DRN-5733879

## The complaint

Mr M is unhappy that the value of his pension fund with Scottish Widows Limited fell.

## What happened

I issued a provisional decision on 1 July 2025. I set out what had happened and my provisional findings. I've repeated what I said here:

'*Mr M had a section 32 buy out plan with Scottish Widows. Such policies were introduced in the 1980s and allowed a company pension scheme to be transferred to an individual pension – for example, if the employee left their job or the company pension scheme was winding up. The policy schedule shows Mr M's former employer and his period of service (20 July 1992 to 3 December 1993). The policy with Scottish Widows commenced on 11 July 2005. A transfer payment of £1,749.12 was paid to Scottish Widows (all pre 1997 non protected rights). Mr M's selected retirement date (SRD) was his 65th birthday in April 2016.*

*I've seen various annual statements issued to Mr M. These show, amongst other things, the investment funds, the number of units held, unit prices and values. A statement dated 10 July 2011 shows the then value of Mr M's pension fund was £2,254.50, made up of £499.27 in Property, £967.38 in Fixed Interest and £787.85 in Consensus – a multi asset fund investing in a variety of asset classes, including shares, bonds, property and alternatives, with the aim of providing long term capital growth.*

*I don't know how the original fund selection came about. A default investment strategy was likely agreed when the plan was set up, unless the policyholder selected their own funds and/or strategy. As was often the case, a lifestyling option was adopted. As retirement approaches, the investments are automatically moved to lower risk investments, such as bonds and cash, to protect the pension fund. Scottish Widows has confirmed that, three years prior to Mr M's original SRD, fund switches to the Cash and Pension Protector Funds began.*

*Scottish Widows wrote to Mr M on 25 April 2016 saying his SRD was just a few weeks away and asking him to visit the website for a reminder of his retirement options. The letter said, if Scottish Widows didn't hear from Mr M before his SRD, it would be changed to age 75 and remain invested as it was. Mr M didn't get in contact and so his (new) SRD became his 75th birthday in April 2026. That new SRD was shown on the 2016 annual statement and later issued statements.*

*Since July 2020 Mr M's fund value fell. The annual statements show total values were as follows:*

*10 July 2020 – £3,788.33*
*10 July 2021 – £3,765.29*
*10 July 2022 – £2,993.60*
*10 July 2023 – £2,587.72*
*10 July 2024 – £2,886.40*

*In August 2024 Mr M transferred his section 32 policy away from Scottish Widows. A transfer value of £2,911.15 was paid on 8 August 2024.*

*Earlier in 2024 Mr M had complained to Scottish Widows that the value of his pension fund had fallen. After discussing the matter with him, Scottish Widows wrote to him on 20 March 2024 saying it was unable to uphold his complaint. In summary Scottish Widows said the funds Mr M was invested in were unit linked and so values were based on the unit prices which could rise or fall each day based on the performance of the fund's underlying assets. No guarantees in respect of growth or any set value were offered. Fund performance could be affected by factors outside Scottish Widows' control. The management of the funds was Scottish Widows' responsibility but it was down to the policyholder or their financial adviser to choose funds which were right for them.*

*Mr M remained unhappy and asked us to look into his complaint. He referred to various statements he'd received from Scottish Widows. He said he didn't understand how he'd lost so much money. Especially as he was invested in the Pension Protector and Cash Funds. If Scottish Widows had switched him into other risky funds he should've been asked – given his age he could need to access his pension fund at any time. He was aware the markets fell substantially in 2021 but they'd since fully recovered. He felt Scottish Widows hadn't properly managed his pension fund.*

*One of our investigators considered the complaint. She said the move to the Cash and Pension Protector Funds was likely a pre-determined strategy but Mr M had the option to change the investments at any time as noted on his pension statements. Scottish Widows had said the main underlying asset for the Pension Protector Fund was government bonds. Economic conditions in 2021 and 2022 had led to a decrease in the values of these investments which she considered was a reasonable explanation for the fall in Mr M's fund value. Scottish Widows' role didn't extend to giving advice. Annual statements issued by Scottish Widows enabled Mr M to review if the investments remained suitable for him or he could contact an independent financial adviser. Fluctuations in the financial markets couldn't be predicted or controlled. The investigator didn't uphold the complaint.*

*Mr M didn't agree. And, after making further enquiries of Scottish Widows, he said they'd given incorrect information. Scottish Widows had supplied a copy of the fund factsheet for the Pension Protector Fund (Scottish Widows Pension Protector Pension (Series 2)). Mr M had pointed out to Scottish Widows that they'd told us that the main underlying asset for the Fund was government bonds whereas the fund factsheet showed the Fund invested (at least 80%) in corporate bonds. Further, 54% was invested in 'BBB' rated companies. He also asked if Scottish Widows had raised any concerns with the fund manager. In reply Scottish Widows apologised for the confusion and said Mr M was correct that the underlying asset of the Pension [Protector] Fund was the ABI Sterling Long Bond, which is a corporate bond.*

*Mr M said he was puzzled as to why such a high percentage of a supposedly safe Pension Protector Fund was so invested. And, although Scottish Widows had said that the fall in value was due to stock market performance, the stock market had fully recovered values between July 2021 and July 2024. He queried if Scottish Widows had raised any concerns with the fund manager as to poor performance and if BBB rated companies was the reason. He thought the fund name was misleading as it didn't protect his fund value and performance was based on economic conditions. He also said his SRD was his 65th birthday*
*in April 2016 and, although the statement dated 10 July 2011 said his funds would be switched to the Cash and Pension Protector Funds three years from his retirement date, that hadn't happened and no explanation had been given.*

*As agreement couldn't be reached the complaint was referred to me to decide.*

***What I've provisionally 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.*

*Mr M's central complaint is that, from 2020, the value of his pension fund fell. The timing was particularly difficult as he'd by then passed his 65th birthday. While any falls in value will be unwelcome, a reduction approaching or at retirement can be more difficult to deal with as there'll be insufficient time for recovery. Mr M also understood that the lifestyling approach adopted meant the risk of falls in value was lowered as he neared retirement. And the Fund name – Pension Protector Fund – implied his fund value was protected. There was also the confusion with the Fund's underlying assets. So I do understand Mr M's concerns. I've considered if Scottish Widows is responsible for the fall in value.*

*I've first looked at the statements Mr M received. Although he's provided copies of some statements, we asked Scottish Widows for copies of all the annual statements issued since 2013. I've referred to some of them below. I'd assume Mr M has his own copies but, if he doesn't, we can provide them.*

*Although Mr M has suggested otherwise, Scottish Widows has confirmed that, three years prior to Mr M's original SRD (his 65th birthday in April 2016), switches to the Cash and Pension Protector Funds began. I think that's confirmed by the statements we've seen. As I've said, Mr M's pension was originally invested across three funds – Property, Fixed Interest and Consensus. The statement dated 11 July 2013 shows the total value of the pension fund was £2,483.50, which was by then invested across five funds – Property (£482.69), Pension Protector (£150.37), Fixed Interest (£973.39), Consensus (£825.20) and Cash (£51.85).*

*The statement also said: 'As you have chosen to invest your plan in one of your scheme's investment strategies, the funds your plan invests in may change as your near retirement.'*

*The statement for the following year, dated 11 July 2014, showed a total fund value of £2,606.35, invested across the same five funds, but the amounts and proportions had changed: Property (£340.43), Pension Protector (£820.42), Fixed Interest (£632.23), Consensus (£540.09), Cash (£264.18).*

*The statement for 11 July 2014 showed a total fund value of £2,765.75, which included £1,545.63 in the Pension Protector Fund and £514 in Cash.*

*The following year's statement, dated 13 July 2015, followed the same pattern. Of the total fund value of £2,765.95, the Pension Protector Fund accounted for £1,545.63 with £514.00 in Cash with the balance spread across Property (£167.45), Fixed Interest (£289.13) and Consensus (£249.74).*

*The statement dated 11 July 2016 gave a total fund value of £3,143.39, split between the Pension Protector and Cash Funds – £2,421.95 and £721.44 respectively. So, by then, the lifestyling switches had been completed.*

*Annual statements continued to be issued to Mr M which showed how the fund was invested – that is in the Pension Protector and Cash Funds. From 2019 the format of the statements changed and more detailed information was given, including a link where information about lifestyling could be found – although by then the lifestyling fund switches for Mr M had been completed. Although the 2019 statement doesn't appear to have pointed that out, the 2020 and subsequent statements did – they said, about the option to invest in a lifestyle approach,*

*that the policy previously contained a lifestyle approach but any automatic switching of funds had been completed. And that, as a result, the plan may now be invested in lower risk funds with less potential for growth. The statements did suggest, in several places, reviewing the funds the plan was invested in to make sure they were still appropriate. A link to access information about the funds was given.*

*So I think Mr M would've seen, from his annual statements, the switches to the Pension [Protector] and Cash Funds with the result that by 2016 his fund was held in those two Funds. Scottish Widows said he'd also have been given a joining pack when the plan was set up and which would've given information about lifestyle switching. A booklet was provided but it was an updated version. But, as we can't be sure what Mr M would've been told when the plan was set up, I've concentrated on what the statements said and from which, as I've said, I think he'd have seen what was going on. If Mr M wasn't happy with that he could've given Scottish Widows alternative instructions as to how his fund should be invested.*

*Turning to the fall in value, historically, a personal pension would provide a tax free lump sum usually of up to 25% of the fund value, with the balance used to provide a regular income for life through buying an annuity. Income withdrawal subsequently became available. But annuity purchase remained the default option for most people. The risk for someone near retirement was that any fall in investment values and/or a decline in annuity rates could reduce the amount of annuity payable. In response to this, lifestyle investment strategies were developed where, as retirement age approached, the investments were gradually switched into fixed interest assets (like bonds and gilts) and cash.*

*The Pension Protector fund was largely invested in bonds which are generally considered lower risk than equities. But bond prices can be affected by interest rates, which in turn affect annuity rates – that is the rate at which a pension fund is turned into income by buying an annuity. The higher the annuity rate, the more income that can be bought. If interest rates go down, which in turn can result in decreases to annuity rates, bond prices generally rise, meaning a higher fund value. But if interest rates increase and bond prices fall, so do annuity rates which will mean that a lower fund value can still buy a similar annuity income. So, in that sense, Mr M's position was protected and he'd be no worse off when it came to buying an annuity, even if his fund value was less.*

*Traditionally and historically bonds are considered to be lower risk than equities. But their value can rise or fall and can be affected by global, political and economic factors. More recently there have been falls in bond prices and some cautious investors have suffered significant losses. Although there was always a possibility that bond prices could fall, I think the scale and extent was largely unprecedented.*

*I note here what Mr M has said about the make up of the Pension Protector Fund and in particular that the fund factsheet shows the underlying assets were corporate, not government bonds, including 54% invested in BBB rated corporate bonds. I agree that any suggestion that the Fund's underlying assets were government issued bonds wasn't correct. However gilts (bonds issued by the UK government) also suffered significant falls in value over the same period because their value is linked to interest rates in a similar way. And in some cases corporate bonds have performed better. So the same outcome would've prevailed. I think the fall in value was due to economic conditions and not something which Scottish Widows was responsible for.*

*As to the name – Pension Protector Fund – I know Mr M thinks it was misleading. But there was no guarantee that the value wouldn't fall. And, as I've explained, the aim of the Fund was to ensure that, at retirement, any changes to the amount of the annuity Mr M would be able to buy with his fund would be minimal. So the Fund's purchasing power would be*

*protected. I think, viewed in that context, and taking into account what I've said about the unusual volatility in the bond/gilt asset class at the time, the name wasn't misleading.*

*In summary, I do understand Mr M's disappointment and why he feels that the reduction in the value of his pension fund shouldn't have happened. But I think his losses resulted from unusual market movements rather than any failing on Scottish Widows' part. Further I think he'd have known from his statements that he was in a lifestyle strategy, targeting annuity purchase. If that wasn't what he wanted he could've taken steps to invest his fund differently, after seeking financial advice if necessary.'*

Mr M wasn't satisfied with my provisional decision and made a number of points:

- Scottish Widows had incorrectly informed him that the main underlying assets for the Pension Protector Fund were government bonds and that economic conditions in 2021 and 2022 had led to a fall in value of such investments. It was disappointing that a reputable company such as Scottish Widows would make that sort of misleading mistake and some penalty should be imposed.
- A high percentage of the 'safe' Pension Protector Fund was invested in risky BBB rated companies. Scottish Widows or the fund manager should be accountable.
- He'd been incorrectly informed that the decrease in the value of his investment was due to stock market performance whereas I'd agree that his fund had been invested in corporate bonds and not the stock market. Again some penalty should be imposed for providing wrong information.
- Scottish Widows along with the fund manager hadn't actively managed the Fund. He'd used a reputable pension provider and trusted that it would use a reputable fund manager to invest in suitable safe funds.
- The name Pension Protector Fund was misleading. He'd lost money. He didn't agree with what I'd said about the aim of the Fund being to protect the annuity purchasing power. A monthly retirement income is directly proportional to the size of the fund. If the fund value was £3,000 or £30,000, the latter would provide ten times more income.
- Scottish Widows hadn't handled his complaint properly. Their responses were full of mistakes. Most reputable companies have two stage complaints procedure. I should ask Scottish Widows to improve their complaints handling procedure accordingly. And instruct Scottish Widows or the fund manager to repay the fees charges over the years as compensation given Mr M's financial loss.

**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've considered what Mr M has said in response to my provisional decision. But I don't think he's said anything that's really new or that I haven't already considered. So I haven't been persuaded to change my views. I've set out above what I said in my provisional decision and it forms part of this final decision.

Mr M says that a penalty should be imposed on Scottish Widows for giving wrong information in response to his complaint. But we aren't the regulator and my role isn't to fine or punish businesses. Nor can I tell Scottish Widows to make changes to their complaints procedure. The regulator, the Financial Conduct Authority (FCA), has rules and guidance in place as to how complaints should be dealt with by regulated firms such as Scottish Widows.

In my provisional decision I considered if the Fund name was misleading. I explained why I didn't think it was. Although, as Mr M points out, a higher fund value will generally provide a higher retirement income, there are two main factors in annuity purchase – the available fund value and prevailing annuity rates. If the latter are high, then a similar annuity may be purchased with a lower fund value. The Pension Protector Fund aimed to produce a return which reflected the price of annuities. The Fund was targeted at people who wanted to take their pension as an income for life – an annuity. If annuities become more expensive (as interest rates fall) then the Fund will increase in value. But if annuities are less expensive (as interest rates rise) then the Fund will reduce in value. In either scenario, the amount of annual income (annuity) which can be bought should stay broadly the same.

I appreciate that Mr M may not wish to buy an annuity and may want to avail himself of the wider choices available as a result of the introduction of the pension freedoms in April 2015. But Scottish Widows wasn't Mr M's adviser. It wasn't up to Scottish Widows to consider if the Pension Protector Fund was right for Mr M. Scottish Widows made him aware of the lifestyling strategy that had been adopted and Mr M knew how and where his fund was invested. Scottish Widows said, more than once, that he should check that his funds and investment strategy were still appropriate for him. Mr M made his own investment decisions and could've instructed Scottish Widows to switch to another fund if he thought that better suited him.

Mr M says Scottish Widows and/or the fund manager has mismanaged the Fund. That's primarily based on the fact that his fund value fell. But I've explained the reasons for that in terms of how the Fund is structured and its aims. I don't think the reduction in the fund value evidences mismanagement of the Fund. A number of global factors, which are outside a fund manager's control, have negatively affected fund values. And, as to the makeup of the Fund, assets such as fixed interest, bonds and gilts have traditionally been regarded as lower risk. But they aren't risk free. And recent economic conditions – including interest rate rises over a relatively short period of time – have seen fixed interest securities including bonds (both government and corporate) fall in value. I think that's behind the fall in value, rather than the Fund having been mismanaged.

Scottish Widows did give Mr M incorrect information in response to his queries. But Scottish Widows has apologised for any confusion as to the underlying asset of the Fund. I think here that's sufficient.

I know Mr M feels strongly about this matter and I appreciate he's likely to be dissatisfied with my decision. But I'm unable to uphold his complaint and I can't say he should be compensated for the reduction in his fund value or that Scottish Widows should refund fees.

**My final decision**

I don't uphold the complaint and I'm not making any award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 3 September 2025.

Lesley Stead
**Ombudsman**