

The complaint

Mr C has complained about the performance of his Legal and General Assurance Society Limited (L&G) pension policy stating that this has lost around 40% of its value despite the policy being in low-risk funds.

Mr C has noted that L&G chose the underlying investments as part of the Lifestyling strategy included on his policy and take management charges, as such they should be monitoring the funds to ensure they remain low risk.

What happened

Mr C's August 2021 statement showed his policy had a value of around £65,500, and showed the pension was invested as per the Global Equity 50:50 / Consensus 10 Year Lifestyle Profile. In 2021 this investment profile divided the underlying pension monies between the Cash 3 fund, the Consensus index 3 fund and the Over 15-year gilts index 3 fund.

The statement also noted that *"You should regularly review your investment strategy to ensure it's still suitable for you. You can find more information on Lifestyle Profiles, the fund(s) available and where they are invested, including the asset classes, companies and industry sectors, in the fund factsheets"*.

In December 2021 Mr C took some of the value of his pension as a lump sum. With a fund value of around £66,000, £16,000 was taken with 25% of this tax-free and the remainder taxed as income in that tax year.

The August 2022 statement showed a value of around £39,500. The profile remained the same (Global Equity 50:50 / Consensus 10 Year Lifestyle Profile) and the three underlying investment funds also remained the same – however proportion of the pensions total value in each fund had altered, with significantly less in the Consensus 3 fund and more in the Over 15-year gilts index 3 fund.

Following receipt of the statement Mr C queried the value with L&G. Mr C stated that he had assumed the monies would be in low-risk funds and that given he was paying management charges each month the investment managers should have taken action to mitigate such losses.

L&G explained that market conditions in 2021 and 2022 had led to the poor performance and reduced value of the Over 15-year gilt index fund. Higher than expected inflation, increasing interest rates and improved investor confidence in equities had led to outflows from funds such as the Over 15-year gilt index fund which led to reducing values. L&G stated that whilst they appreciated the reduction in value would be disappointing and worrying to Mr C, the pension had not been mis-managed, and it was not possible to shield investments from unexpected market volatility.

Unhappy with this response Mr C upgraded his query to a complaint.

L&G's response to this re-stated that there were significant global issues impacting investment markets that L&G were unable to shield the pension from.

It was explained that the Lifestyle strategy was intended for those who were planning on purchasing an annuity at retirement with the strategy moving the pension towards gilts and cash funds as retirement approached. L&G also stated that the pension statements sent to Mr C each year showed how the money was invested and the performance of those investments. The statements explain that the policy holder should regularly review their investment strategy to ensure it remains appropriate and that Mr C retained the right to change any investments he was unhappy with at any time.

It was additionally explained that whilst management charges were payable, these were not paying for an actively managed pension fund, rather the underlying investments were linked to passively managed tracker funds.

Mr C did not agree and referred his complaint to this service in March 2023.

Our investigator looked into things but did not believe L&G had done anything wrong.

The investigator noted that the policy had been managed and invested in line with strategy which had been selected at outset. The Lifestyling strategy selected when the policy commenced in 2011 had been implemented as intended with the underlying pension monies being moved away from equity-based growth funds towards gilt and cash-based funds over the ten years prior to retirement.

Unfortunately for Mr C, these asset classes had suffered drops in value due to worldwide investment market conditions in 2021 and 2022, however L&G could not be held responsible for this. L&G had provided Mr C correct information about the policy and how this worked and had updated him within his annual statements which showed policy values and the underlying investments held within the pension.

Additionally, whilst Mr C always retained the right to amend the underlying investments as he saw fit, L&G could not make changes to how the pension was invested (outside of the already agreed Lifestyling process) without instruction from Mr C.

With regard to the charges that had been levied by L&G our investigator concluded that these were reasonable and in line with the terms and conditions of the policy. There was no evidence that L&G should have been actively managing Mr C's policy with the charges levied being the normal annual management charges taken to cover the running and administration of the policy.

Mr C did not agree stating that he could not see how low risk investments could lose such value without the company selling those investments having some responsibility to mitigate the risks. Mr C also did not accept the fact that L&G could not make changes to the policy without his authorisation if it were necessary to maintain the low risk profile of the pension.

The investigator was not minded to change their findings and as such the case has been passed to me.

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.

Overall, I have reached the same outcome as our investigator and for the same reasons as

outlined in the findings issued.

When the policy was set up in 2011, the Lifestyling option was selected. This meant that the monies within the pension would automatically be moved towards typically lower risk investments within the final 10 years as Mr C moved towards his selected retirement age. No additional policyholder authority was required for these investment changes as this is what had been applied for originally. Whilst this was intended to reduce the level of risk associated with the pensions monies which had been built up, there remained a level of investment risk and the possibility of losses being incurred.

Unless informed otherwise by the policyholder it is entirely reasonable for L&G to manage the pension as it was originally applied for. Policyholders are informed of changes to the underlying investments held within the pension in their annual statements, with the statements from 2021 and 2022 showing more of Mr C's monies being moved into the 15-year gilts index fund in line with this strategy.

Additionally, the statements issued to Mr C make it clear that the investment strategy itself should be checked regularly to ensure it remained appropriate for his retirement plans. As such, if Mr C no longer felt like a Lifestyling strategy was appropriate for his needs he could have contacted L&G at any time to make changes to the underlying investment strategy.

Given the above I consider it entirely reasonable that L&G moved Mr C's pension monies into the investment funds noted above as he approached retirement.

Gilt and bond funds are considered lower risk funds than those which include equity-based investments, and it is commonplace for pension providers to utilise such funds for lower risk customers.

However, in 2021 and 2022, funds which target investment returns through gilt and bond investments were unusually volatile with many suffering significant losses. As described by both L&G and our investigator, this was due to unforeseen global issues such as the war in Ukraine and the economic impact of the Covid-19 pandemic which have led to increasing inflation and interest rate rises, these in turn have negatively impacted the value of gilt based investment funds.

It is unfortunate that these issues have significantly impacted gilt funds such as the Over 15-year gilts index 3 fund at a time when the majority of Mr C's L&G pension fund was invested in that fund, however I do not consider it reasonable to hold L&G accountable for the performance of the fund nor the losses incurred.

As per the investigators findings it would not be possible for L&G to make changes to the underlying investments held within the pension without instructions or authority being provided by Mr C. The changes made via the Lifestyling process were agreed at outset however it would not be reasonable to expect L&G to make changes outside of this agreement, as L&G would have no way of knowing if Mr C's objectives or attitudes had changed since the policy commenced.

With regard to the fees levied by L&G, the annual management charge levied pays for the administration of the policy. Tasks such as the collecting and investing of the premiums, reporting on the pension to HMRC where required, and the issuance of statements are all paid for by this charge.

The charge does not mean L&G have a responsibility to make sure the pension remains suitable for Mr C, nor does it mean L&G have a responsibility to actively manage the pension based on investment market movements. All of the evidence on file shows that L&G have

undertaken all the responsibilities required of them in the administration of the policy in a fair and reasonable way, and in line with the terms and conditions of the policy

Overall, and as detailed above, I have reached the same conclusion as our investigator. I am not upholding this complaint and do not require any further action from L&G.

My final decision

As per the rationale above I am not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 19 October 2023.

John Rogowski
Ombudsman