DRN-4372198

Financial Ombudsman Service

The complaint

Mr J is unhappy with ReAssure Ltd, believing they failed to properly manage his pension funds, causing a loss in their value.

What happened

Mr J had a personal pension with Legal and General Assurance Society (L&G). On 7 September 2020, his policy (along with many others) was migrated across to ReAssure Ltd. Mr J's intended retirement date (NRD) when he originally took out the policy was in May 2020, when he reached his 60th birthday.

In the period leading up to his NRD, L&G wrote to Mr J to provide an update on his policy, and the way in which his funds were being, and had been, managed by them. Their letter of 30 January 2020 said as follows:

> "*all [his] money is currently invested in the Adventurous Lifestyle Profile, which consists of a combination of the Managed Fund, Fixed Interest Fund and the Cash Fund"*

It goes on to say that Mr J's automatic lifestyle switch is due to take place on 31 March 2020, and that as he approaches his retirement date, his investment will gradually be switched each year into more secure funds, as part of the 'lifestyling' process. And on 25 February 2020, L&G wrote again to Mr J to explain that, as he is approaching his NRD, he needs to contact them to discuss his pension. Its' value at that time was £41,600.48.

Mr J decided to work beyond his NRD. On 5 November 2020 (post-migration), ReAssure sent their Annual Review letter to Mr J, confirming the value of his pension at that time (£41,138.15, up from £40,806.40 the previous year). Further annual review letters were sent in 2021 and 2022, recording fund values of £39,723 and £33,521 respectively.

ReAssure sent a further letter to Mr J on 21 June 2023, highlighting the risks that his policy value could decrease because he was holding a large proportion of his funds in a "cash-like fund". They invited him to consider whether to keep his funds 'in cash' or explore other fund switch options to better reflect his risk appetite at that time.

This prompted Mr J to contact ReAssure. He expressed his unhappiness with the drop in value of his funds. He also questioned whether his policy had been switched into more secure investments, as he had expected to happen as he approached his 60th birthday. He complained to ReAssure in June 2023.

ReAssure initially told Mr J on a phone call there was no evidence that any 'lifestyling' had occurred on his policy, as per notes provided by L&G when the policy migrated. ReAssure also explained to Mr J that one of the funds he was invested in had dropped by 22% in 2022, which accounted for the overall drop in his fund at that time.

ReAssure further advised they hadn't found any evidence to suggest his policy should still be invested within L&G's 'lifestyling' profile. They also advised that Mr J's policy had been subject to a 'lifestyling' process between March 2010 and March 2020, when it terminated. ReAssure offered Mr J the option of moving his funds into their own 'lifestyling' profile if he wished, providing a link to their website. But ReAssure did compensate Mr J, sending him a cheque for £300, because previous communications had been misleading.

Unhappy with ReAssure's response, Mr J brought his complaint to our Service. However, one of our Investigators didn't think ReAssure had done anything wrong. He explained that L&G had already undertaken the 'lifestyle' process between 2010 and 2020, meaning Mr J's funds had already been moved to 'safer' investments. So when ReAssure took over Mr J's policy, the 'lifestyling' had already been completed and there was nothing further for ReAssure to do.

He also explained that the value of Mr J's policy had dropped in 2022 because of 'world events' that negatively impacted the financial markets at that time – something beyond ReAssure's control. But he agreed that L&G's letter was confusing and believing Mr J had accepted ReAssure's offer £300 compensation for the distress caused by this, made no further compensation award.

Mr J was unhappy with our Investigator's conclusion. He said he wasn't happy with the compensation paid and had accepted it on a 'without prejudice' basis only. He didn't accept that his pension funds could have made such a big loss if they were invested in fixed interest products. And he didn't believe that his funds *had* been invested in safer funds, as they should have been. He also questioned why his retirement date had been moved to his 75th birthday, and wondered if that may explain why his pension hadn't been moved to safer funds.

Our Investigator responded to these points, but Mr J wanted his complaint to be considered afresh by an Ombudsman – so it's been passed to me for that purpose.

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.

Mr J appears to believe that his pension wasn't placed in a 'lifestyle' process during the time that L&G were still managing it. I'll address that issue first.

'Lifestyling' – and evidence Mr J's policy had been subject to a 'lifestyling' process

When a consumer with a personal pension is approaching their intended retirement date, their pension provider is required to begin a process of moving the pension investment mix into 'safer' investments. This is to help minimise the risk of a consumer's pension from being adversely affected by unforeseen events in the years leading up to retirement – helping to maintain its value, rather than risk sudden losses that can't be recovered in the short period before a pension is taken. This process is known as 'lifestyling'.

Mr J's pension was with L&G. His NRD was his 60th birthday, in May 2020. So L&G were required to gradually alter his investment mix – or, undertake 'lifestyling' – in the years leading up to his NRD. And, from what I've seen, I'm satisfied this is what they did do. So, when Mr J's policy migrated to ReAssure, the investment mix had already been through L&G's ten-year 'lifestyle' process. His funds were invested in cash and low risk products at that time. A closer look at the yearly statements Mr J received from ReAssure confirms this.

ReAssure's 5 November 2020 Annual Review letter provided details (amongst other things) of which funds Mr B's policy was invested in, as follows:

Fund	Unit Price	Number of Units	Your value
Fixed Interest 6 Pension Accumulator Series 06	43.63	705.28	£30,769.96
Cash 6 Pension Accumulator Series 06	11.65	890.28	£10,368.20

ReAssure's yearly review letter the following year, dated 5 November 2021, recorded a small drop in fund value to £39,723.87, with funds invested as follows:

Fund	Unit Price	Number of Units	Your value
Fixed Interest 6 Pension Accumulator Series 06	41.67	705.519	£29,397.57
Cash 6 Pension Accumulator Series 06	11.60	890.581	£10,326.30

And their yearly review letter dated 5 November 2022 recorded a further drop in fund value to £33,521.53, with funds invested as follows:

Fund	Unit Price	Number of Units	Your value
Fixed Interest 6 Pension Accumulator Series 06	32.82	705.519	£23,151.61
Cash 6 Pension Accumulator Series 06	11.64	890.581	£10,369.93

What is clear from each of these letters is that Mr J's investment mix had remained constant – the number of units held in each of the investment funds had remained the same. The value of the 'cash' funds had remained constant in monetary terms. And whilst the value of the Fixed Interest funds had fallen, the number of units held had remained constant.

As I said above, the purpose of 'lifestyling' is to place investments in 'safer' funds, and by the time of a consumer's NRD, you'd usually expect an investment mix to include at least 25% of 'cash' holdings. This is to reflect the fact that a consumer is entitled to take up to 25% tax free cash when they take their pension, so having quick access to cash (equivalent to at least 25% of the total value of a pension pot) is necessary.

This contrasts with the investment mix that you'd ordinarily expect to see in the years prior to retirement, when a pension company would be actively seeking to invest in funds that will achieve growth. There would be minimal exposure to cash investments during that 'growth' period.

Here, it can be seen that in 2020, Mr J's fund value amounted to just over £41,000. And just over 25% of that was held in 'cash' funds. This is clear evidence that Mr J's pension had been through a 'lifestyling' process in the years leading up to this date. And it remained constant in the following years.

I've also looked at ReAssure's website and can see the 'Cash' fund has a risk rating of '1', and the 'Fixed Interest' fund has a risk rating of '2'. ReAssure explain that they rate their funds on a 'scale of riskiness [decided by them], with one being the lowest rating, and six the highest. So, as well as the cash fund being the lowest possible risk, the fixed interest one is also a low-risk fund – confirming that Mr J's pension was in low-risk funds from at least 2020, in keeping with the 'lifestyling' requirements that ReAssure (or more precisely, L&G before them) were required to implement.

Drop in fund value in 2022

It's clear from the annual review letters provided that Mr J's pension remained fairly constant in value between 2019 (£40,806) and 2021 (£39,723). This was at a time when his pension funds had been moved to the 'safer' funds mix after 'lifestyling' had taken place. And as explained, this would have been done in anticipation of Mr J taking his retirement benefits when he reached his NRD on his 60th birthday (in May 2020).

Mr J didn't take his retirement benefits when he reached his NRD, and the funds remained invested in these 'safer' investments in anticipation of him choosing to take his retirement benefits at a future date. But even though the funds were invested in low-risk investments, it doesn't mean they were risk free. The non-cash element of his investments would still have been subject to movements in the financial markets caused by external events, and particularly how the movement in interest rates affected the market for UK bond prices (which accounted for the majority of the investments in the 'fixed interest' fund). And this is what has happened here – there was significant turmoil in the markets in 2022 caused by world events, resulting in sharp interest rate rises.

I appreciate Mr J is unhappy the value of his 'fixed interest' investment fell by £6,246 (or just over 21%) – seeing his pension value fall by that much must have come as a shock. But as I've explained above, the fall in value of those investments wasn't something ReAssure had any control over. So I can't hold them responsible for the drop in value Mr J's pension experienced during this time.

I should also highlight that Mr J's investment mix was designed to be used for his (relatively) immediate retirement after he reached his NRD. However, Mr J didn't retire then, which of course was entirely his choice. But all of the annual review letters ReAssure sent to Mr J after his NRD did explain how he could review his investment – to check his funds were invested according to his attitude to risk – mentioning ReAssure's website address which could be used to find this information. The letters said:

> *"You should always make sure the funds you're invested in match your attitude to risk and what you have planned for your money….If you stay invested in low risk funds too long you may miss out on strong growth in financial markets and your policy could become more vulnerable to the effects of inflation"*
>
> and
>
> *"If you're not sure about what funds to invest in, you should seek guidance or independent financial advice".*

It's important to recognise that ReAssure weren't able to give Mr J advice – they weren't his pensions advisor, and simply held the policy (ready to pay out) that he took out with L&G. And I think their letters were suitably clear that it was up to Mr J to make enquiries if he wasn't happy with the performance of the funds he was invested in.

Taking all of the above into consideration, I can't fairly conclude ReAssure were responsible for the loss in value of Mr J's pension funds, and so won't be asking ReAssure to do anything further in relation to the drop in value of Mr J's policy.

Extending Mr J's NRD pension age until his 75th birthday

ReAssure's letter to Mr J dated 25 February 2020 – asking him what he wanted to do with his pension as it was only eight weeks before his original NRD – said the following at page 2:

> *"If we don't hear from you before your selected retirement date your plan will continue to be invested…unless you contact us to choose a new selected retirement date"*

Here, I'm unaware Mr J contacted ReAssure after his original NRD passed. When he chose not to retire, ReAssure's systems defaulted Mr J's NRD to his 75th birthday. This is common practice where a consumer doesn't retire at his (policy defined) NRD, and where a consumer hadn't expressly advised the pension provider that he would be retiring at a particular later date. It doesn't mean Mr J has to wait until he is 75 – he can contact ReAssure and choose to retire at any time. And of course, it's open to him to contact ReAssure and explore changing his investment mix – ReAssure have said he is able to consider their own five-year lifestyle process – if he intends to wait further until he retires.

Distress and inconvenience

ReAssure have accepted that L&G's letters were confusing, and I agree. I can understand how Mr J would have thought he was being told that his lifestyling process hadn't yet started by the time of their 2020 letters. So, whilst the content wasn't strictly incorrect – just confusingly worded – it did cause Mr J distress.

ReAssure offered (and paid) Mr J £300 for that distress. I appreciate what Mr J has said about the basis on which he accepted this sum. However, I think the sum does fairly reflect the distress that he was caused. I must explain that distress awards aren't meant as a punishment for a business. And where this organisation makes a compensation award for distress, these tend to be fairly modest in nature. Our website has guidance on the sums we award. Here, I think what ReAssure have already paid is fair – bearing in mind those guidelines – and so I won't be asking ReAssure to do anything further here.

My final decision

For the reasons outlined above, I don't uphold Mr J's complaint against ReAssure Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 29 December 2023.

Mark Evans
Ombudsman