wants compensation for his losses.

What happened

Mr P joined his employers Group Personal Pension Plan in 2006. He says he understood he was invested in low-risk funds targeting a retirement date in June 2023 (age 65), by which time 75% of his investment would be in the Long Gilt fund and 25% would be in cash. He says he took early retirement in December 2021 with his employer paying a bonus contribution of £50,000 into the plan. He says he *"considered this a fairly low risk decision"* as Aegon described the Long Gilt fund as *"below average risk*" and *"low risk"*. Mr P's plan was then worth around £175,000. He transferred the plan to another provider in May 2023, but the value had fallen to around £109,500, lower than the total contributions paid in of around £125,000.

Mr P raised a complaint with Aegon, he said he understood the investment could fall in value and the situation with Gilts (which had fallen sharply during 2022 in particular), but he said, *"at no point had Aegon warned him about what would happen to gilts as interest rates increased".*

Aegon didn't accept the complaint. It said the value of Mr P's investment wasn't guaranteed. It said he'd been invested in a lifestyle fund which progressively switched into the Long Gilt and cash funds as the selected retirement age approached, with the objective of purchasing an annuity at retirement. It said it couldn't otherwise change the investments without instructions from Mr P to do so. It said it only administered the plan and was unable to predict the impact of wider economic circumstances. It said it couldn't provide him with advice so it hadn't been able to contact him about the fall in the value of his fund, which could be seen as giving advice. But it said it had provided information about the investments in the annual statements, with further details available online, which he was registered to access.

Mr P referred his complaint to our service. He said he knew the fund value could fall but felt Aegon should have intervened to *"stop the continuous loss".* He provided an extract from his plan's policy booklet referring to *"Exceptional circumstances"* where various provisions allowed Aegon to suspend a fund. He said it should pay him compensation of around £15,500, which was the difference between the final value and what had been paid in contributions. Our investigator looked into it, but she didn't uphold the complaint.

Our investigator said Aegon hadn't made an error or treated Mr P unfairly. She said it couldn't give him advice and appeared to have operated the lifestyle investment strategy correctly. And whilst investments could be deemed low risk that didn't mean there was no risk. She said the annual statements confirmed the value wasn't guaranteed and could be less than had been paid in. They also provided links to further information and suggested he take financial advice. She asked Aegon about fund suspensions. It said this was rare and wouldn't have been a proportionate response because it would have prevented all investors in the fund from buying or selling or transferring out. It said whilst short term events had impacted the fund, it was designed to be held longer term. She said this was a reasonable approach.

Mr P didn’t agree. He said arguing the funds were designed for long term investment wasn’t helpful for those near to retirement. Particularly as the switch into Gilts occurred in the run up to retirement, and he considered the fund had failed to meet its objective. He said the Long Gilt Fund had fallen by 33% during 2022, much more than the average investment value, so it was wrong for Aegon to refer to it as *“low risk”* and *“below average risk”.*

As Mr P 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 appreciate Mr P’s frustration over what has happened, but unfortunately this was a risk of the investment he held. Aegon wasn’t providing advice, so unless a financial adviser was, that does mean it was his responsibility to check the investments were appropriate. It did provide annual statements recommending this and to take financial advice if needed. It also wrote to him in January 2022, after his employer stopped paying contributions, setting out the options for his plan and said, “*We strongly recommend that you seek advice from a financial adviser”.* So, I think Aegon provided adequate prompts for Mr P to review his arrangements as his retirement date approached.

There is no evidence Aegon hadn’t followed the investment strategy in place, so I don’t think it made any error here. Mr P was aware he was invested in Gilts but says Aegon hadn’t warned him that if interest rates rose the capital value of Gilts could be expected to fall. But I can see from the Long Gilt fund factsheets that this, along with other potential risks, was specifically identified on page 3,

> *“**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.”*

Fund factsheets and other information about investments and the strategy in place were available Aegon’s website. And the fact sheet, whilst assessing the fund as *“Below average risk”,* as Mr P has said, does also confirm the value could fluctuate. As it wasn’t providing advice, I wouldn’t expect Aegon to have provided any more comment than this. Mr P said his pension adviser has assessed his attitude to risk as being one out of ten. This might have been assessed after the fall in the value of his Aegon plan. But I think that is a lower order of risk than *“low”* or *“below average”,* which is broadly applicable to Gilt funds, and suggests only deposit type investments would be appropriate.

I think the appraisal of the relative risk of different types of investments over the longer term is reasonable, as taking a short-term view is likely to be misleading. Bond investments like Gilts are generally considered to present a lower risk to the capital value than shares and a higher risk than cash deposits, over longer time periods. But their capital value can, in some situations, rise or fall quite sharply. And rising interest rates and political and economic shocks such as the war in Ukraine did result in marked reductions in fixed asset values from December 2021 onwards. These were factors outside Aegon’s control, and it couldn’t otherwise change the investments without instructions from Mr P. And as the Long Gilt fund performed similarly to its benchmark over the period, this suggests there was no investment mismanagement.

I understand Mr P's comment that this type of long-term risk appraisal isn't helpful for those near retirement. But the investment strategy in place for his plan targeted purchasing an annuity through progressively switching into cash and Gilts. This is seen as de-risking this benefit option, because if Gilt prices fell this would normally be balanced out by a comparable rise in annuity rates. Meaning the likely income that could be provided would be similar despite the fall in the capital value of the pension fund. So, the strategy aimed to reduce the annuity purchase risk, not to specifically protect the capital value of the fund. And it was the case that annuity rates did increase to their highest levels for many years. So, it isn't fair to say the strategy failed.

I also understand Mr P's point about whether Aegon should have suspended the fund or taken some other action to stem investment losses. Aegon has said this wouldn't have been *"reasonable and proportionate",* and I agree. Suspending a fund is very unusual and has consequences for all customers investing in it, effectively trapping them until the suspension is lifted. That could prevent benefits being taken, or in Mr P's case the transfer of the plan to another provider.

When funds have been suspended it is usually because some or all of the investments held have become impossible to value or sell. That has happened in the past to a number of funds holding commercial property that might become very difficult to sell in times of recession. When a fund experiences this type of liquidity problem, suspension might be the fairest option to avoid penalising all investors by the forced selling, particularly of large assets like commercial properties at greatly discounted prices, to enable individual investors to take relatively small sums out of the fund. But that wasn't the situation here it was always possible to value the underlying holdings and the Bank of England took action to ensure adequate liquidity in the Gilt market following the Liz Truss mini-Budget.

It isn't possible to say exactly what would have happened had the fund been suspended, but once re-opened it would then reflect the prevailing value of the underlying Gilt holdings, which are still lower now than they had been during 2021, given the relationship with interest rates. I'm not aware of any other pension provider suspending Gilt funds during this period, so Aegon's approach doesn't seem to have been out of step with the market. I think it acted proportionately and reasonably in the circumstances as it couldn't know how long the adverse market conditions would continue or how far values might fall.

Taking everything together, Mr P knew he was invested in Gilts, Aegon did make available adequate information about the investment and the general risks applying. It prompted him to review his arrangements and to take financial advice, and it isn't responsible for the underlying investment returns achieved. So, whilst what has happened is very unfortunate, I don't think Aegon has made any error or treated Mr P unfairly, so I can't uphold his complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 28 November 2024.

Nigel Bracken
Ombudsman