DRN-4303086

The complaint

Mr H complains that Scottish Widows Limited has failed to effectively manage his pension investments, resulting in them suffering a large fall in their value.

What happened

Mr H holds pension savings with Scottish Widows in two separate pension plans. This complaint only relates to the savings Mr H holds in the pension plan **312. In this decision, when I refer to Mr H's pensions savings, or his pension plan, I am only referring to those held in that plan.

Mr H's pension plan started in September 2013 and since that time it had received contributions from Mr H's employer. The pension savings were invested using one of Scottish Widows' Pension Investment Approaches ("PIA"). In the case of this plan the approach that was being used was Balanced – Targeting Annuity. Mr H's retirement date had been set as his 65th birthday in May 2022. But although Mr H later amended that date to the following year, he instructed Scottish Widows to leave his investment strategy unchanged. Mr H said he took that decision in order to leave his pension savings invested in a low-risk strategy.

The lifestyling features of the PIA meant that, as Mr H approached retirement, his pension investments would automatically be switched into specific investments targeted to provide the best outcomes for his retirement. So, in Mr H's case, that meant by May 2022 his pension savings were invested across two Scottish Widows' funds – a Pension Protector fund, and a Cash fund. Those funds were designed to mirror movements in the price of annuities, allowing a degree of protection for Mr H's retirement income from changes in the investment markets.

In the latter part of 2022 a number of market changes were experienced. They resulted in a fall in the cost of annuities. And, as Scottish Widows says might have been reasonably expected, they saw a fall in the value of Mr H's pension savings. Mr H complained to Scottish Widows about the way it had managed his pension investments.

Mr H's complaint has been assessed by one of our investigators. She didn't think that Scottish Widows had done anything wrong that had led to a fall in the value of Mr H's pension savings. She thought that the fall in value was due to market conditions, and regardless of how low risk investments might be there is always risk, and growth can never be guaranteed. So she didn't think that the complaint should be upheld.

Mr H didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr H and by Scottish Widows. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

I think it is important to first set out the basis of the relationship between Mr H and Scottish Widows. Mr H's pension had been with the firm for many years, and his pension investments are set via a lifestyling approach. That meant that Mr H's pension investments altered as he approached his normal retirement age to reduce their risk. But as I said above, in 2022, Mr H agreed that his retirement date should be deferred by a year, but that the investment approach should remain unchanged. So his pension savings remained in the funds that they had been placed into in anticipation of his retirement.

Scottish Widows is not Mr H's financial advisor. So it simply acts on the instructions he provides. It isn't for Scottish Widows to ensure that any investment decisions are suitable for Mr H's needs – those were essentially decisions he needed to make for himself. And I have seen that Scottish Widows' website (or by post on request) provides comprehensive information for investors about the range of funds that are offered.

Mr H's pension savings were targeted to provide him with an annuity at retirement. Scottish Widows set out in its literature how the investments would be changed in the 15 years leading up to Mr H's selected retirement date. I appreciate that Mr H didn't start saving with Scottish Widows until around nine years before his retirement. But that simply meant that his investments entered his pension plan at the appropriate stage of its lifecycle. And, as would be expected for his selected approach (Balanced – targeting annuity) by the time his retirement age was reached, the pension savings were entirely invested in the Pension Protector and Cash funds. I have noted that Mr H held another pension plan with Scottish Widows that followed an alternative approach – targeting flexible access. But that approach wasn't mirrored on the plan that is the subject of this complaint.

The information that Scottish Widows provides for the Pension Protector fund gives a general description of its objectives. It says it is intended to "*provide a return consistent with the variations in market annuity rates with the aim of reducing annuity conversion risk*". And it goes on to further explain that "*The Fund Manager will aim to reduce the risk of annuity conversions, the fund management strategy may change in line with market annuity rates and fixed interest yields. Investment in the asset classes will be direct and indirect using derivatives to seek to meet the Fund's aim*."

Mr H is right that the aim of the lifestyling switches was to reduce the risk in his pension investments around the time of his retirement. But the risk that was managed by this investment fund wasn't against a fall in the cash value of his pension savings. As Mr H has unfortunately seen, the value of his pension savings have fallen greatly. The fund was designed to ensure that, at retirement, any variations in the amount of annuity income Mr H could purchase with his pension savings would be minimised.

I appreciate that Mr H has said that his intention wasn't to use his pension savings to purchase an annuity, so the investment approach appears to have been unsuitable for his needs. But I've not seen anything to suggest that he told Scottish Widows that was his intention in the years leading up to his retirement. When he first took out his pension plan, taking an annuity was the only option available so that would have been the approach taken at that time. And the annual statements sent to Mr H clearly showed the changes in his investments were following the "targeting annuity" glidepath. As I've said earlier, it wasn't for Scottish Widows to check whether the investments Mr H held were suitable for his circumstances.

There is no doubt that the performance of Mr H's pension investments will have caused him great disappointment. During 2022, the value of his pension investments fell. But those falls mirrored falls across a whole range of investment classes and were entirely outside the control of Scottish Widows. The information provided to investors about the funds into which Mr H's pension savings were invested clearly set out that their values weren't guaranteed, and might fall.

Given that Scottish Widows was not providing Mr H with any advice about his pension savings, it would not have been appropriate for it to contact him specifically about the change in value of any of his underlying investments. Doing so might reasonably lead a consumer to consider that Scottish Widows was recommending a change in the chosen investments. Information about the value of a pension investment is readily available either through online reporting, or from Scottish Widows directly.

So I don't think that I should hold Scottish Widows responsible for general falls in the market value of investments. I am satisfied that the underlying portfolio that supported the lifestyle portfolio into which Mr H's pension savings were invested was suitable for that level of risk and its specified use to purchase an annuity. But, in 2022 in particular, there was uncommon volatility in those asset classes that led to the falls in value Mr H experienced. Those could not have been reasonably anticipated, and so wouldn't have been mitigated by any investment approach that was taken by Scottish Widows.

Ultimately it fell to Mr H to monitor his pension investments, and instruct Scottish Widows to make changes to his portfolio if he felt it had become unsuitable for his circumstances.
I think that Scottish Widows has met its obligations in the information it provided to Mr H whilst he held his pension investments.

I appreciate that my decision will be disappointing for Mr H. But I don't think that Scottish Widows has treated him unfairly, or done anything wrong. So I don't uphold his complaint.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Scottish Widows Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 30 October 2023.

Paul Reilly
Ombudsman