DRN-3871048

Financial Ombudsman Service

The complaint

Mr C complains Aviva Life & Pensions UK Limited ('Aviva') didn't properly manage the investment in his group personal pension ('GPP'), causing him a financial loss.

What happened

In 2012, Mr C joined an Aviva GPP through his employer. The illustration Aviva gave Mr C at that time said he'd chosen a 'lifestyle investment approach' and explained how his fund investments would be switched over time.

Mr C was due to reach his chosen retirement age in 2023. In May 2022, Mr C contacted Aviva as he was unhappy his pension's value had fallen significantly since December 2021. And he asked why most of his pension was invested in medium-to-high risk funds rather than low risk funds and thought Aviva should have told him if the risk rating had changed.

Aviva treated this as a complaint. It told Mr C that, in line with his lifestyle approach, most of his pension was now invested in its 'long gilt' fund. But it wasn't immune to risk, and increased inflation and interest meant gilt values had fallen. Its risk rating for gilts was historically 2 out of 7, but this wasn't guaranteed and could change. And while it administered Mr C's pension funds, it was Mr C's responsibility to make sure they remained suitable for him. Aviva said Mr C could change the funds his pension was invested in if he wanted, but recommended he seek financial advice first.

Mr C brought his complaint to our Service. He accepted Aviva had invested his pension funds in line with the lifestyle approach but thought Aviva should compensate him for investing them in higher risk funds than it should have under the lifestyle approach.

Aviva told our Service its response to Mr C's complaint had been incorrect to say its long gilt fund historically had a risk rating of 2 on a scale of 1 to 7. Aviva clarified that the risk rating had been 5 out of 7 since 2018/19, when Aviva changed its risk rating scale – it was not the case that Aviva had assessed the fund's risk as intrinsically higher.

Our Investigator said Aviva hadn't made an error. She said Mr C's plan was set up with a lifestyle approach and started prior to 'pension freedoms' being introduced in 2015 when other flexible options weren't available. So the lifestyle approach's goal was to invest for an annuity purchase, as gilts have an inverse relationship with annuities - when interest rates increase, the value of gilts go down and annuity rates go up. Our Investigator said unforeseeable global events had affected many investments, including safer options such as gilts. And Aviva wasn't required to advise or warn Mr C about this.

Mr C disagreed. He said Aviva emphasised to him in 2012 that his pension would be invested in low risk funds as he approached retirement, so that unforeseen events wouldn't have such an impact. But he thought Aviva had instead increased the risk rating of its long gilt fund without warning him.

Our Investigator said it was the responsibility of Mr C or his adviser to ensure Mr C understood his pension plan, its investments and their risk ratings. And that Aviva was only required to hold and manage the funds in line with the plan's terms and Mr C's instructions.

Mr C still disagreed. He said Aviva had left him thinking the long gilt fund's risk rating was being monitored so that significant losses wouldn't happen in the final years. And Aviva should've told him if the risk rating had changed and if losses were likely, so he could either make a decision about this himself or seek financial advice.

As agreement couldn't be reached, this complaint was passed to me for a 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.

Having done so I am not upholding the complaint. I realise this will be very disappointing to Mr C, but I'll explain my reasons.

It's not disputed that at the start of Mr C's pension, a lifestyle approach was chosen. These are used to manage investment risks as a customer's retirement age approaches. Over a number of years, they gradually move investments out of equity type assets and into cash and fixed interest assets, such as gilts – because, generally speaking, investments like this are less volatile and lower risk over the long term than equity assets. Mr C has provided us with a copy of the 2012 illustration Aviva gave him, which explained what lifestyle approach he'd be invested in and set out how his pension investments would be switched over the years to his chosen retirement age.

Mr C accepts Aviva invested his pension in line with the lifestyle approach he chose in 2012. As that's not in dispute, I don't need to consider it further. Instead, I'll focus on the crux of Mr C's complaint - that Aviva invested his pension in higher risk funds than it should have under the lifestyle approach.

Mr C says Aviva told him in 2012 that his pension would be invested in 'low risk' funds as he approached retirement. This may have been Mr C's understanding, but I'm satisfied Aviva made clear to Mr C that it would move his pension investment into 'more cautious' funds, which is not the same as low risk. I say that because the 2012 illustration Mr C has provided says, *"You've chosen to invest in the [GPP] Profile 3 approach. The Lifestyle investment approach automatically moves your pension investments as you approach retirement. The aim is to invest in funds with the potential for growth in the early years, and then gradually move your money into more cautious funds as you approach retirement."*

As I say, the lifestyle approach is used to manage investment risks as a customer's chosen retirement age approaches. But even then, risk is not eliminated. In certain situations, fixed interest investments can fall in value sharply. Unforeseeable global events meant that the value of gilts fell, and 75% of Mr C's pension fund was invested in gilts in line with his chosen lifestyle approach. So I'm satisfied that the fall in value Mr C unfortunately suffered wasn't due to any error by Aviva. The fund appears to have achieved similar returns to the appropriate benchmark indices, indicating it didn't perform any worse than comparable funds.

Mr C is concerned that Aviva increased the risk rating of his long gilt fund and didn't warn him of this. I note Aviva's final response letter incorrectly said its gilt risk rating was historically 2 out of 7, and this unfortunately seems to have caused some confusion. I've been provided with copies of Aviva's long gilt fund fact sheets across the years. And the fund fact sheets from 2018 (the year Mr C's lifestyle approach would start to switch his investments into the long gilt fund) onwards show the risk rating was 4 out of 5 before changing to 5 out of 7 when Aviva widened its risk rating scale. So its long gilt fund risk rating has remained broadly the same over that period, albeit using a wider risk scale.

But regardless, Aviva isn't responsible for monitoring its risk ratings on Mr C's behalf and warning him about changes, as Mr C suggests. Aviva is responsible for administering Mr C's pension in line with his chosen approach. It is for Mr C to monitor his investments to make sure they are suitable for him, and I think Aviva took reasonable steps to draw Mr C's attention to this, as I can see the annual statements Aviva sent to Mr C in 2019, 2020, 2021 and 2022 made clear:

- His pension fund value wasn't guaranteed and could still go down as well as up.
- Mr C could read about his funds and their performance using the link provided to the Aviva website.
- Which funds Mr C's pension was invested in, and that he should review these fund choices regularly to check they were still right for him, as how his money was invested could make a big difference to his final pension pot.
- Aviva offered many different funds to choose from, with different levels of risk and reward, and Mr C could explore these online using the link provided.
- Mr C should speak to a financial adviser if he was in doubt about any changes, and gave details of how to find one.

In summary then, I don't think Aviva has made an error or treated Mr C unfairly. It was for Mr C to check his pension investments were suitable for his requirements and he could have switched his funds if he thought that suited his particular circumstances at that time.

My final decision

For the reasons set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 11 August 2023.

Ailsa Wiltshire
Ombudsman