

Ombudsman's Determination

Applicant	Mr T
Scheme	AA Worksave Pension Plan (the Scheme)
Respondent	Legal & General (L & G)

Outcome

1. I do not uphold Mr T's complaint and no further action is required by L & G.

Complaint summary

2. Mr T's complaint is that L & G has closed a range of funds and switched his investments into replacement funds, which he says do not perform as well. Mr T says that L & G has done this to increase its profits and to prevent a selection of funds operated by other providers.

Background information, including submissions from the parties

3. On 25 July 2018, L & G wrote to members, including Mr T, to inform them that some of the funds they were invested in would be closed and their investments may be moved into replacement funds. Below is an extract from this letter:

'Why are we doing this?'

We constantly monitor our fund range to ensure the funds available meet the needs of our customers and provide you with value for money. We've reviewed the investment choices available to you and will be making some updates, so you have a simpler and more focused range of funds to choose from in the future. The majority of our funds are managed by a company within Legal & General Group called Legal & General Assurance (Pensions Management) Limited (PMC). The other funds that are not currently managed by PMC will soon be moved to PMC. This will mean all of the funds within our range are managed by PMC, which will enable us to administer your pension in the most efficient way we can by using our latest investment platform technology. This helps us to provide you with the best possible long-term value for money.'

4. L&G explained that the fund changes would be implemented between late October 2018 and late December 2018. Members could choose to invest in either the replacement funds selected by L & G or alternative funds within the newly available range, before 26 October 2018. L & G referred members to a website where they could see a list of the funds that were due for closure, alongside their respective replacement funds. L & G advised members to speak to a financial adviser if they were unsure of which funds to switch into. L & G's contact details were included.

5. Extract from the Scheme Member Booklet (**the Member Booklet**).

'Changes to investments

Fundamental change to funds - If we make a change to an internal fund or become aware of a change to an external fund which we consider fundamental we will tell you. Where we can we will give you at least 30 days' notice.'

6. On 29 August 2018, L & G completed switches into the following funds, as requested by Mr T. L & G's website says that these funds were amongst those due for closure from October 2018:-

European Fund
Growth Fund
North America Equity Index Fund (PMC)
Global Emerging Markets Index Fund (PMC)
L & G Pension F & C Responsible UK Income Fund
UK Smaller Companies Fund
International Fund
Far Eastern Fund

7. On 26 October 2018, L & G completed switches from the funds in which Mr T was invested and that were due for closure, into the following replacement funds:

L & G PMC European Fund G25
L & G PMC Growth Fund G25
L & G PMC North American Equity Index Fund G25
L & G PMC Global Emerging Markets Index Fund G25
L & G PMC F & C Responsible UK Income Fund G25
L & G PMC UK Smaller Companies Fund G25
L & G PMC International Fund G25
L & G PMC Far Eastern Fund G25

8. On 29 October 2018, Mr T emailed L & G to complain that:

- He had received L & G's letter at the beginning of August 2018, confirming that most of the funds he was invested in would no longer be available from October 2018.

- Although the management fees are lower, the replacement funds do not perform as well.
- He disagrees with the reasons given by L & G for the new range of funds. He believes that L & G made the decision to increase profits through receiving extra management fees by bringing the available funds under its own management, and so that there is no option for members to select funds offered by other providers.
- He switched his investments into funds of his own choice, instead of allowing L & G to switch into the replacement funds. However, when he checked his investments around 27 October 2018, he found that they had still been switched into replacement funds.
- He is unsure why the switches are unclear in statements, they quote more than one line for some funds, all with different values.

9. In its response of 23 November 2018, L & G said:-

- The fund changes mean that Mr T has a simpler and more focused range of funds to choose from.
- The reasons for closing a fund may include poor performance, limited numbers of investors or if the fund is outdated and no longer fit for purpose.
- L & G expects the new range of funds to provide customers with better value for money.
- L & G has a responsibility to ensure its range of funds is suitable for everyone who invests in them.
- L & G is responsible for the governance of the fund and if it feels that a fund is not fit for purpose, outdated or expensive then it must make changes.
- Any associated costs or charges are market imposed and not because of additional expenses from L & G.
- The funds Mr T switched into in August 2018 were still in the range of funds that were affected by the fund closures from October 2018. However, the switches were done on a like for like basis into replacement funds.
- L & G is unable to provide Mr T with advice, but he may elect to switch his benefits to funds of his own choice, within the available range of funds, by giving clear instructions.
- More than one switch line is shown for the funds in the statements viewed by Mr T, because he has multiple benefits. For example, single premiums, regular contributions and transfers into the Plan, which have different tax rules.

- No changes were carried out on affected plans during the time work was being carried out on the fund replacements, but the markets were still trading. This is why Mr T could see a slight difference in the percentage split of units, but he had not lost any benefits overall, it was just that the value of each fund may have changed.
- On 24 October 2018, the value of Mr T's benefits was £44,361.47 and it took three days for switches to be fully processed. L & G intended to carry out the proposed fund changes for 26 October 2018. To do this, it sold the units in the closed funds on 24 October 2018 and completed the purchase of units in the replacement funds on 26 October 2018. On 1 November 2018, after L & G had carried out the fund changes, the value of Mr T's fund had increased to £44,727.37.
- Mr T's fund could fluctuate on a daily basis, depending on market conditions; its value is not guaranteed and depends on several things, including investment performance.
- Mr T's complaint was not upheld.

10. In summary Mr T has complained that:-

- L & G's decision to close a range of funds and set up replacement funds was done to increase its profits.
- The replacement funds do not perform as well the funds he has previously invested in.
- He is confused by the number of switch lines quoted in the statements provided by L & G.
- L & G's website about the fund closures and the replacement funds is unclear and difficult to follow.
- He requested switches in August 2018, with the expectation that he would avoid his investments being subsequently switched into replacement funds by L & G.

Adjudicator's Opinion

11. Mr T's complaint was considered by one of our Adjudicators who concluded that no further action was required by L & G; the Adjudicator's findings are summarised below:-

- Mr T says that the replacement funds do not perform as well as the funds he was invested in. However, investment performance grievances of this nature fall outside of our jurisdiction.

- Mr T disagrees with L & G's decision to implement the fund closures and provide replacement funds. However, L & G had to consider what is best for all of its members. It would not have been feasible for L & G to reach individual agreements with each member. It was also reasonable for L & G to replace funds for economic reasons, if there had been limited investment in them. L & G has further confirmed that it changed the range of available funds to simplify it and make it more focused to provide better value for money. These actions are normal within the pensions industry, with the aim of protecting members' assets and providing a suitable range of funds. The Member Booklet says that L & G may make fund changes by giving at least 30 days' notice.
 - Mr T complains that he requested fund switches in August 2018 with the intention of preventing L & G from switching his investments into their designated replacement funds. L & G's website shows that the funds Mr T switched into, before the fund closures were implemented in October 2018, had been subject to replacement. This is why L & G still processed switches into replacement funds, despite Mr T's attempts to prevent this from happening.
 - Mr T says that explanations on L & G's website regarding the fund closures and the replacement funds are unclear and difficult to follow. However, L&G provided Mr T with contact details and a recommendation to seek advice. If he was unsure about the fund choices, he could have asked for help. L & G cannot reasonably be held liable for Mr T's failure to do so.
 - Mr T says that the management charges have reduced, but he remains dissatisfied. He believes that L & G will increase its profits due to the funds that were previously managed by other providers being brought under its management. Mr T argues that this will prevent him choosing funds from other providers. However, this cannot reasonably be described as maladministration by L & G. Reductions in management charges are likely to be considered beneficial by other members. The choice of funds is a matter to be considered by L & G in the interests of all the members.
 - Mr T complains that he finds the switch statements provided by L & G confusing as they contain more than one line, with differing values for some funds. L & G says that this is because Mr T has multiple benefits in the Scheme with different tax rules attached to them. L & G has taken a reasonable position on this; it is necessary to process investments with different tax rules separately and this may be reflected in correspondence. Mr T could reasonably be expected to contact L & G to query any information that he finds unclear.
12. Mr T did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. Mr T provided his further comments which do not change the outcome. I agree with the Adjudicator's Opinion and I will therefore only respond to the key points made by Mr T for completeness.

13. Mr T says that L & G removed all funds that were not previously under its management and set up replacement L & G funds. He complains that this limits his ability to invest, reduces choice and restricts competition, with no regard for the members.
14. Mr T argues that the value of his pension dropped by an unprecedented amount during October 2018, when his investments were switched into replacement funds.
15. Mr T argues that he made a transfer into the Scheme and he feels unable to remove that investment.

Ombudsman's decision

16. Mr T says that L & G has closed the externally provided funds that had previously been available under the Scheme and set up replacement L & G funds, with no regard for the members. In my view, the fund changes were a matter for L & G to consider and make decisions for the benefit of all the members, even if Mr T disagrees with the outcome of that process. L & G says that the aim of the fund changes was to provide a simpler range of funds and to improve efficiency that will provide better value to members. Mr T has acknowledged that the management charges are lower, as a result, and other members are likely to approve of this benefit. It is also standard practice within the pensions industry that providers assess their range of funds periodically and make changes, as deemed necessary. There was a limited number of funds for Mr T to choose from before the changes were implemented by L & G and that remains the case. For these reasons, I do not agree that L & G's decision to change the fund choices was made with no regard for the members.
17. Mr T says that his pension value dropped during October 2018, when L & G implemented switches into the replacement funds. However, it is an inherent feature of this type of pension that the value will fluctuate according to the performance of the funds that have been invested in. In July 2018, L & G had referred Mr T to its website for details of the funds that would be closed and the available range of alternative funds, as well as his option of seeking financial advice. Mr T could also have called L & G for assistance, if he was unsure about his options. Consequently, L & G cannot reasonably be held responsible for Mr T's decision, in August 2018, to switch into funds that he had been informed were due for closure. This caused L & G to switch Mr T's investments into their designated replacement funds in October 2018.
18. Mr T says that he made a transfer into the Scheme and he feels that this investment is now trapped. However, Mr T may still exercise any statutory rights, or entitlements under the Scheme rules to transfer his pension, if he wishes to do so.
19. I do not find that there has been maladministration on the part of L & G.

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20. I do not uphold Mr T's complaint.

Anthony Arter

Pensions Ombudsman
12 November 2019