DRN-5157036

The complaint

Ms C complains that Scottish Widows Limited mismanaged her funds after she reached her normal retirement date and her lifestyle programme ended. She believes this has caused her a loss.

What happened

I set out the background to this complaint and my provisional findings in my provisional decision which is attached at the end of this decision and forms part of it.

I didn't receive any further responses following the provisional decision.

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.

As I received no further arguments or evidence, I see no reason to depart from the findings set out in my provisional decision.

For the reasons explained in that decision, I won't be upholding this complaint.

My final decision

I do not uphold this complaint and make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 17 December 2024.

PROVISIONAL DECISION

The complaint

Ms C complains that Scottish Widows Limited mismanaged her funds after she reached her normal retirement date and her lifestyle programme ended. She believes this has caused her a loss.

What happened

The investigator set out the background to this complaint, which I have included an amended copy below for context:

Ms C said that Scottish Widows' lifestyle approach had not been realigned to the new normal retirement date (NRD) appropriately which meant that her funds remained invested incorrectly. She explained that had Scottish Widows invested her pension in the Mixed Fund it would have continued to increase. She strongly believes that poor performance has been caused by mismanagement and would like those losses to be reimbursed. She also seeks compensation for the trouble and upset caused as a result of the reduction in the value of her pension.

Ms C had a personal pension with Scottish Widows invested in a lifestyle strategy. Her pension was invested in the lifestyle cautious investor annuity approach from outset. This lifestyle approach meant that she was invested into the Mixed Fund until five years before the NRD of 26 February 2020. Units gradually switched into the Fixed Interest and Building Society Fund with the aim of it to be in these two funds at a 75/25 split by the NRD.

Ms C contacted Scottish Widows on 13 January 2020 after receiving a letter about her approaching NRD, and she decided to delay the date of retirement. Scottish Widows made the retirement date amendment and issued a letter of confirmation on 14 February 2020.

Scottish Widows also issued annual statements each year following the retirement date extension. These statements clearly showed the pension being invested in the Fixed Interest and Building Society Fund.

In July 2023, Ms C received her yearly statement. It showed the value of her pension had dropped by around £29,600.

In August 2023, Ms C complained to Scottish Widows. She was disappointed with the performance of her pension and questioned as to why the funds didn't revert back to the Mixed Fund when her retirement date was extended.

Scottish Widows issued three final response letters and didn't uphold the complaint.

To summarise, the first final response letter (8 September 2023) outlined:

The lifestyle strategy was completed before Ms C had decided to delay her NRD. It said that her funds were simply moved to Fixed Interest and Building Society Funds as she approached her NRD. Scottish Widows maintained that it had applied the lifestyling strategy in accordance with how it said it would

Scottish Widows confirmed that it had provided sufficient information and the annual statements contained an in-depth explanation of which funds she was invested in and how it was linked to the NRD. It also said that when she had contacted it in 2015 about the lifestyle options, it had sent a booklet outlying the lifestyling strategies to Ms C.

While it was sorry for the fall in the value of her pension it thought this was due to the volatility in world markets and not something it was able to fully control. It said the value of the pension hadn't been guaranteed in any case.

It couldn't provide Ms C with advice about the investment of her funds and had simply invested her money according to the instructions it had been given. It wasn't allowed to move Ms C's funds. It was Ms C's responsibility if she wanted to make any changes to her investment strategy.

The second final response (1 December 2023) stated:

The funds had already moved out of mixed funds by the time Ms C decided to change her NRD. It said that it was her responsibility to check if the funds were still suitable for her circumstances.

Scottish Widows wasn't responsible for any advice around the suitability of the fund. It encouraged her to either seek advice or make amendments to her funds if Ms C no longer considered it appropriate for her retirement goals

The annual statements issued in 2021, 2022 and 2023 showed the pension was invested in the Fixed Interest and Building Society Fund. It didn't receive any instructions from Ms C to invest in the Mixed Fund.

Scottish Widows couldn't be held responsible for the performance of Ms C's pension and reaffirmed that it hadn't mismanaged her pension

The third final response confirmed the decision on the complaint remained unchanged and asked Ms C to refer the complaint to this service.

Ms C explained the basis of her complaint to us:

"….Scottish Widows should have stopped investing my funds in Interest and reverted to my original choice of 'Mixed'. After all I would not be retiring for another 10 years and the 'Lifestyle' strategy of putting my investments in so-called 'lower risk funds' no longer applied. Whilst I was advised by SW that my investments would gradually move to 'lower risk funds' 5 years prior to my original retirement date, I have never been advised that should I change my retiral date that this would continue. This lack of information has caused the problems I have experienced.

In the period January 2021 to July 2023 the 'Building Society fund dramatically outperformed

the 'Fixed Interest' Fund and indeed the 'Mixed' fund performed better than both 'Interest' funds. Despite this SW had most of my funds invested in Fixed Interest. This caused, in part, the reduction in the value of my Pension Fund…"

Our investigator looked into matters but didn't think the complaint should be upheld. He said Scottish Widows had administered the plan in-line with the lifestyling strategy. And when Ms C had called up to move her normal retirement date, it wrote to her to confirm that the funds would remain in their current state as Ms C had told it she didn't want the lifestyling to restart. Whilst Ms C contested ever receiving that letter initially, the investigator asked Scottish Widows about the letter and it was able to confirm it had been emailed to Ms C's email address. And Ms C had received statements following this date for a number of years that showed the funds that she was invested within.

Ms C in response said:

- *Since the commencement of my complaint, Scottish Widows has contended that where my funds were invested was up to me.*

- *In general terms, I would imagine that the vast majority of investors hold a totally different opinion regarding this. They do not have the knowledge or expertise to perform this task and expect Scottish Widows to make all investment decisions necessary to grow and safeguard their funds.*

- *I previously forwarded a copy from a Scottish Widows brochure which basically stated the pension fund would be suitable for people not interested in controlling their investments on a day-to-day basis.*

- *It was Scottish Widows (without consulting me) who decided to invest my funds in Fixed Interest and Building Society Interest - there were other so called "safe" investments available e.g. Pension Protector. In addition, I also had no input to the decision to putting the majority of my funds into Fixed Interest - a decision that partly caused the losses made by my pension fund.*

- *Given the above I cannot see how, in practicable terms, it was my responsibility to decide where my funds were invested. In addition, it could be said that all individual investors, who do not have an IFA, are being misled by Scottish Widows.*

- *Scottish Widows put my funds into Lifestyling as a means of protecting the value prior to me taking out an Annuity. My intention was in fact to transfer my funds to a "Drawdown". Scottish Widows never asked me what my plans were and appear to presume that everyone will go down the annuity route. This presumption is wrong.*

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.

It appears Ms C's main point is she expected Scottish Widows to make decisions for her in terms of her investments. Whilst this may have been her understanding, this isn't what Scottish Widows told her. She was invested in the lifestyling fund which was chosen at outset. In her annual statements after the lifestyling had ended, Scottish Widows said things such as:

'We have a wide range of funds and investment approaches to choose from, depending on how much risk you are prepared to take with your investment.

You can choose where you would like your plan to be invested.'

And

'ARE THESE FUNDS STILL RIGHT FOR YOU?

*You should review the funds in which your plan invests from time to time to make sure they are still appropriate for you'.**

** this was also included within statements whilst in the lifestyling approach as well.*

'Although your policy previously contained a lifestyle approach, any automatic switching of your funds has completed. As a result, you may now be invested in lower risk funds with less potential for growth. If you wish to find out more information about the different Lifestyle Approaches available to you. this can be found at www.scottishwidows.co.uk/mypension'

Prior to that point Ms C's lifestyling made pre-defined moves as she got closer to retirement into what were considered less risky funds. Ms C says her investments were decided for her by Scottish Widows, who put them in the Building Society and Fixed Interest fund without her permission. But this isn't correct, Ms C at outset chose to have her fund invested in the cautious lifestyling fund. Part of this was moving the funds in later years to these particular funds. The below screenshot is taken from the documentation completed at outset – that is signed by Ms C in 2001.

Investment of your contribution

Our Lifestyle switching option is an automatic investment strategy which we offer to our Personal Pension policyholders. Please see the enclosed leaflet called "Lifestyle Switching" for more details.

If you would like to choose our Lifestyle Switching option please complete part (1). This sets out the investment strategies we offer and details the funds available. As a slight alternative to this, we also offer you the opportunity to choose the **initial** investment fund yourself. You will find details of the funds available in the enclosed product literature. If you want to take this alternative, please indicate your choice of initial investment fund in the table in part 2.

The three options available to you are (please tick A, B or C below):

(1) A Cautious Investment Strategy
100% Mixed fund initial investment until 5 years before retirement then phased switch 75% into Fixed Interest fund and 25% into the Building Society fund. ☒

I don't disagree with Ms C that most people won't have the expertise or knowledge to actively trade funds and this is in part why lifestyling exists. But Scottish Widows couldn't make changes for Ms C's instructions without her input. And I think this ought to have been clear from its communications to her.

I think the key point to this complaint, given the losses occurred after the lifestyling had ended in 2020, is did Scottish Widows make an error in retaining her funds as they were at the end point of lifestyling? And invested in the Fixed Interest fund and the Building Society fund.

Ms C says she contacted Scottish Widows after receiving a letter saying her retirement was approaching. At that point she ought to have known what her funds were invested in; I believe this would've included within the information she received on 3 January 2020 when Scottish Widows wrote to her ahead of her retirement. And if not, it was included within the annual statements. The letter she received in January said:

'If we don't hear from you before 26th February 2020, we'll automatically extend your retirement age to 75. You'll still be able to access your pension at any time and we'll write to you every five years to remind you about your options.'

Ms C makes mention in her submissions to us of a phone call to Scottish Widows in response to this letter, but we don't have the evidence of this call. Seemingly this was on 13 January 2020 according to her submissions. Scottish Widows has since told us it sent confirmation of the updated retirement date to Ms C and has produced a letter which when shared with Ms C, she said she had no memory or record of receiving. Our investigator spoke to Scottish Widows and it said its records show it was emailed to Ms C, this was put to Ms C and she hasn't disputed this, nor confirmed it was received. The letter doesn't have an address at the top which does support that it was an enclosure within an email. The letter said:

<u>Lifestyle Investment Strategy (may also be referred to as Pension Investment Approach)</u>

At present, your policy includes lifestyle switching as part of your investment strategy. This means that as you get closer to 26 February 2020 (known as your Lifestyle Target Date), we gradually adjust and move your policy into lower risk investments in accordance with your chosen lifestyle switching strategy. The process of switching to lower risk funds will complete by your Lifestyle Target Date. Although this may reduce the growth potential of your policy, it also aims to help protect the value of your fund as you near retirement.

When you asked us to change your retirement date, you did not want us to realign the lifestyle investment strategy of your policy to your new retirement date, so your investments will continue to align to 26 February 2020. As your new retirement date is later than your current Lifestyle Target Date, this could mean you will be invested in lower risk funds earlier and for longer. Due to this, you may want to regularly review your investment or contact us if you decide you would prefer to realign your Lifestyle Target Date to your new retirement date.

For your information your current fund investment(s) are:

For your information your current fund investment(s) are:

Fund name	Fund value	% of total investment	Date of valuation
Fixed Interest	84,743.52	75.02	13 February 2020
Building Society	28,216.19	24.98	13 February 2020
Total	£112,959.71	100%	

So it appears from this evidence that Ms C had been asked in the phone call as to what she wanted to do about her lifestyling and she didn't want it to reset. Considering the contents, I am satisfied it is genuine and there is no rational explanation as to why it won't have been sent. Furthermore, Scottish Widows still having a record of it, supports it being sent as well.

Even if it did not send it or it was not received, Ms C said she had an expectation her investment would be amended but in the letter she received before she made the decision to extend her retirement date, there was nothing to suggest any re-alignment of the funds. I don't think it was reasonable for Ms C to assume her funds would be changed as this doesn't appear to be based on any information provided by Scottish Widows. And even if this was her assumption, I think it would have been sensible to check and had she done so, she would've seen that she was invested as above. Ms C received statements in the years after this point showing her continued investment within these funds but made no changes.

Customers are required to mitigate their circumstances, if this was a mistake by Scottish Widows, Ms C had the opportunity to say so. She received a statement in August 2020 setting out her investments showing the only two funds selected were as above. The statement also came with the wording included above about whether these funds were still right for her. And information about how she could change her investments.

I appreciate it must have been very upsetting to see the losses Ms C has experienced within the Fixed Interest fund but I cannot hold Scottish Widows responsible for this unless it is found to have made a mistake. These losses were experienced across the UK gilts sector due to external factors affecting the economy and aren't specific to Scottish Widows.

When Ms C first took out her plan she selected to take out a lifestyling policy as shown previously. At the time this was devised, for most people taking an annuity was the only viable option and so the lifestyling would've been designed with this in mind. Since then more options have become available such as low cost flexible drawdown policies. Ms C has said Scottish Widows shouldn't have presumed she would take an annuity and it never asked her about her plans. The above explains why her funds were in lifestyling targeting an annuity at outset. Over the years, her statements have said that she should consider whether her funds were still right for her. For example her 2018 statement said:

'This is your statement for your Scottish Widows Personal Pension Plan. This plan aims to build up a sum of money in a tax-efficient way, which will provide retirement income when you retire. Please read the documents you received at the start of your plan for more details. This statement shows what your plan was worth as at 31 July 2018, and any payments into and out of your plan. Please take this opportunity to consider whether your plan still meets your aims. If you feel that these have changed then please consult your financial adviser.'

This does let her know the purpose of the lifestyling is to provide an income when she retires but I think this could've been clearer. I would've expected it to say it is designed for taking an annuity, as income can include drawdown. But in any event in August 2019 Scottish Widows sent out a letter to Ms C that clearly stated the purpose of her lifestyling was to provide an annuity. The letter addressed to her home address said:

PLEASE REVIEW CHANGES TO YOUR PENSION INVESTMENT OPTIONS

INFO

- Your pension plan had a value of **£109,202.72** on 20/07/2019.
- It's invested in the lifestyle investment strategy **Cautious Investor targeting buying an annuity.**
- There are other investment options which may better suit your needs. Please review your plan, and let us know if you want to make changes.

Your pension plan is invested on the basis that you'll choose to buy an annuity at retirement, which would provide you with a guaranteed regular income for life. However, since the introduction of pension freedoms in 2015 there's more options available for your pension savings when you retire. Fewer people are using their pension savings to buy an annuity when they retire, more people are instead choosing to take a flexible income, cash lump sums or a combination of the options.

WHAT THIS MEANS FOR YOU

How your plan is invested now determines how much investment risk and potential growth your pension savings will have until you retire. You can change how your plan is invested at any time, but reviewing your pension now will help ensure it's invested in the right way for the choices you're likely to make.

Your plan currently has a lifestyle investment strategy based on buying an annuity at retirement. If you think you may choose to take your savings in a different way you should consider changing how your pension is invested.

We've included a booklet which tells you more about your pension and how it's currently invested, as well as the other investment options available to you and next steps if you want to consider making changes.

But Ms C made no changes to her pension or investments following this letter. As I've said previously Ms C's losses, which are the cause of this complaint, occurred after she extended her retirement date. She believes that Scottish Widow's ought to have realigned her policy but seemingly didn't check her statements following this to see what had happened. So I am not persuaded more information would've made a difference in any event.

In conclusion I do sympathise with Ms C's position but Scottish Widows couldn't amend her funds without her instruction. It gave her information about her funds and what she was invested in, prompted her to check that they were still right for her and she chose to make no changes. Unfortunately the result of this was an unexpected and historically unusual drop in gilt prices that reduced the value of her funds invested within the Fixed Interest fund quite dramatically. But I cannot hold Scottish Widows responsible for a fund going down. As this is an inherent risk with investing.

My provisional decision

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

Simon Hollingshead
Ombudsman