

The complaint

Mr E complains that Phoenix Life Limited (“Phoenix”) has failed to manage the investments he holds as part of his pension savings in a professional manner.

What happened

Mr E holds pension savings with Phoenix arising from a pension plan he opened in December 1978. The pension plan was designed to provide Mr E with a guaranteed annuity each year after he reached the designated retirement date of his 70th birthday in March 2025. Part of the annuity amount was specified at the outset of the plan. And increases have been made to the guaranteed annuity amount over the years by the addition of annual bonuses. It is also possible, but not guaranteed, that a further terminal bonus might be added when Mr E takes his retirement benefits.

But Phoenix is also required to offer Mr E the option to transfer his pension benefits to another provider. So, it needs to provide him with an equivalent transfer value for his guaranteed annuity. It does that by calculating, based on economic circumstances at the time, the cost of providing the guaranteed benefits on the open market. Mr E complained to Phoenix that he had been regularly monitoring that transfer value and it had fallen markedly over the past two years.

Phoenix told Mr E that it didn’t think it had done anything wrong. It said that the pension annuity it had guaranteed to him was unchanged. But it said that the transfer value had been affected by changes in the financial markets that were out of the control of Phoenix. Unhappy with that response Mr E brought his complaint to us.

Mr E’s complaint has been assessed by one of our investigators. She didn’t think that Phoenix had done anything wrong. She said that Phoenix had met the promise it gave to Mr E when he took out the pension plan in terms of the guaranteed annuity that it would be offering to him. The investigator noted that the fluctuations in the equivalent transfer value were as a result of changes in the economic environment rather than as a result of something that Phoenix had done wrong. So, the investigator didn’t think Mr E’s complaint should be upheld.

Mr E didn’t agree with that assessment. He said that a factsheet Phoenix had sent him in 2017 explained that for all with profits policies the exposure to any higher risk investments would reduce as the policies get closer to maturity. Mr E said that the fall in the value of his transfer value suggested that hadn’t been the case with his plan. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr E and by Phoenix. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words, I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead, this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

The pension plan that Mr E holds with Phoenix was started in 1978. At that time, the expectations of pension arrangements, and market conditions, were very different from today. So it is likely that Mr E might have found the terms of the plan to be attractive and suitable for his circumstances. At the time he took the plan, the overwhelming majority of pension benefits were taken in the form of an annuity that was provided by the firm that held the pension savings.

The pension plan that Mr E holds provides him with a guaranteed annuity. The amount of that annuity was partly set when the plan was first taken. By maintaining his monthly contributions Mr E secured a basic annuity amount. And then, as a result of favourable investment returns that basic annuity amount has been increased by Phoenix adding a number of annual bonuses. And, it is possible that a terminal bonus may also be added to the guaranteed annuity when Mr E decides to take his pension benefits.

But, it is possible that circumstances change. So the guaranteed annuity that Mr E selected when he took out his pension plan might no longer be suitable for his circumstances. So, to allow Mr E to make use of other more flexible options, Phoenix would allow Mr E to transfer his pension benefits to another provider. Phoenix calculates the transfer value by reference to the cost of purchasing the pension benefits it has guaranteed to Mr E on the open market.

I think it is important to remember that the pension benefits Phoenix has agreed to pay to Mr E on his retirement are guaranteed. So, regardless of the performance of the underlying investments, the guaranteed annuity (plus the guaranteed bonuses that have been added over the years) must be paid. It is for Phoenix to manage the investment risk that this guarantee presents.

Mr E doesn't hold a ringfenced pot of pension investments such as he might if he held a more conventional pension plan. Mr E cannot choose the investments in which his pension savings are held. Instead his pension contributions were added to the overall with-profits fund that Phoenix operates. The management of that fund and the investment decisions it takes are set out in a document called the Principles and Practices of Financial Management. It is regularly reviewed by Phoenix's regulator to ensure that the management of the fund will allow Phoenix to meet its financial liabilities for members in the future.

What that all means is that it isn't appropriate, or possible, for changes to be made to the overall investments to reflect the approaching retirement of individual members. Instead, Phoenix needs to take a holistic investment approach managing both its short-term liabilities, in the form of the purchase of annuities or the transfer of benefits to another provider, and the longer term investment needs of the fund to provide retirement benefits many years in the future.

Mr E has specifically complained about what has happened to the transfer value of his pension savings since 2022. It has fallen rather sharply in value. But that fall is simply a reflection of reductions in the cost of annuities brought about by changes to the prevailing economic circumstances such as interest rates and gilt yields. As the cost of annuities falls, so does the equivalent transfer value of Mr E's pension savings. Those falls are not as a result of Phoenix failing to take appropriate investment decisions across the whole of the with-profits fund.

I appreciate how disappointing the fall in the equivalent transfer value of Mr E's pension savings would be. One feature of his pension plan is that he can take a pension commencement lump sum ("PCLS" – generally referred to as tax free cash) that is calculated as 25% of the transfer value of his guaranteed benefits. So, the PCLS that Mr E is now able to take is much smaller than it was before the changes to annuity rates. But I think that is simply an unfortunate side-effect of the economic circumstances. Mr E will still be entitled to receive the guaranteed annuity he was promised when he took out the plan, and the increases that have been added over the years. I don't think Phoenix has done anything wrong or treated Mr E unfairly.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Phoenix Life Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 12 November 2025.

Paul Reilly
Ombudsman