

## **The complaint**

Mr P's representative has complained, on his behalf, that a part of his retirement portfolio with MetLife UK Limited has been mismanaged.

## **What happened**

Mr P has been invested into the MetLife Retirement Portfolio since 17 May 2016. The pension portfolio was split into a number of different tranches based on the date of contributions. In 2022, the SIO1 tranche was invested solely into the secure asset allocation and the fund value reduced as result of the declines in the bond market at that time.

Mr P's representative complained to MetLife, but it declined to uphold the complaint. As such, the complaint was referred to this service.

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

- MetLife was the pension plan provider and so it couldn't give advice or assess the ongoing suitability of Mr P's investments. It was only responsible for administering the plan correctly.
- So long as the pension plan was set up as it should have been, and the investment strategy which was agreed from the outset was carried out in a manner that met the terms of the plan, then this service wouldn't conclude that MetLife had done anything wrong.
- In this case, Mr P's plan was invested in the Secure Income option (SIO), which included the Active Asset Allocation (AAA) feature that determined the change in investment allocations between secure and growth assets. Unlike a plan with fixed assets purchased at the outset, or switched within the plan, or one with a set linear strategy such as a lifestyling plan, AAA featured daily reviews which altered the assets held within the pension.
- Having considered all the evidence provided, the terms of the plan had been carried out in the manner set out in the agreement. There was no specific detail on how the AAA would carry out the terms of the agreement, and on what basis each specific daily decision was made. It wasn't reasonable to expect a customer to analyse each day's decisions, and so it was accepted that the general intention was to set out a reasonable plan which would set a customer's expectations of the investment strategy into which their contributions were being invested.
- The AAA plan appeared to be an investment fund into which a typical personal pension would be invested. The underlying assets of a fund may change on the basis of a wide range of reasons and the only justification given for these was that the decisions were carried out in accordance with the fund aims on the factsheet.

- However, the AAA made these decisions for the strategy of each investment tranche, rather than the whole investment for everyone who was invested into it. In the case of the SIO, the AAA was carrying out fund allocations on the basis of the aims of the plan to increase the guaranteed income which the plan was working towards. So long as the decisions seemed reasonably geared towards achieving this, individual justification for each day's choices wouldn't be required.
- The representative had raised significant concerns over the SIO1 tranche being allocated 100% into the secure assets which were the ones that depreciated significantly from 2022 onwards, but having reviewed the Secure Income Option Booklet provided, attention was drawn to the following section:

*“Where your guaranteed benefits decrease relative to the value of your investment, the Active Asset Allocation process will move your investment in the Secure Asset into the Growth Asset. This will reduce the amount of your investment in the Secure Asset.*

*If your investment consistently performs well, exposure to the Growth Asset may be maintained throughout your lifetime. However typically, in order to control the risk of your investment falling in value relative to the value of your estimated guaranteed benefits, Active Asset Allocation will switch your investment into the Secure Asset over time.*

*Once your investment is significantly invested in the Secure Asset, it is unlikely that the Active Asset Allocation will move your investment back into the Growth Asset.”*

- There had been a slight reallocation of the SIO1 tranche back into the growth assets after three years of being invested in 100% secure assets. But otherwise, the funds moving solely into the secure assets and remaining there for a period of time appeared to be in line with the expected likely outcome of the strategy. There was no evidence to suggest that any specific decision had been made to force that tranche back into growth assets as a result of the complaint which had been raised.
- The aims of the plan were based on increasing the guaranteed secure income as much as possible and holding it for a known income level in retirement. The suitability criteria for this plan would be based on whether this met the individual investment aims of the person taking this plan. The plan didn't set out a strategy aiming for long term capital gains. It seemed reasonable under the terms and aims of the plan for it to effectively lock in tranches under the secure assets at times. Whilst the secure assets value may drop, as they had in this case, the guaranteed income remained, which was the aim of the plan itself.
- It was noted that the SIO1 tranche was moved into 100% secure assets when SIO2 wasn't. From the historical data provided by the representative for the two tranches, the SIO2 started with 95% and 96% secure asset in 2019 and 2020, whereas SIO1 only had 77% and 87%. Therefore, the two tranches had never been matched together, and a higher proportion of the plan the representative had said was managed correctly was held at a higher proportion of secure assets at an earlier date than the one which the representative had described as being mismanaged. If Mr P had concerns about the differences in the investment allocations of separate tranches, this could have been raised with MetLife earlier.
- Where investments were separated into tranches as in this case, it was because they would each be invested differently according to the strategy set out. This would lower

overall investment risk by spreading out the various risks amongst different tranches. If the plan should all be invested along a single set allocation split, then it should be invested as one.

- The representative had referred to the underperformance of the bond market and the positive performance of the equity market as reasons for the management having been negligent, but these could not reasonably have been predicted. It would always have been beneficial to have been invested in whatever market performed better, but this couldn't be foreseen and to sell an asset while its value was lower may lead to overall worse performance. Therefore, this service would only look at whether the overall strategy had been undertaken correctly rather than the actual performance of individual markets. If Mr P wanted control over which markets the pension was invested in, other pension products would have allowed this.
- As the value of the pension, based on its aims, lay not in the current fund value, but in the income secured under the plan, consideration could only be given as to whether the plan had been meeting its goals by looking at its performance in that specific area. The specific breakdown of the SIO1 performance from multiple years from inception to now had been provided. The Secure Income Base and the Maximum Annual Guaranteed Income had both increased from 2016 to 2025, despite the current fund value. Even when the value of that tranche reduced significantly from 2022 to 2025, the Maximum Annual Guaranteed Income increased from £1,243.07 to £1,444.17.
- Therefore, it had managed to make reasonable improvements in the value most relevant to the aim of the plan, even while the underlying fund performance had been impacted.
- Overall, the investigator was satisfied, based on the evidence provided, that the MetLife Retirement Portfolio had been managed in accordance with the terms of the pension plan. He said he appreciated the reasons why Mr P might have been concerned about the performance of the plan. But the available evidence didn't support the position that the reduction in value of a specific investment tranche had been due to any mistake on MetLife's part.
- But in any case, even if there was sufficient evidence to show mismanagement of the pension fund, as the intended value of the plan - the secure income - had increased, it wasn't in any case clear that the plan had performed poorly.

Mr P's representative disagreed, however, saying the following in summary:

- It was agreed that poor investment performance in isolation wasn't a reasonable cause for complaint. However, in this case the poor investment performance could have been avoided or at least mitigated if Mr P's pension funds had been correctly invested.
- The text from the MetLife AAA Guide covered scenarios in which:
  1. The investment has performed well and was higher than the guaranteed benefits
  2. If the investment performs well, the Growth Asset may be maintained but will probably reduce over time.
  3. Once in the Secure Asset, it was unlikely that the investment would move back to the Growth Asset.

- As such, these paragraphs didn't apply to the scenario Mr P experienced with the SIO1. All of the above points assumed the investment value was higher than the guaranteed value. In Mr P's case, the distance between the guaranteed benefits and fund value was wide, but with the guaranteed benefits much higher than the investment value. This gap only got wider due to the rebalance to 100% Secure Asset in 2022.
- The representative provided an email it received from Met Life which further explained the process for rebalancing. The entire email was based on the premise that the investment value was always higher than the guaranteed value, and that the AAA mechanism was designed to control the investment split to try to ensure the guaranteed benefits moved upwards and closer to the investment value over time.
- The information provided by Met Life only provided an explanation of how the AAA worked when the investment value was higher than the guaranteed value and how it was trying to close the gap over time by reducing equity exposure so the guaranteed value eventually caught up. In Mr P's case, his investment value for SIO1 was much lower than his guaranteed benefits and no form of explanation of why any changes are made in this scenario had been provided.
- Whilst it was accepted that each tranche had its own journey and that there would be differentials in asset allocation between SIO1 and SIO2, it was valid to highlight the huge differential in the allocation from May 2022 to May 2025 – this being over 40% in Growth Asset for SIO2 and zero for SIO1. This was a valid point in terms of it being the same client with the same selected retirement (maturity) date. Therefore, if the most important parameters were the same, it was queried as to why the investment strategies were so different.
- The investigator had said that he didn't intend to ask MetLife to take any further action as the intended value of the plan - the secure income - had increased, but the value of the plan wasn't just the Secure Income but a combination of two aspects, the potential provision of a guaranteed income but also an investment which can be used as a vehicle for drawdown over and above the guaranteed income levels and which could be transferable to another suitable vehicle.
- The performance of the Secure Income was never in doubt as the income increases each year due to guaranteed minimum increases, so it was always known what it would be. What was in question was the underlying investment which had performed poorly due to the equity exposure from 2022 to 2025 and which effectively reduced the value of the plan to provide flexible options at retirement.
- Copies of any correspondence issued at the time relating to the movement from Secure Growth to Secure Asset for SIO1 still hadn't been provided. Whilst MetLife may have said that it couldn't issue letters every time the AAA was used, such a drastic overnight move from nearly 40% equity exposure to zero would have been worth highlighting. And if this had happened, there would have been an opportunity for Mr P to consider the overall asset position and make his own decisions on the appropriateness of the investment for him going forward.

The representative requested that the matter be referred to an ombudsman for review.

The investigator confirmed to both parties that this would be done, but also responded to the representative's comments as follows:

- The representative had raised concerns that the specific reasoning given by MetLife for how the AAA was operated only applied to situations in which the investment value was higher than the guaranteed value. Whilst the investigator said that he hadn't re-reviewed all the terms of the declared strategy, if a scenario which wasn't specifically covered occurred, this service would simply expect reasonable decisions to be made in that case. But this wouldn't necessarily mean the same decisions as would be made on the other investment tranches held by the same customer.
- Generally, pension providers were free to operate their pensions schemes and strategies as they saw fit. And they could only be said to have acted incorrectly if they hadn't followed the strategy they set out. If a decision to invest in a specific plan had been made based on the stated way that plan would work, and the provider did something different, then that wouldn't be fair. But unless there was a specific term which the strategy had been advertised as working to, and which hadn't been properly followed, it couldn't be concluded that MetLife had acted unreasonably.
- Each tranche might still be held by the same person, and so it might reasonably be expected that similar decisions would be made for each, but there may be other reasons as to why specific tranches would be administered differently. The strategy was designed to maintain the guaranteed value, so it was the differences in that which could lead to larger changes in the strategies.
- The AAA strategy was clearly actively managed and many decisions had been made. Therefore, it wasn't within the investigator's remit to require an explanation of every individual decision made in the lifetime of the investment. If the plan overall appeared to be operating as expected, then MetLife would be meeting its obligations. If there was a specific decision, made at a specific point, which could be shown to be contrary to the agreed strategy, then this could be considered further. But the available evidence didn't indicate that MetLife hadn't acted correctly.
- With regard to the point about the value of the plan, it was agreed that the plan, like all pensions, held a value which could be used according to a customer's preference, or transferred as necessary. However, in this case the specific aims of this pension scheme and what it was seeking to achieve had been considered.
- The specific portfolio was named the Secure Income Option. Whilst the value that an increased underlying fund would have for Mr P was acknowledged, it wasn't unreasonable to assume that the agreed aim for anyone taking on this plan was to ensure the maximum guaranteed income value. MetLife may work to reduce its own risk in terms of providing the guaranteed value, but that was to be expected.
- This may not maximise a pension plan's transfer value, but the secure income had increased at a reasonable rate. Therefore, the intended value of this portfolio had increased as a result of MetLife's strategy, regardless of alternatives which could now be considered with the benefit of witnessing the investment growth in the other tranches.

The representative then commented as follows:

- Having reviewed all the available information provided by Met Life, there was nothing covering the scenario where the fund value was lower than the guaranteed value. It was appreciated that it wouldn't be possible to review all the tranches and strategies applied by MetLife's AAA, but only requested information on one decision for one

tranche, SIO1 for Mr P had been requested and Met Life simply saying that it was part of its normal strategy wasn't a sufficient answer to its original question.

- The investigator had further said that he would simply expect reasonable decisions to be made in that scenario, but as the question was only being asked about that one scenario, it wasn't unreasonable to be given a full answer on how the decision was made in order to see if it was reasonable or not.
- Regarding the investigator's point about a business's obligations to manage a plan in line with an agreed strategy, the absence of a stated strategy for a common scenario didn't mean that the provider could do what it wanted with impunity and without explanation.
- Only the decision actioned in 2022 was being questioned and MetLife hadn't answered this sufficiently when it could be seen that the strategy employed was different to the strategy employed for all other tranches.
- As far as the secure income was concerned, the increase rates were established at the outset and couldn't be changed regardless of whatever strategy MetLife said it was employing. So it couldn't be said that the intended value of the portfolio had increased as a result of MetLife's strategy. It was agreed that MetLife's strategy appeared to be entirely based on decreasing its own risk, but this wasn't necessarily best for the client and his options at retirement.

As agreed, the matter has been referred to me for review.

### **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.

And having done so, I've reached the same overall conclusions as the investigator, and for broadly the same reasons.

MetLife's primary obligation to Mr P was to provide a guaranteed income in line with the terms of the plan. An increased fund value would of course have been in the interests of both MetLife and Mr P, for the former in terms of having a fund value which would sustain the guaranteed income without it needing to access other resources to fund the guarantee, and for the latter in terms of having the options set out above if it was decided that a guaranteed income wasn't the best option at retirement.

But the availability of those options wouldn't reasonably subjugate the primary purpose of the plan – to provide the guaranteed income. And so it was open to MetLife to employ strategies as it saw fit to ensure, as far as possible, that the fund value would be able to provide the guaranteed income. And this was provided for with in the AAA guide. It said the following:

*“If your investment consistently performs well, exposure to the Growth Asset may be maintained throughout your lifetime. **However typically, in order to control the risk of your investment falling in value relative to the value of your estimated guaranteed benefits, Active Asset Allocation will switch your investment into the Secure Asset over time.**”* (my emphasis)

MetLife didn't need to both provide a guaranteed income and then continue to invest in riskier, growth-oriented assets so that Mr P would also have the best possible chance of

having a higher fund value as well. And it wouldn't be fair or reasonable to expect it to do so.

I've noted the point made by the representative that a full explanation for the action in 2022 hasn't been provided so that an assessment can be made as to whether such action was reasonable, but this goes beyond the consideration which this service would make here, which is whether Met Life took action which it considered was reasonable or necessary to fulfil the primary aim of the fund, which was the provision of a guaranteed income for Mr P.

It's not for this service to make a judgement on whether the actual decision it took with a particular fund – and why this may have been different to that which it took with another fund - was reasonable, so long as it could be said to have done so towards fulfilling the aim of Mr P's plan.

And having considered what happened here, with the movement into the secure asset in 2022, i.e. primarily bonds, although the actual underlying market value of the bonds may have reduced, this investment strategy would have provided a predictable yield, which would in turn provide the conditions for a secure income.

Had it instead taken action which clearly undermined the prospect of the fund being able to provide the guaranteed income to Mr P and it was effectively unable to meet that guarantee, then this is something which this service would likely seek to put right.

But that isn't the case here – MetLife took investment decisions, as it was entitled to do, which it considered would provide the best prospect of the guaranteed income being supported by the underlying fund. There was no additional assurance that the fund would be managed to provide the maximum potential transfer or drawdown value for Mr P – rather, the focus was rightly on providing the conditions under which MetLife would be able to provide the income which he'd been guaranteed.

In terms of a more comprehensive explanation of what happened here, and why investment decisions relating to different SIO tranches may have been different, I think it might also be useful to refer to MetLife's own comments to this service, as follows:

*“Mr P's pension savings with MetLife are held in a MetLife Retirement Portfolio, with an optional income guarantee called the Secure Income Option (SIO). The SIO is designed to protect a pension savers income against market falls in the run up to their retirement. It is not a capital guarantee and does not protect the underlying value of their investment.*

*MetLife uses Active Asset Allocation to manage the investment that Mr P holds in his MetLife Retirement Portfolio.*

*Active Asset Allocation is the means through which MetLife manages a customer's investment by switching between a Growth Asset and Secure Asset, personalised to them. Page 9 of the MetLife Retirement Portfolio client brochure provides a general description of MetLife's Active Asset Allocation works.*

*The way in which the MetLife Active Asset Allocation switches between the Growth Asset and Secure Asset will depend on the guaranteed benefits that a policyholder is contractually set to receive based on the version of the SIO they are invested in and the value of their investment in that version. Their asset allocation in each version, or series, of the SIO they are invested in, will be unique to each investment, though over time all investments they hold will tend to move into the Secure Asset.*

*Mr P first invested in the SIO on the 17 May 2016. This first sum of money he invested, which is managed by AAA with a maximum growth asset exposure of 40%, has the*

*Guarantee Reference SIO1.*

*This version or price series of the SIO has a 5% p.a. income deferral increase (applied daily) and guarantees to pay an income rate based on Mr P's age when investing this money in the SIO. Subsequent investments that he has made through regular premiums and lump sum investments have been in various series of the SIO, some in the same series as SIO1, others in later series.*

*In total, as shown in the table that follows, Mr P's investment in the SIO, currently has 8 Guarantee References.*

*Each of the tranches of money, SIO1, SIO2, SIO3 etc, are managed independently by AAA, their Growth Asset/Secure Asset exposure based on AAAs determination of the correct combination for that particular tranche at that moment in time. Growth Asset/Secure Asset exposure across different tranches are not harmonized by AAA, even where the investments have been made in the same series of the SIO, at different times.*

*The complainant alleges that if the Tranche SIO1 had been correctly invested as per his other tranches, we estimate the fund value of that tranche would be approximately 11% lower than the SIB.*

*The complaint is therefore based on the assumption that tranche SIO1 should have been invested in approximately the same proportions as the remaining tranches, and because it hasn't been, that it has been incorrectly invested throughout the period in question.*

*That assumption is incorrect.*

*We have received similar queries from other advisory firms with regards to how AAA works, often where they have different clients invested in the same product, with their questioning why one client's investment journey has varied from another's even though they sometimes invested in the same price series on the same day. The concerns the complainant has raised with regards to the way in which AAA has managed Mr P's SIO1 tranche are not dissimilar, with differences in investment journey for it from the other tranches in his policy being seen as an indicator that MetLife may have mis-managed that particular tranche.*

*As we highlighted in our final response, these differences are not a sign that AAA is not being operated in a way which is consistent with its design. The value of each investment tranche, and the value of the future guaranteed benefits to be provided by it, are unique to that investment tranche, each tranche will have a unique asset allocation over time, one which is driven by MetLife's commitment to pay the guaranteed benefits provided by the Secure Income Option. This is true of all individual Constant Proportion Portfolio Insurance (iCPPI) investments.*

*Active Asset Allocation automatically reviews each investment tranche daily. Each review can result in rebalancing between the Growth and Secure Assets. The Growth Asset currently invests in the MetLife Blackrock Global Growth Fund and the Secure Asset can currently invest in up to four different MetLife Fidelity Corporate Bond Funds. Each of these four funds has a different duration that help MetLife to manage the guarantee liabilities created by the income guarantee.*

*The equity allocation rates referred to are the maximum allocation and actual allocation can range from 0% up to the maximum available (within trading tolerances).*

*Rebalancing is broadly driven by the difference between the investment value of a tranche and the present value of the expected future guaranteed payments (we refer to this in our*

reply as the guarantee value) of that investment tranche.

There are many other factors that impact the guarantee value including the age of the customer when investing, the term of the guarantee, long term interest rates and the guarantee option selected. The higher the level of guarantee, e.g. higher income rates, the higher the cost of providing the guarantee.

SIO1 has a maximum growth asset exposure of 40%, a 5% p.a. income deferral increase (applied daily) and guarantees to pay an income rate based on Mr P's age when investing this money in the SIO. Subsequent price series offered lower income deferral increase rates and lower income rates i.e. 1 Aug 2016 - The Secure Income Option (SIO) deferral increases reduced to 4%.

13 Sept 2016: The Secure Income Option (SIO) deferral increases reduced to 3%, and income rates reduced.

**MetLife's estimates of the present value of the expected future guaranteed payments for tranche SIO1 are therefore higher than the other investment tranches that Mr P's holds, and AAA has managed this tranche to ensure that MetLife is able to meet its guarantee obligations.** (my emphasis)

The table below illustrates how the Maximum Annual Guaranteed Income payable by SIO has increased since Mr. P made his initial investment. It has risen from £866.54 per annum to £1,444.17, by 67%.

Subsequent investments that he has made through regular premiums and lump sum investments have been in various series of the SIO, some in the same series as SIO1, others in later series. MetLife's estimates of the present value of the expected future guaranteed payments for each of these other tranches are similarly being managed to ensure that MetLife is able to meet its guarantee obligations with regards to that tranche, each has a unique investment journey.

Asset allocations have varied throughout the period that Mr P has been invested with MetLife.

Annual Benefit Statements sent annual highlights tranches where Growth Asset exposure has reduced or moved to zero, and carries the following warning

"Active Asset Allocation manages your investment between the Growth and Secure Assets. Although the investment continues to provide you with valuable guaranteed benefits, the proportion of your Pension Pot currently invested in the Growth Asset (equity exposure) is at a level where you may wish to speak to your Financial Adviser to ensure that this investment(s) continue to be suitable for your personal circumstances. More details relative to the breakdown of the investment will be available in the Valuation Statement that can be obtained from your Financial Adviser. This will show full details of all the underlying funds being used by the Growth and Secure Assets."

The assumption upon which [the complaint] is based, that tranche SIO1 should have been invested in approximately the same proportions as the remaining tranches, and that because it hasn't been, that it has been incorrectly invested throughout the period in question, is incorrect. **The value of each investment tranche, and the value of the future guaranteed benefits to be provided by it, are unique to that investment tranche, each tranche will have a unique asset allocation over time, one which is driven by MetLife's commitment to pay the guaranteed benefits provided by the Secure Income Option.** (my emphasis)

*MetLife's Actuarial team have confirmed that tranche SIO1 has, and is, being managed by AAA in a manner which is consistent with their actuarial expectations, in a way which will ensure MetLife is able to meet its future guarantee obligations with regards to this investment tranche.*

*Since 2021, in common with many providers, MetLife has posted information on its website for policyholders and financial advisers in relation to the impact of increasing long-term interest rates, and more recently on how the uncertain economic climate and subsequent volatility may be impacting customers' investment portfolios."*

I've also noted the comments relating to whether MetLife has acted in Mr P's best interests through its strategy of reducing its own risk exposure and focusing on the provision of the stable income. But overall, I think MetLife's strategy could quite fairly be said to be investing in line with both Mr P's and other clients' best interests. Had MetLife taken different decisions which would treat both the requirement of an enhanced fund value and the guaranteed income equally, it may well find itself in a position in which a compromised overall fund with which to pay all of its clients a guaranteed income would mean that it simply couldn't meet its obligations – which would of course then affect all of its guaranteed income customers.

### **My final decision**

For the reasons given, my decision is that I don't 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 15 December 2025.

Philip Miller  
**Ombudsman**