

The complaint

Ms C is unhappy that her with-profits pension with Aviva Life & Pensions UK Limited (Aviva) has decreased in value in recent years and as she has reached retirement.

What happened

Ms C raised a complaint with Aviva as her pension has decreased in value since 2019. She is unhappy as she has reached retirement age but her pension has dropped in value and this will make her poorer in retirement. She's said she doesn't understand how a managed pension such as this one has lost value and said cash has performed better in that time. She also says she is tied to this pension as it has a guaranteed annuity rate attached to it and she wonders whether Aviva is purposely reducing the value of the pension because of this.

Aviva provided a lengthy response to Ms C explaining how her with-profits pension works and why market performance hasn't been particularly good since 2018 due to a number of factors and world events. Aviva explained the drop in value of Ms C's plan had been due to regular reviews of the final bonus that is applied to the plan but isn't guaranteed. The bonus rates falling were due to low and sometimes negative investment returns from the pooled funds that Ms C will access when she takes her benefits.

Our investigator looked into matters but didn't uphold the complaint. She said market conditions had seen poor investment returns for many over the period in question. And Aviva had explained why this had meant Ms C's fund had reduced. And that Aviva had provided us with a copy of its Principles and Practices of Financial Management (PPFM) document relating to Ms C's policy and she wasn't aware of any concerns held by the regulator about how the with-profits fund was being operated.

Ms C remained unhappy and asked how if it is actively managed can it be losing money. She said the annuity was very important to her as she had reached retirement age and her income is limited. She supplied some paperwork relating to the bonus rates and a statement about a guaranteed growth rate being applied to the policy, so she questioned how her fund could go down.

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 agree with the outcome reached by the investigator, I'll explain why.

Aviva provided Ms C with an extensive explanation of how the with-profits policy functions and what had affected the growth rates applied. I don't think it is necessary to go over the same ground as I think Aviva's explanation was very thorough.

However, I understand that Ms C still finds it difficult to understand how the value of the policy has gone down despite Aviva's explanation. Having looked at all the information provided and with the knowledge I already have of with-profits policies I don't think there is

anything unusual or untoward about Ms C's value having decreased in recent years. I appreciate this is upsetting for Ms C especially as she is wanting to take her benefits and if she does so, she will realise a lower value than she previously was quoted but unfortunately investments can go up and down.

I note Ms C has asked about the fairness of this as she reaches retirement age but her investment is an investment pooled with thousands of others. At any time the final bonus is reduced, some people who are coming up to retirement will see a reduction in value and others will be many years away, so of less importance to them. It is just unfortunate timing for Ms C and others of a similar age. But this could happen at any age or any time to all of people within the pooled investment. The value anyone leaving the with-profits fund (i.e taking money out by transferring or taking retirement benefits) needs to be a fair reflection of their share of the fund. This is why the final bonus rate can fluctuate in part based on the performance of the underlying investments. So at times of poor performance such as recently, by reducing the final bonus those taking benefits won't get a larger share than they should. If the final bonus remained high but the performance of the pooled investments was poor, the fund could run out of money to pay benefits out to those still remaining within it.

The reason Ms C's value has fallen is because the final bonus which is applied to the plan in advance (but is not set in stone until benefits are taken) has been reviewed and has decreased. The final bonus is not guaranteed and as Aviva explained is regularly reviewed. This explains why Ms C has a document stating there is a guaranteed growth applied to her plan but the value can still go down. This is because the final bonus is an addition to the base value of the plan, which is made up of the contributions plus other bonuses and seemingly a guaranteed growth rate applied to at least certain premiums. If the final bonus is reviewed and goes down, then the overall value can decrease despite other parts of the plan having a guaranteed growth rate applied.

Ms C says she is locked into the plan due to the guaranteed annuity rate and has sent us the rates that are applied. But subject to that guaranteed annuity rate being higher than what is available elsewhere, this should be seen as a positive and not a negative. When Ms C chooses to take her benefits she will be able to compare the annuity rate available from this plan with the rest of the market to make her decision about how to take her benefits.

Ms C has questioned whether the final bonus is being applied fairly in relation to her retirement. I think it might be worth explaining the context of with-profit policies and how bonuses have been applied. This may put her mind at rest that she is being treated fairly, though I understand it won't lessen the impact on her of her fund reducing in value.

In the late 80's and 90's, bonuses were applied regularly to with-profits funds and generally customers were happy with this. But shortly after the turn of the millennium, annual bonuses dropped significantly – often to zero. This was due to many factors, including a stock market decline and life expectancy increasing at a faster rate than insurers had allowed for when they'd set the level of existing guarantees. This typically led to lower growth and restricted the freedom insurers had to add further annual bonuses. Many insurers instead decided to pass on a consumer's '*fair share*' of the assets in the fund by adding a final bonus. Consumers were generally happy with the amount of discretion the insurer had when bonuses were being paid; but when there were low (or no) bonuses, more scrutiny came on the running of with-profit funds. The regulator recognised this and now requires policy providers to have and publish a document called Principles and Practices of Financial Management (PPFM) which explains how it manages its with-profits funds including the nature and extent of decisions it takes to manage the fund. And how it applies discretion to treat customers fairly. Among other things, the PPFM sets out how policy values are calculated.

Aviva is required to operate its with-profits fund in line with its PPFM and it must appoint a with-profits actuary who must comply with the rules and guidance. In addition, it has a with-profits committee which is responsible for independently assessing the way in which Aviva manages its with-profits business and how it balances the rights and interests of policyholders and shareholders in relation to its with-profits fund. The FCA also monitors Aviva's management of its with-profits fund. And I'm not aware that it has any concerns about how Aviva runs its with-profits operation or about how certain policyholders may have been treated. So, there are controls in place to make sure policyholders get a fair value from the policy but this doesn't mean that the value won't fluctuate and unfortunately reduce as has been the case here.

In conclusion, I'm sorry to hear of the impact this will have on Ms C. I understand why she is upset that her pension in retirement will be smaller due to the reduction in bonus rates applied to her policy. But I don't think is due to a mistake or anything Aviva has done wrong. It is just the nature of with-profits policies and a reflection of the performance of the underlying funds used to generate benefits for those invested in the pooled with-profits fund.

My final decision

For the reasons explained, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 28 January 2026.

Simon Hollingshead
Ombudsman