

## Ombudsman's Determination

Applicant	Mr Y
Scheme	Legal & General Stakeholder Pension Scheme ( <b>the Scheme</b> )
Respondent	Legal & General ( <b>L&amp;G</b> )

## Outcome

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

## Complaint summary

2. Mr Y's benefits in the Scheme were invested in the L&G Fixed Interest Fund (**the Old FI Fund**) and the L&G Cash Fund (**the Old Cash Fund**). He complained that L&G undertook an automatic switch to new versions of these funds, which had no performance history and a different unit price. He said he suffered a financial loss because, had he been aware of these changes, he would have transferred his benefits elsewhere and achieved a better return.

## Background information, including submissions from the parties

3. On 24 July 2018, L&G wrote to Mr Y to explain that it was making some changes to the management of funds within the Scheme (**the July 2018 Letter**). It said that the majority of its funds were managed by Legal & General Assurance (Pensions Management) Limited (**PMC**). The other funds, not managed by PMC at that time, were to be moved to PMC. L&G believed this would enable more efficient fund management.
4. The letter went on to state that Mr Y's holdings in the Scheme would continue to be invested in an almost identical way and there would be no impact on the fund charges. The switch itself might involve a small transaction cost, but L&G intended to avoid this wherever possible. It advised Mr Y that he did not need to take any action.
5. L&G explained that once the changes were made, Mr Y might notice a change in the reference and the fund name would include the letters 'PMC'. He would be able to see the switch of his funds, as well as a full list of the affected funds, on the L&G website.

6. L&G planned to start making the changes from late October 2018 and complete the work by late December 2018. It said there would be a few days during this period when Mr Y would be unable to change his investments online.
7. On 26 October 2018, Mr Y held 17,725.55 units of the Old Cash Fund, which were valued at £27,722.76; the price per unit was £1.564. He also held 33,446.05 units of the Old FI Fund, which were valued at £82,176.94; the price per unit was £2.457.
8. On 29 October 2018, L&G carried out the switch of Mr Y's holdings to the new versions of the funds. Following the switch, he held 17,725.19 units of the PMC Cash Fund G17 (**the New Cash Fund**), which were valued at £27,722.19; the price per unit was £1.564. He held 33,445.36 units of the PMC Fixed Interest Fund G17 (**the New FI Fund**), which were valued at £82,175.25; the price per unit was £2.457. L&G has since explained that the slight reduction in units from 26 October 2018 was due to the collection of outstanding annual management charges.
9. On 13 March 2019, L&G sent an email to Mr Y in response to concerns he had raised. It said that the July 2018 Letter had set out the changes that would be made to the management of funds within the Scheme. The letter also confirmed that he would be switched into the new versions of the funds.
10. L&G explained that although Mr Y was invested in new versions of the funds, the underlying assets and charges remained the same. The methodology used for the switch had been reviewed by L&G's internal governance committees, with an independent audit, to ensure all customers were treated fairly.
11. Once the switch had taken place, the section of the website Mr Y had been using to obtain fund prices was no longer relevant. The difference in unit price he observed was because he was invested in the new funds. L&G apologised that it did not make this clearer in the July 2018 Letter, but confirmed it would not honour the incorrect unit price he viewed on the website.
12. On 14 March 2019, Mr Y emailed L&G to raise further concerns about the changes that had been made. He said he had been using a website link, provided by L&G, to access unit prices for the funds he believed he was invested in. He had since learned this link was for the old funds and therefore out of date. He asked L&G to provide a response to the below queries:-
  - The date in 2018 when he was switched from the Old FI Fund to the New FI Fund.
  - The unit price for the Old FI Fund and the total number of units he held, immediately prior to the switch.
  - The unit price for the New FI Fund and the total number of units he held, following the switch.
  - The reason it had not sought his consent, nor kept him informed of the switch at that time.

13. On 22 March 2019, L&G emailed Mr Y a spreadsheet showing the number of units he held for the Old FI Fund and the New FI Fund, immediately before and after the switch took place. It also showed the unit prices for these funds.
14. Mr Y responded on the same day to ask why there was a three-day gap between the sale of his units of the Old FI Fund and the purchase of his units of the New FI Fund.
15. On 25 March 2019, Mr Y switched most of his holdings in the New FI Fund to the New Cash Fund. Following this switch, he held 71,860.289 units of the New Cash Fund and 44.322 units of the New FI Fund, which were valued at £112,820.65 and £112.93 respectively.
16. On 26 March 2019, L&G wrote to Mr Y to provide confirmation of his fund switch, carried out the previous day.
17. On 29 March 2019, L&G emailed Mr Y to explain that the three-day gap between the effective sale and purchase dates for the switch in late October 2018, was because there was a weekend in between. The final unit prices for his old funds were from 26 October 2018; the initial unit prices for his new funds were from 29 October 2018. The unit prices of the comparative funds were the same immediately before and after the switch.
18. On 16 May 2019, Mr Y emailed L&G to say that he still had concerns about the changes to his funds. He highlighted that the unit price of the New FI Fund had appeared to be £0.03 lower than the Old FI Fund. The July 2018 Letter did not mention that there would be a reinvestment process and the new funds would have a different unit price over time. He said he suffered a loss in value as a result and had to transfer into cash.
19. On 11 July 2019, L&G emailed its response to the complaint points raised by Mr Y. It explained that the website link he had been using was for an older plan and the unit prices shown were different to the new funds. L&G considered that the July 2018 Letter was clear about the changes that were being made. It had taken the decision to close some of its funds and move investors to new versions of those funds. Mr Y was able to switch to alternative funds if he did not wish to proceed with this action. There had been no further contact from Mr Y after the July 2018 Letter was issued, so the proposed switch took place in October 2018. L&G did not agree that Mr Y had suffered a financial loss, because the overall value of his pension benefits had increased since the changes were made.
20. On 20 July 2019, Mr Y responded to say that some of his correspondence carried out through the Symantec system had disappeared. He provided the website link he had been using to check fund prices, which was sent to him by L&G in May 2018. He was unhappy that the funds showed a different unit price and he had not been warned that they would be moved to a new platform. He said he only found out about the changes once the switch had been actioned. He believed this process caused him a financial loss. He was also unhappy that the fund names had changed.

21. On 22 July 2019, L&G emailed Mr Y to explain that it did not send its previous email by Symantec, because there was no information that needed to be encrypted. It did not know why Mr Y was unable to view some of his correspondence and offered to retrieve any correspondence that it had issued.
22. L&G said that at the time the website link was sent to Mr Y, the fund price information was valid, but this changed when his funds were moved to the new platform. It apologised for not making this clear in the July 2018 Letter. However, it had explained that he could register for an online account to see the available funds and change his investments.
23. L&G reiterated that it would not honour the unit prices Mr Y had seen online, because those funds were no longer available. It noted that Mr Y had changed his investments using his online account, so considered that he would have seen the correct unit prices, prior to making his switch in March 2019. It advised that he could refer the complaint to the Financial Ombudsman Service (**FOS**), if he remained unhappy with the outcome.
24. On 9 September 2019, Mr Y replied to say that he had contacted FOS and been told that it does not deal with workplace pensions. He had no idea the website link had changed, so he had been obtaining incorrect fund values. He said he made the switch to the New Cash Fund in March 2019, after finding out that his funds had been moved without consultation in October 2018. Had he been aware of this at the time, he would have sought financial advice. He also requested an electronic copy of the July 2018 Letter.
25. L&G responded on the same day to advise Mr Y that he had a personal pension, not an occupational pension. It said it had apologised for the issue with the website link. The fund changes and options for managing his account had been communicated to him in the July 2018 Letter.
26. Later that day, Mr Y replied to say that the apology did not compensate for his financial loss. He said he was not aware that L&G was going to change his funds, so had no reason to check his account online.
27. On 10 September 2019, L&G responded to say that it had set out the fund changes to him and the unit price comparison of £0.03 he was making was for a different product.
28. On 13 December 2019, L&G sent Mr Y the relevant forms for him to set up an income drawdown arrangement.
29. On 23 December 2019, Mr Y submitted an online application for an income drawdown quotation. L&G then provided Mr Y with quotations for different payment amounts.

30. On 6 January 2020, Mr Y telephoned L&G to discuss his income drawdown options. L&G confirmed his lifetime allowance percentage and explained how to complete the application form. Mr Y was advised that if he did not specify an investment choice on the form, L&G would invest him in the default fund(s). Mr Y indicated that he had already chosen to invest in the PMC Retirement Income Multi-Asset Fund 3 (**the Multi-Asset Fund 3**), fund code NWD3.
31. On 7 January 2020, Mr Y returned his income drawdown application to L&G. The form stated his wish to invest his benefits in the Multi-Asset Fund 3.
32. On 14 January 2020, Mr Y's benefits were transferred to the L&G Worksave Mastertrust Pension Access Scheme (**MTPAS**). Mr Y was invested in the Multi-Asset Fund 3, in line with the instruction on his application form. The transaction used the unit prices effective on 13 January 2020.

### **Mr Y's position**

33. He had begun the process of cashing in his pension in March 2019 and made enquiries about its value. Unknown to him, L&G had switched his funds to the new platform. He had been incorrectly estimating the value for quite a long period of time, using an outdated website link. It was during these enquiries that he learned the funds had been moved and renamed.
34. After learning of the changes in March 2019, he became concerned, so made the switch to the New Cash Fund. He trusted that L&G was acting in his best interest, but now feels he was deprived of transferring elsewhere for a better return. He suffered a drop of approximately £5,000 in the value of his pension benefits.
35. He originally chose to invest in the old platform after careful consideration and discussions with various financial advisors. The automatic move of his funds by L&G meant he did not have the opportunity to assess whether the new platform was the right place for his investment. This was a new product with no history, hence not attractive to investors in terms of its financial structure. The old platform had a longer established history with data available and was known to the marketplace, so it was not relevant if unit prices were identical on the switch date(s).
36. Had he known at the time that his funds would be switched to a new platform, he would have transferred his pension elsewhere. He believed he would have achieved a higher transfer value in December 2018. It is unacceptable that he needed to consult the L&G website for information, when the July 2018 Letter said that no action was required.
37. The July 2018 Letter did say that the fund names would change, but there was no indication that the funds would be moved to a new platform, with different unit prices. The only change outlined was to the way the funds would be managed. He was disappointed that PMC did not give him more information about its investment strategy.

38. He was unsure why the old and new funds were not able to run concurrently. He thinks L&G moved his funds solely for its own benefit.
39. He disputed L&G's assertion that the unit price difference was immaterial. He noted that at times, the unit price of the New FI Fund was £0.03 lower than the Old FI Fund.
40. He was prevented by L&G from transferring any part of his pension until it had been moved into the Multi-Asset Fund 3. He is unhappy that he had to switch into this fund in order to transfer out of the Scheme.
41. He had always understood his pension with the Scheme was a group stakeholder pension, not a personal pension.

### **L&G's position**

42. Mr Y's pension with the Scheme was a group stakeholder pension, set up by his previous employer.
43. There was no related correspondence issued after the fund switches were made in October 2018. Members would have received confirmation in their annual statements that the changes had been applied.
44. During the switch, the underlying assets were moved from the old funds using efficient methods of migration, such as re-registration, or in-specie transfer. While the long-term strategy, objectives and key characteristics of the new funds remained the same, PMC had discretion to adjust the individual asset holdings of the portfolios. There are a number of factors that explain the unit price variance between the old and the new funds, but it disagrees that the performance was significantly different.
45. The funds operated on a 'single swinging' pricing basis to protect existing investors from bearing trading costs for those transacting. The cash flows of the old and new funds were different, reflecting their respective investor populations.
46. There are some observable differences between the investors that remained in the Old FI Fund, compared with those that were transferred to the New FI Fund. This will explain why there was a deviation in the unit prices, in addition to the effects of the single swinging price mechanism.
47. The Old FI Fund remained open solely for customers of its Mature Savings business, which was sold and transferred to ReAssure in 2020. This meant the Old FI Fund often experienced net outflows and the fund manager would typically have been selling underlying assets, in this case UK Gilts, to facilitate this activity.
48. The New FI Fund was available to workplace defined contribution policyholders and often experienced net inflows. The fund manager was typically buying underlying assets, again UK Gilts, to facilitate this activity.

49. The nature of UK Gilts meant that this activity would have created some differences between the underlying portfolios of the two funds. Conventional Gilts usually reflect the market interest rate at the time of issue. Over time, the coupon rate and maturity dates will fluctuate, meaning the fund manager could not always buy UK Gilts with the same coupon rate or maturity date as held by the Old FI Fund. Despite this, the New FI Fund continued to invest in an almost identical way to the Old FI Fund.
50. If the Old FI Fund were to have experienced similar net inflows as the New FI Fund, the fund manager would have been purchasing UK Gilts, which means the two funds were being managed in the same way.
51. In addition, the differences between the investor behaviours would have contributed to the effect of the single swinging price. Funds experiencing inflows are typically priced on an 'offer' basis and those experiencing outflows priced on a 'bid' basis.
52. Since the start of 2020, the difference between the daily unit price of the old funds and the new funds is regarded as immaterial. It provided a spreadsheet which lists historic unit prices for the Old FI Fund, the Old Cash Fund, the New FI Fund, and the New Cash Fund (**the Unit Price Spreadsheet**). The Unit Price Spreadsheet covers the period 26 October 2018 to 18 May 2020.
53. Income drawdown was not available within the stakeholder pension, which meant Mr Y had to transfer to the MTPAS to access drawdown. The MTPAS is a different product with its own range of investment funds. This was discussed with Mr Y during a telephone call on 6 January 2020, where he confirmed that the Multi-Asset Fund 3 was his choice of investment. A recording of the call and a copy of the MTPAS 'guide to investing' (**the MTPAS Investment Guide**) have been provided.

## Adjudicator's Opinion

54. Mr Y'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:-
  - It was incorrect for L&G to have stated, in its email of 13 March 2019, that the underlying assets of the new funds remained the same as the old funds. However, the Adjudicator's view was that L&G had provided adequate notification of the fund changes in the July 2018 Letter. While a more detailed explanation of the changes could have been given, L&G's actions did not amount to maladministration.
  - L&G did not prevent Mr Y from transferring his benefits elsewhere if he wished.
  - L&G was not responsible for Mr Y continuing to use an outdated website link to check the fund unit prices.

- There was, at times, a divergence between the unit price of the Old FI Fund and the New FI Fund, but this was at least partly due to the switch process itself. It was not possible to make a direct comparison between the performance of the funds and Mr Y would not be due redress on this basis.
- Mr Y did not suffer a financial loss as a result of being invested the New FI Fund, rather than the New Cash Fund, up to 25 March 2019.
- There was no evidence of maladministration by L&G in relation to Mr Y's subsequent decision to enter an income drawdown arrangement.

55. Mr Y did not accept the Adjudicator's Opinion and the complaint was passed to me to consider. Mr Y provided further comments which do not change the outcome. I agree with the Adjudicator's Opinion. Mr Y's additional comments are summarised below:-

- L&G was not transparent about the fund changes in the July 2018 Letter. This was acknowledged and L&G has apologised, which in itself warrants compensation. L&G deliberately withheld information, so he only became aware of the fund changes in March 2019.
- If he had been fully aware of the changes at the time, he would have transferred his benefits elsewhere in July 2018. He would have achieved a much higher pension value if he had done this, but L&G specifically asked him not to take any action in relation to the switch.
- L&G did not inform him that once his funds were switched, he would not be able to obtain unit prices for the new funds using the website link he had been given. The difference in the prices led him to believe that his benefits were of a higher value than was actually the case. He was directed to this information by L&G, which was the key point that has caused his complaint issues.
- After the initial switch, the number of units in the funds he held on the new platform was less than on the old platform.
- A rise in the price of the New FI Fund after the switch took place is irrelevant. If there had been a drop in value, he would have switched irrespective of the actions taken by L&G from July 2018 onwards.
- He was able to manage his funds as he wished after March 2019, so events beyond this date are not relevant to the investigation.



## **Ombudsman's decision**

56. In his response to the Adjudicator's Opinion, Mr Y said he remained of the view that L&G did not give an adequate explanation of the fund changes in the July 2018 Letter. Further, L&G did not explain that the website link he had been using to check unit prices was no longer applicable to his funds.
57. Mr Y was concerned that the new funds did not have the same investment history as the old funds. The July 2018 Letter stated that the management of the funds was to be taken over by PMC and would be administered on L&G's latest investment platform. The letter set out how to obtain more information about the changes and provided contact details to raise any further queries with L&G.
58. Mr Y said if he had fully understood the changes at the time, he would have transferred his benefits elsewhere and achieved a higher value as a result. While the July 2018 Letter could have gone into greater detail about L&G's intended actions, I find that it did include sufficient explanation to have informed Mr Y that his funds would be managed on a new platform. An apology made by L&G does not necessarily constitute an acceptance that there was maladministration. I do not consider that L&G's communication of the fund changes in the July 2018 Letter amounted to maladministration.
59. L&G advised Mr Y that he did not need to take any action, if he was happy to proceed with the changes, but also gave him the option to choose his own investment(s), according to his preference. I consider that L&G did not instruct Mr Y to take no action in relation to his pension benefits and did not prevent him from transferring out of the Scheme. I find that Mr Y is not due redress for any unrealised increase in the value of his benefits, which may have arisen through remaining invested with L&G.
60. The website link that Mr Y had been using to check unit prices was emailed to him by L&G in May 2018, so was appropriate for his funds at that time. The July 2018 Letter advised that the new fund names would include the letters 'PMC' and directed Mr Y to further information about the impacted funds. It explained that he was able to register online to check his investments and the value of his benefits. Although Mr Y may have preferred to access this information in a different way, I do not find that L&G was responsible for him relying on incorrect unit prices. I do not consider it was possible for L&G to have known that Mr Y would continue to use an out-of-date link.
61. As part of its initial response to Mr Y's concerns about the fund changes, L&G stated that the underlying assets of the new funds were the same as the old funds. This information, provided on 13 March 2019, was incorrect. Mr Y proceeded to switch almost all of his holdings to the New Cash Fund on 25 March 2019. While L&G should have provided correct information, there is no suggestion that its statement led Mr Y to a different course of action to that which he would otherwise have pursued. I do not find that Mr Y has suffered a financial loss as a result of the incorrect information he was given by L&G.

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62. Mr Y said that the number of units he held in the new platform, following the switch, was less than in the old platform. When the changes were made in October 2018, there was a slight reduction in his units of the new funds, because L&G had deducted outstanding management charges. There is no evidence of a further reduction in his units held, so I do not find that Mr Y has suffered a financial loss in regard to this point.
63. I do not uphold Mr Y's complaint.

**Dominic Harris**

Pensions Ombudsman  
9 February 2023