# Ombudsman's Determination

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| Applicant | Ms K |
| Scheme | Citibank (UK) Pension Plan (**the Plan**) |
| Respondent | CG Pension Trustees Ltd (**the Trustee**) |

## Outcome

1. I do not uphold Ms K's complaint and no further action is required by the Trustee.

## Complaint summary

2. Ms K has complained that the Trustee did not provide sufficiently clear information in its leaflets, (**the SNAP Communications**), about the changes to the Plan's default investment fund and lifestyle investment approach (**the Investment Changes**).

3. Ms K has contended that if the Trustee had made it clear that around half of her existing investments would be switched in one go from equities to gilts and corporate bonds, she would have opted out of the Investment Changes and not suffered a considerable financial loss.

## Background information, including submissions from the parties

4. Ms K's 55th birthday was in December 2015.

5. She is a member of the Defined Contribution Section of the Plan.

6. In April 2015, the Government made changes to the taxation regime for registered pension schemes so that individuals aged 55 or over with defined contribution pension savings could withdraw those savings as they wished, subject to their marginal rate of income tax and scheme rules. These changes were generally referred to as "pension freedoms."

7. Following the introduction of "pension freedoms", the Trustee decided to replace the default lifestyle investment approach of the Plan with three alternative lifestyle approaches. The changes were made after the Trustee had taken appropriate investment advice to ensure that a member's pension savings were invested consistently with how he/she would most likely choose to withdraw them.

8. The Trustee made certain assumptions about how members would withdraw their pension savings based on their "pot" sizes when implementing the Investment Changes. In Ms K's case, she was categorised as likely to access her pension savings using income drawdown at age 60 instead of purchasing an annuity. The SNAP Communications sent to Ms K reflected these assumptions.

9. In April 2016, the Trustee sent Ms K a leaflet entitled "SNAP- For Bringing Your Investments and Spending Plans Together" to inform her that it was:

- changing how pension savings would be invested in the Plan from June 2016; and
- introducing new "ready-made" investment approaches to give her more choice.

10. In May 2016, the Trustee provided Ms K with further details of the changes being made in another leaflet with the same title. Relevant paragraphs from this leaflet are displayed in the Appendix below.

11. In particular, the May 2016 leaflet showed that:-

- The Trustee had introduced two new lifestyle investment approaches which Ms K could follow if she wished to take her pension savings as cash or income drawdown. It was also updating the current annuity lifestyle investment approach.

- When a member's retirement was many years away, all three lifestyle approaches would be invested in the same way in assets such as shares (equities). Ten years before a member reached his/her "Target Access Age", that is, when he/she wanted to start accessing his/her pension savings, the lifestyle approaches would enter their initial pre-retirement phase, gradually reducing the proportion held in equities and introducing fixed interest investments.

- With five years to go, the three lifestyle funds would start to adopt different strategies depending on whether they were preparing for a member to take cash, receive income via drawdown or purchase an annuity in retirement.

- According to a graph illustrating how the proportion invested in different funds would gradually change during the ten years prior to a member's Target Access Age under the drawdown lifestyle approach, when a member was five years away from his/her Target Access Age, his/her pension savings would be invested equally in an equity growth fund and a pre-retirement fund comprising mainly of fixed interest assets.

- The Trustee did not think it was likely that Ms K would want to buy an annuity at age 60. It considered that she would instead prefer to draw the funds available to her, once transferred to her chosen pension provider, from age 60 using income drawdown.

- As Ms K's pension savings in the Plan were currently invested in an annuity lifestyle approach, they would consequently be switched automatically in June

2016, into investments that fit with an income drawdown approach and a Target Access Age of 60 unless she told the Trustee otherwise.

- If Ms K did not want this automatic switch to take place, it was open to her to select a different Target Access Age or a different investment approach by completing and returning the relevant form before 24 May 2016.

- From mid-June 2016, Ms K could access the members' online portal, "Ben Pal", and alter her investments in the Plan if she had changed her mind.

- Ms K could obtain further information about the Investment Changes from the Plan administrators, JLT. She could also obtain free general guidance on her pension options from organisations such as Pension Wise, The Pensions Advisory Service, Money Advice Service, and the Citizens Advice Bureau. If she wanted personal independent financial advice, she should visit www.unbiased.co.uk.

12. Mrs K chose not to opt-out of the Investment Changes. Her investments in the Plan were therefore switched in June 2016 into the income drawdown lifestyle approach with a Target Access Age of 60 and split roughly equally between an equity growth fund and a pre-retirement fund invested predominantly in gilts and corporate bonds.

**Ms K's position**

13. Ms K says that:-

- The approach taken by the Trustee in June 2016, to switch her investments in the Plan was inappropriate for her personal circumstances.

- The Trustee did not make it clear in the SNAP Communications that it would switch around half of her existing investments to gilts and corporate bonds because of her age at the time. The Trustee should have stated explicitly in the SNAP Communications that it would be doing this.

- The clear impression, which she got from reading the May 2016 leaflet, was that her investments would be switched from equities to gilts and corporate bonds gradually over the remaining years left to her Target Access Age of 60.

- The May 2016 leaflet makes it clear that funds are to be moved gradually and "transitioned."

- In June 2016, she was 55 years and 6 months old. In her view, her investments should have been switched steadily from equities to fixed interest assets over the remaining term of four years and six months to age 60. This gradual switching should have been done at the monthly rate of 1/54th of her funds for the remaining 54 months until her 60th birthday in December 2020.

- She has subsequently changed her Target Access Age to age 70.

- “Standard investment approaches used around the world make use of the principal of “pound cost averaging” to maximise returns when making or drawing down investments. This is because it can be so hard to “time the market””.

- “The whole idea of these well-known investment approaches is to avoid moving large movements of one’s funds at a time when the stock market may have been relatively high (when investing) or low (when divesting). As it turned out, in June 2016…the global equity markets were at a particularly low point in the cycle, so what [the Trustee has] done has cost [her] a great deal of money, money [she] had carefully saved up for during [her] working life.”

**The Trustee’s position**

14. The Trustee says that:-

- It acted in accordance with the Plan’s Trust Deed and Rules when exercising its investment powers to devise and implement the Investment Changes for the benefit of the Plan’s membership. It consulted closely with the Plan’s investment adviser as part of the decision-making process. Ms K considers that the Investment Changes were inappropriate for her circumstances, but this does not mean that its decision was flawed or that there is any legal basis for criticising the Trustee for the Investment Changes.

- Ms K was not provided with incorrect information. The SNAP Communications clearly explained that her investments would be automatically switched into funds that reflected the Plan’s new drawdown lifestyle fund for someone with a Target Access Age of 60. They also explained that she should contact the Plan’s administrators if she had any questions or if she wanted to opt out of the changes.

- The Trustee does not agree with Ms K’s view that the SNAP Communications did not make it clear how her investments would be changed in June 2016.

- If Ms K considered that the Investment Changes were not suitable for her, it was open to her to opt out of them.

- Ms K chose not to opt out of the Investment Changes or change her Target Access Age by the deadline of 24 May 2016. Her investments were therefore correctly switched in June 2016 into funds that reflected the Plan’s income drawdown lifestyle fund for someone with less than five years before their Target Access Age.

## Adjudicator’s Opinion

15. Ms K’s complaint was considered by one of our Adjudicators who concluded that no further action was required by the Trustee. The Adjudicator’s findings are summarised below:-

- The information about the lifestyle investment approaches shown in the May 2016 leaflet specifically mentioned the gradual shift from return-seeking assets such as equities to fixed interest assets and cash during the 10 years before a members’ Target Access Age.

- This leaflet also included simple graphs showing how the proportion of a member’s investments between different funds changed in the 10 years leading up to his/her assumed Target Access Age for the three lifestyle investment approaches.

- In the Adjudicator’s opinion, the graph for the income drawdown lifestyle approach was easy to understand and clearly showed that at five years before a member’s Target Access Age, approximately half of his/her pension savings would be in a pre-retirement fund invested mainly in gilts and corporate bonds. For a member who was invested wholly in a growth fund, it would have been evident that around half of his/her existing investments would have to be switched in one go into a pre-retirement fund when the Investment Changes were implemented in June 2016.

- In the Adjudicator’s view, the information provided in the SNAP Communications satisfactorily explained how the lifestyle investment strategies worked and how Target Access Age interacted with it.

- Ms K was aged 55 years and six months in June 2016 and there were only four years and six months left until her assumed Target Access Age of 60.

- For Ms K’s pension savings to have been switched gradually into a pre-retirement fund, in the way shown in the illustration for the drawdown lifestyle approach, there would have needed to be a term of 10 years remaining to her Target Access Age.

- Prior to the deadline of 24 May 2016, Ms K had an opportunity to change her Target Access Age to 65 years and six months so that her pension savings could be switched gradually into a pre-retirement fund. Ms K decided not to do so.

- Ms K contends that she was given the reasonable expectation that her pension savings would be gradually switched from a growth fund to a pre-retirement fund. For her contention to be valid, the May 2016 leaflet would have had to explicitly state that for members with less than 10 years to their Target Access Age, the term of 10 years shown in the illustration should be replaced with the member's actual remaining term to their Target Access Age. It did not.

- If Ms K needed any explanation on the information which she received about the Investment Changes, it was open to her to either seek independent financial advice or free impartial guidance from the organisations specified in the May 2016 leaflet before making her decision.

- As Ms K did not opt out of the Investment Changes or change her Target Access Age. her investments in the Plan were properly switched into funds that reflected the Plan's drawdown lifestyle approach for someone with less than five years to an assumed Target Access Age of 60.

- If Ms K did not consider this drawdown lifestyle approach was right for her, or if she had wanted the pre-retirement phase to begin at a different date, it was open to her to alter her investment strategy or Target Access Age either immediately or at any time after the Investment Changes were made. This was made clear to Ms K in the SNAP Communications.

- The information provided by the Trustee was correct and adequate for Ms K to make an informed choice on her investments in the Plan after seeking appropriate independent financial advice or guidance, if necessary. So there has been no maladministration on the Trustee's part.

16. Ms K did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. Ms K provided her further comments which do not change the outcome. She said that:

- According to the Financial Conduct Authority, financial services companies must ensure that their customer communications are "fair, clear and not misleading" so that the ordinary lay person can easily understand them. The SNAP documents were "not clear at all to the ordinary person".

- According to the Pensions Regulator's guidelines on customer communications, members of a pension scheme should be informed about the risks associated with the options being made available to them by the pension scheme provider.

- The graph for the drawdown lifestyle approach and accompanying notes did not make it clear that roughly half of her existing investments would be switched in one go into a pre-retirement fund as she only had around five years to go before her Target Access Age.

- The SNAP Communications was "addressing" members of the Plan who were already 55 or over. The leaflets should have described in plain terms how existing investments for such members would be affected by the Investment Changes and warned that there could be “associated financial risks” with them.

17. I note the additional points raised by Ms K, but I agree with the Adjudicator’s Opinion.

## Ombudsman’s decision

18. I concur with the Adjudicator’s view that Ms K was given adequate information by the Trustee concerning the Investment Changes in the SNAP Communications. Furthermore, it is my opinion that the SNAP Communications were prepared in a way that even a member of the Plan with little knowledge of investments should have been able to understand how the new life-styling investment strategies worked and how the Target Access Age interacted with them.

19. If as Ms K says, she was unsure about how these new life-styling investment strategies worked after studying the SNAP Communications, it would have been sensible for her to have taken appropriate advice or guidance before the Investment Changes were made so that she could make an informed choice.

20. The Trustee’s role was solely to put in place a range of investment strategies from which members could choose, and to also establish a default life-styling investment strategy and a default Target Access Age for those who did not wish to choose. In my view, it has met the standard expected of a trustee for providing Ms K with this information.

21. The Trustee is not authorised to provide investment advice and can only describe the various options available in general terms. As the information provided by the Trustee was adequate for Ms K to seek independent financial advice or guidance at any time in order to make an informed choice on her investments in the Plan, there has been no maladministration on the Trustee’s part.

22. I do not uphold Ms K’s complaint.

**Anthony Arter**

Pensions Ombudsman
22 March 2021

## Appendix

**Relevant Excerpts Taken from the May 2016 Leaflet Entitled “SNAP - FOR BRINGING YOUR INVESTMENTS AND SPENDING PLANS TOGETHER”**

**“In a nutshell**

- This leaflet relates to your savings in the Defined Contribution Section of the Plan (“DC pension savings”)
- You’re fast approaching the age at which you may be considering accessing some of your DC pension savings.
- New options introduced by the Government mean you now have more choice over how and when you take this money.
- In June, the Trustee is introducing two new “ready-made” approaches to investing your money to reflect these new choices. This will help make it easier for you to match your approach to investment with how you plan to take your DC pension savings.
- You currently invest some, or all of your DC pension savings using the existing ready-made (“annuity lifestyle”) approach. With the Government’s changes, the Trustee thinks it’s unlikely members like you will buy an annuity but will want to move their money out of their Citibank plan at age 60, keep it invested and draw on it when they want or need to (known as “drawdown”). Your DC pension savings that are currently invested in the annuity lifestyle approach will be switched into investments that fit with this approach unless you choose otherwise.
- But as you’re over 55 it’s really important for you to choose what you want to do from the Government’s new options immediately, as you may be thinking of doing something different.
- In June, if you don’t contact the Plan Administrator, JLT, we’ll change the investment approach for your savings on the assumption that drawdown is what you’re going to do.
- If you don’t want this to happen…you just need to tell JLT…
- You have until midday on 24 May to do this. From later in June onwards you’ll be able to change your mind if you want to, once all of the initial changes have been made.

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**So why does this matter now?**

…the Trustee has introduced two new “lifestyle” approaches – to provide a pre-set approach if you want to take your DC savings just as cash, or leave it invested and drawdown money as and when you need it. They are also updating the current “annuity” based lifestyle approach.

All these lifestyle approaches will invest in the same way until five years before the age you want to start accessing your savings (your “target access age” – see below) when the funds you invest in start to vary depending on whether they are aiming to match the approach of someone taking cash, drawdown, or an annuity. **As you are already over 55 (and can legally start taking some or all of your DC pension savings) this is particularly important for you.**

You can still choose to have some, or all, of your DC pension savings invested "freestyle".

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**Tell me a bit more about my target access age.**

This is a new term…Your target access age is…the age you plan to start accessing your savings.

Previously, you could choose a "target switching age" and this was automatically set at 55…

…the process has been simplified, you just need to think about when you might first want to take some or all of your DC pension savings – and that will be your target access age. But it's not so simple making changes to pension systems, so **in June we're going to have to assume that everybody plans to start accessing their DC pension from age 60 (or your current age if you're older).**

**This means any decisions you've previously made to change your target switching age will no longer be effective.**

It is particularly important you consider changing your target access age if you want to start taking some or all of your DC pension savings within the next 5 years as you will be taking more risks with your money by not completing the transition process fully.

It's easy to tell us though – you just have to complete and return the enclosed form before midday on 24 May.

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**What do I need to do and when?**

You have some, or all, of your DC pension savings currently invested using the Lifestyle approach. This approach assumes you'll want to use the majority of your money to buy an annuity at age 60. Because of this, your savings are invested in funds that match that option. This made sense because buying an annuity was basically the only option you had.

This is going to change so that – 10 years before your target access age – your money will start to be automatically switched into investments appropriate to someone who wants to draw on their DC pension savings bit by bit over the years. This is the new "drawdown" lifestyle approach.

You need to decide if this is actually what you want to do or whether you want to use your DC pension savings in a different way.

**So follow these simple steps**

1. Think about how you might want to use your DC pension savings by looking at the comparison between the three main options you now have…

2. Think about whether you are going to want to access your DC pensions savings from age 60.

3. Look at the case studies…

4. Read about the new investment options in a bit more detail…

5. If you're happy with the automatic changes, you don't need to do anything – your investments and target access age will be changed automatically.

6. If you don't want the lifestyle savings you've built up to be automatically switched into the drawdown lifestyle approach, you need to tell us by midday on…24 May. Your options are:

(a) You can choose a different target access age by completing the enclosed form.

(b) You can choose a different lifestyle approach by completing the enclosed form.

(c) You can opt out of lifestyle all together by going freestyle…by visiting Ben Pal.

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**What happens if I do not reply?**

**If we don't receive a reply from you by midday on…24 May, in respect of your current and future lifestyle approach funds, we'll invest your existing DC pension savings using the drawdown lifestyle approach.**

This assumes you will be planning to continue investing your DC pension savings for the medium/long term at retirement…

It will also assume you plan to start accessing these DC pension savings from age 60.

In all cases, from around mid-June you'll still be able to log onto Ben Pal…and make a change to your investments. So you can always change your mind if your plans or circumstances change.

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**A detailed look at investing**

…All three lifestyle approaches have three phases based around your target access age (which we assume to be age 60 unless you tell us otherwise). To begin with when retirement is some way away and your main target is probably to grow your pension savings, all three approaches are invested in assets such as shares (equities) with this aim. Then when your target access age is 10 years away, they enter their initial pre-retirement phase, reducing the proportion held in equities and introducing fixed interest investments. Finally, with five years to go, the three different lifestyle funds start to adopt different strategies depending on whether they are preparing for a member to take cash, prepare for drawdown or buy an annuity…

**Tell me more about the drawdown lifestyle.**

This approach assumes you will draw income from your lifestyle pension savings in retirement, bit by bit, as and when you want. During the last 10 years before your target access age, the growth fund transitions into the pre-retirement fund. So the money that was invested in global equities (shares) will gradually switch to index linked gilts and corporate bonds. This allocation will provide you with a portfolio that you can draw income from once you have transferred your savings to your chosen pension provider. You can see how your funds would change in the last 10 years in the chart on the right…

**Tell me more about the annuity lifestyle.**

This approach assumes you will take your 25% tax free cash and use the balance of your lifestyle pension savings to buy an annuity. In the last 5 years before your target access age, your money will be gradually switched to an annuity targeting fund containing 25% cash with the balance in a mix of assets designed to help protect your savings against the price of buying an annuity going up as you approach your target access age. You can see how your funds would change in the last 10 years in the chart on the right…

**Tell me more about the cash lifestyle.**

This approach assumes you will take all of your lifestyle pension savings as cash when you retire. With this option, during your final 5 years before your target access age, these savings will be gradually switched to the cash fund. You can see how your funds would change in the last 10 years in the chart on the right…

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**Examples of matching spending and investing**

These are just examples designed to give you food for thought. They certainly aren't meant to provide you with personal advice. That's not something the Trustees or JLT can do.

You can get general guidance on your pension options from the organisation listed…If you want personal independent financial advice you should visit www.unbiased.co.uk. "

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