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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, the Government wants to ban discrimination against older people in insurance and credit. The finance industry says new laws are not necessary. Bob Howard's been looking at how swine flu might cost you dear. Bob?

**HOWARD:** If you were due to fly to Mexico, how easy is it to now get your money back?

**JACK:** The airline just said that their policy was no refunds whatsoever. It would have been a lot better for us if we'd been able to get the refund and then been able to decide what we want to do.

**LEWIS:** A parliamentary committee says the banks have been "appalling", so it wants more building societies. Will that really happen? And how can you take full advantage of tax rules to boost your pension?

But, first, within 3 years it will be against the law to discriminate against people on grounds of age when you sell them a product or provide a service. Age discrimination at work has been illegal for more than 2 years, but from 2012 it will be extended to the provision of all goods and services. So if insurance companies want to charge older people more or refuse to sell them policies at all, they'll have to justify that; and banks will have to provide loans and credit cards to people at any age as long as they can repay the debt. Well let's go live first to Jane Vass who's Financial Services Policy Adviser to Age Concern and Help the Aged. Jane Vass, what is the effect now of age discrimination in financial services?

**VASS:** Well the practical effect can be that older people are stopped from doing everyday things that younger people take for granted, such as travelling to see family or friends or even just driving to the shops. To give you an example of some of the work we've done, we've recruited over 230 people to go and get some quotes for insurance and one woman said, in surprise almost, "They refused me a quotation because of my age and made me feel a freak". In motor insurance, the problems are slightly different because many motor insurers will carry on insuring their *existing* customers but won't give quotes to *new* customers above a certain age, and the sorts of problem that can deal with are somebody who wanted to change insurer actually not being able to get cover at all.

**LEWIS:** Yes, so they can't shop around as we're always advising them to do. I mean we are all I suppose against discrimination, but the cost of insurance must rise as we get older - for health, certainly for travel, possibly even for driving - mustn't it?

**VASS:** Well that's certainly the case and we acknowledge that age related pricing may be justified. What we're not happy about are arbitrary increases in premium that aren't related to risk and refusals to quote to people above a certain age.

**LEWIS:** Well with me is Nick Starling, Director of General Insurance at the Association of British Insurers. Nick Starling, you and your organisation have opposed these plans. Why are you in favour of age discrimination?

**STARLING:** We're against unfair discrimination in any area, but it's extremely important that insurers are able to continue to differentiate according to age because age is a big risk factor. If you take driving, we all know that you are greatly more at risk if you are an 18 year old driver or a driver in your 80s. And the same with travel insurance: the older you are, the more risk you present.

**LEWIS:** But, as I understand these rules, they'd still let you price for risk. What they *wouldn't* allow would be insurers, as Jane Vass was saying, saying "Sorry, you're 80 or you're 70. We're just not going to quote for you".

**STARLING:** Well there's two aspects to this. First of all, of course, insurers price by much

more than risk. They target particular markets. There are insurers which target older drivers, there are insurers which target young travellers, and we don't think it's right to force all insurers to have to target all markets. The key issue here is actually that the insurance is available. We know it's out there and the key issue is directing people to where they can buy that insurance rather than forcing all insurers to price for price. Example: are you going to say that a specialist older driver insurer should pay for ... should offer a policy to an 18 year old driving a Ferrari, for example?

**LEWIS:** It's a fair point, Jane, isn't it? I mean certainly Age Concern and Help the Aged have their own insurance for older people and Saga has made a massive business out of financial services for the over-50s. Would those things still be allowed under this law?

**VASS:** Well we certainly do offer insurance, but we don't have minimum ages or indeed maximum ages, so our insurance operations manage to operate without these ages.

**LEWIS:** You just rely on people in their 30s not wanting to go to Age Concern for their insurance, do you?

**VASS:** Well you can certainly do a lot with marketing, but if people do come to us with good reason for wanting to come to us, we will consider them on exactly the same terms as people of other ages. And the legislation has been very carefully framed, as we can see it, to allow people like Saga to continue.

**LEWIS:** Right, so that would be allowed. And what about other financial services though, Jane? It's not just insurance, is it? It's very hard to get a mortgage once you're over 65; and credit cards, interest free credit, all those kind of things dry up when you go shopping.

**VASS:** Exactly, and yet we're extremely concerned that older people may actually be forced into the arms of unregulated or expensive loan sharks because they need credit and they can't get it on the high street. We don't get so many cases about these, but many people who do come to us say the sort of things that they come up against are automatic - "Oh no, over 65, you can't get a mortgage" - even if they have plenty of income.

**LEWIS:** And would that be banned under the new law - so as long as you've got a decent pension or indeed you're willing and able to carry on working till you're 70 or 75, as many of us will have to, you'd be able to get a loan?

**VASS:** Well we'd be happy for people to carry on being judged on the same basis as people of other ages and these days many people are working longer, are *having* to work longer. Or indeed for example if they wanted to work longer to pay off a mortgage endowment and it's really important that they should be able to have access to credit if they can repay it.

**LEWIS:** And Nick Starling, isn't this the point - that all people are saying is you shouldn't discriminate *just* on grounds of age? You should actually look at the real risk, the real cost and then everyone would be happy. Why can't you do that?

**STARLING:** Well if you look at motor insurance, then the risk is calculated on a variety of factors of which age is one. The key issue about travel insurance is we want it to be a widely available and easily bought product. The more you have to underwrite it in terms of asking details about people's health, which of course is intrusive, the more expensive it's likely to become. The important thing is that insurance is available for people of all ages. Our research shows that 99% of older people can get travel insurance. And that's the important thing - to get access to that insurance.

**LEWIS:** I think that figure might be disputed by Jane, but we haven't got time to ask her. Nick Starling of the ABI, thanks very much, and Jane Vass of Age Concern. Now if you've experienced age discrimination or indeed think these ideas are nonsense, you can have your say on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), and some of you are doing that already.

Swine flu - or Influenza Type A H1N1 as it's formally known - has so far infected fewer than 400 people worldwide. The number of deaths is now put at just 16 - all but one of those in Mexico. The Foreign Office says don't visit Mexico unless it's essential, but if you cancel your flight or holiday will anyone refund your money? Bob Howard's been on the case. Bob?

**HOWARD:** Well, Paul, the holiday industry estimates as many as 30,000 British holidaymakers had planned to go to Mexico this month. Jack from London was due to fly out

today on honeymoon. He had booked his flight and hotel separately and hoped each company would refund him, but the hotel would only give him back 50% and when he spoke to his airline he was also disappointed.

**JACK:** The airline just said that their policy was no refunds whatsoever, but that we would be able to get an alternative flight with them. It would have been a lot better for us if we'd been able to get the refund and then been able to decide what we want to do.

**HOWARD:** In the end Jack has paid again for another flight and hotel, so he could go exactly where he wanted on his honeymoon. His airline, Continental, has allowed him to take his holiday to Mexico or elsewhere on their network later this year, but he's paying twice as much for holidays this year than he had planned. Most other scheduled airlines are offering similar arrangements. Nick Britton from Continental says it's the type of ticket which determines whether you're eligible for a refund.

**BRITTON:** If people have paid particular fares for particular tickets with restrictions, we do need to abide by those restrictions. Unless a flight is actually cancelled, we're not able to offer a refund on a non-refundable ticket. They can only be refunded if the flight is actually cancelled, and that is not yet the case with our flights to Mexico.

**HOWARD:** But it's not just people flying with scheduled airlines who are feeling frustrated. Jarrett from Hertfordshire paid for a package holiday to Mexico, which is due to leave at the end of May, just a day before he heard about the swine flu outbreak. His travel company, First Choice, owned by Thomson, is giving different advice according to when customers were expecting to travel. It's cancelled flights until Friday, so anybody expecting to travel between now and then can have a refund or choose another destination. From next Saturday until 22<sup>nd</sup> May, customers are being offered an alternative holiday. But customers like Jarrett, due to travel after 22<sup>nd</sup> May, can't yet get a refund, but nor do they know if their flights will actually leave in 4 weeks time and he doesn't want to go anywhere else.

**JARRETT:** What they've told me is start looking for an alternative holiday now, such that if they do in the end turn around and say that it's unsafe to travel on 29<sup>th</sup>, it'll be easier for me to book one straightaway. But to be honest with you, it's a bit ridiculous because I mean I

wanted to go there and, if not, I just want my money back.

**HOWARD:** That should still be possible according to Frances Tuke from the travel association ABTA, but it will mean him waiting until much closer to the time he's due to leave.

**TUKE:** If you're on a package holiday, for the duration that the Foreign Office is advising against non-essential travel to a destination - in this case Mexico - then tour operators do need to offer either an alternative holiday; or if that's not feasible for you, then a refund. But they will be having quite strict policy guidelines in so far as dates, so each company will have a different date level that they're working to.

**HOWARD:** Both Jarrett and Jack have travel insurance, but in both cases the insurer has said they won't pay out because they don't cover holiday cancellations due to change in Foreign Office guidelines. Rochelle Turner, Head of Research at Which? Holiday, says that's wrong.

**TURNER:** I think that's entirely unreasonable. The Foreign Office advice is telling people that all non-essential travel to Mexico should be avoided at all costs, so basically do not go to Mexico if you can avoid it. So I think it's incredibly unfair on behalf of insurers to be taking this position.

**HOWARD:** And, Paul, there's still a lot of confusion within the relevant industries as to just how many insurance policies do cover this. ABTA says most don't. The Association of British Insurers say most do.

**LEWIS:** Thanks very much, Bob. Well Nick Starling from the Association of British Insurers is still with us. Nick, clear it up for us. The Foreign Office says don't go unless it's essential - a holiday isn't really essential, is it? - but your members say sorry, you're choosing not to go, we won't pay up.

**STARLING:** If you choose not to go where your travel company has offered you alternatives, then it's not covered. The key thing is you go first of all to your travel company, to your airline, and they will arrange alternatives and so forth for you. In circumstances where

say you're an independent traveller and you pay for your ticket, then our understanding is that most travel insurers will cover for cancellation and quite often they specify that it covers things like Avian flu.

**LEWIS:** Yes, though I mean that's not the information that we've got. I mean the two examples we had, neither of them would cover it, and this poor chap's lost half the cost of his honeymoon hotel.

**STARLING:** Well my understanding ... That's an issue between him and his travel provider rather than the insurer. I think the key thing is ...

**LEWIS:** *(over)* Well no it's not because that was a booking with a Mexican hotel. I mean that's nothing to do with the travel provider. It's your policies. We pay for insurance and yet just when we need it, you say sorry it's disinclination to travel, we're not going to pay up.

**STARLING:** Well I've got a policy wording in front of me which says quite clearly they *do* pay for cancellations in these circumstances.

**LEWIS:** Okay, well that's one example. But can you say on behalf of your members, if people aren't being paid up, what can they do? Can they come to you and say, "Look, they won't pay up. Make them"?

**STARLING:** Well the first thing to do is to speak to your travel insurance provider. And, remember, this is possibly a spreading pandemic; there's going to be other destinations. So the thing is to look and see what's covered and the sort of holiday you're planning.

**LEWIS:** Nick Starling from the British Insurers Association, thanks very much.

Now do we need more building societies? There are just 53 and only a handful of them are any real size. But this week Members of Parliament on the Treasury Select Committee said that the building society model had served people better than the banks. Indeed banks and those that ran them came under coruscating criticism. They'd made "an astonishing mess of

the financial system, abandoned time honoured principles, leading to the meltdown we have witnessed”, they said. That’s in sharp contrast to this praise for building societies by Committee Chairman John McFall.

**McFALL:** What we need to do in reshaping the economic landscape is to maybe go back a little bit to the small is beautiful rather than the big is beautiful and encourage the development of mutuals and building societies. I think it’s a great opportunity for building societies.

**LEWIS:** But is it realistic to think that building societies, which only have about a fifth of the savings and mortgage markets, could step into the breach? A question I put to Jane Fuller, Co-Director from the Centre for the Study of Financial Innovation.

**FULLER:** I think that’s a little bit of sort of motherhood and apple pie. First of all, to the extent that they were more conservative - if you look at Lloyds Bank before HBOS, it too was relatively conservative and relatively successful. Secondly, where they *weren’t* conservative with Dunfermline as a terrible example ...

**LEWIS:** That’s the one that failed and was taken over largely by Nationwide?

**FULLER:** Yes, Nationwide had to be paid £1.6 billion to sort of take it out of its misery. Proportionately that’s probably even worse than Royal Bank of Scotland as a failure. It was piling into commercial property at the peak of the commercial property market. So they still make mistakes.

**LEWIS:** Well listening to us is Adrian Coles, who’s Director General of the Building Societies Association. Adrian Coles, presumably you’d agree the committee is right to say the building societies have served us better than banks?

**COLES:** Well there’s some very encouraging remarks coming from the Treasury Select Committee and we do know certain things. We know from independent market research that building societies provide a much better customer service than banks. They’re better trusted, they offer better value for money, they’re more welcoming in their branches and we’ve got

lots of data showing that. We know they're more consistent payers on interest rates, on savers. And, finally, in aggregate, we know that they've got less risky mortgage portfolios than the rest of the mortgage market. Their arrears are much lower.

**LEWIS:** That's a very good advert for them there, Adrian. But Jane is absolutely right, isn't she - Dunfermline failed, it had to be rescued. Five other societies, I think, or it may be six now, have had to be taken over - often by way of rescue by bigger societies. Only a handful of them have got any size at all, haven't they? The others are really you know just basically local societies, not major players at all.

**COLES:** Well there's nothing wrong with local societies if they're offering an important service in their locality that's valued by the people that live there. I think that's commendable. I don't think we should be looking for every building society to be a national building society.

**LEWIS:** Is that the model of the future then, Jane - very small, local societies - because the committee clearly wants the Government to encourage more building societies? Is that the sort of start-up we might see?

**FULLER:** There is some virtue in being smaller and in being focused. One of the advantages of small size is that you're not too big to fail and so when things do go wrong you're a digestible bite for the likes of Nationwide.

**LEWIS:** As we've seen over the last 12 months.

**FULLER:** Yuh, focus obviously makes it easier to manage, less complicated products makes it easier to manage. But that's a business model story, not necessarily just a building society.

**LEWIS:** Yes. The last new building society though was nearly 30 years ago, in 1981. Is it more difficult now for a new society to be formed?

**COLES:** It is. When the Ecology Building Society, which was the newest in 1981 was formed, you needed only £5,000 of capital to set up a new building society. You couldn't do

that these days.

**LEWIS:** How much would you need?

**COLES:** You'd need in fact a million as the smallest that the regulator would allow. The problem is, of course, where do you get your external capital from? And most building societies, in fact all building societies, started off small, built up their capital and became the size of the organisations they are today. It's very difficult to start a significant, large mutual from scratch because you've got to go through the process of building up the capital.

**FULLER:** It's very easy to be nostalgic about this. But if you think about it as a depositor, you want to be very careful about who's looking after your money. If you think about Farepak, which collected savers' money and was *not* regulated and then it disappeared into the loss making group. So, first of all, there should be high hurdles to become a bank and a taker of customer deposits. People should be checked out and there needs to be capital behind it.

**COLES:** Is the Treasury Select Committee then being naïve in its hopes of an expansion of the building society sector?

**FULLER:** I don't want to be too negative about the building society sector. It's obviously very important and it's also important to have alternatives to quoted banks. Increasingly important because if you think about the concentration that's taken place, we want to make sure there's still some competition there and it's not just an oligopoly of three. Maybe the way for them to be better competitors would be actually for a continued consolidation, so you have slightly fewer stronger players.

**LEWIS:** Yes, is this the problem, Adrian - they really are too small? There's only Nationwide really on the scale of a bank and very few of those behind it are much smaller. Do they have to consolidate to make maybe a dozen or half a dozen really big societies take on the banks?

**COLES:** I think it's quite possible there'll be more mergers. I mean obviously to say there'll be no more mergers amongst building societies would be an odd thing to say and I think there

will be more mergers, although it's difficult to predict who and when. And if that results in a stronger, sort of chunkier sector, then that will be a good thing.

**LEWIS:** Adrian Coles of the Building Societies Association and Jane Fuller of the Centre for the Study of Financial Innovation.

A major campaign is gathering strength against the Government's plans to slash the tax relief paid on pensions for people with an income above £150,000 a year. The numbers involved are quite small - only about 300,000 individuals have an income that high - but there are fears that once the Treasury has started limiting tax relief for this top 1%, it could carry on down the income scale. There are also concerns about the fairness of rules which started on Budget Day, which stop people boosting their contributions before the new regime begins in April 2011. It was those rules that one Money Box listener from London - we'll call her Alison - was worried about putting extra money into a Self Invested Personal Pension or SIPP.

**ALISON:** I wanted to know if I were to make in excess of £150,000 in this current tax year and I have already made a contribution to my SIPP in excess of £20,000 before the Budget, so between 6<sup>th</sup> April and 22<sup>nd</sup> April, will I still get 40% tax relief on that contribution? And, furthermore, will this affect the monthly pension contributions which I had in place separately to any sort of one off payments to the SIPP?

**LEWIS:** Well with me is Angela Beech who's Head of Personal Tax at accountants Blick Rothenburg. Angela, these rules are hideously complicated from what I can see anyway. Will Alison be caught by them?

**BEECH:** Well she's absolutely fine with the contributions that she's made so far this year. The payment made before Budget Day is safe, she'll get higher rate tax relief on that, and her normal regular pension and savings will also still qualify. The problem will be if she changes that in the future because, assuming that the total of her contributions in this tax year exceeds £20,000, she won't get any further higher rate relief.

**LEWIS:** Right, so those are the rules, are they - that you mustn't exceed more than £20,000 a year - but of course you must be earning £150,000 or have an income of £150,000?

**BEECH:** That's right. And also it's important to note that it's your total income and not just your savings.

**LEWIS:** And not just your earnings, so ...

**BEECH:** That's right, Yes, sorry - not just your earnings, so it's the whole lot. And also people are caught out because it's looking back 2 years as well - so if you didn't earn £150,000 this year, but you were earning £150,000 in either of the last two tax years, then these new rules will apply to you.

**LEWIS:** So you're not taxed on those old pension contributions. It's just your earnings that bring you into the scope of it for the future. Now to put it bluntly, Angela, your job's to help people avoid these rules, isn't it? Have you come up with any good wheezes to get people out of them?

**BEECH:** Well, as I say, the problem is that you've got to look at what your income levels were for 2 years ago - so if you're caught, you're caught and there's nothing really you can do. If you weren't caught previously but this year you're going to earn more than £150,000, you may want to look at how you can reduce that - perhaps by doing some salary sacrifice. But you can't salary sacrifice for pension contributions. That's ignored.

**LEWIS:** So you might say pay me a bit less, but pay for my childcare or something like that? That would do?

**BEECH:** That's right, that would be absolutely fine, so that then you can come under the £150,000 limit.

**LEWIS:** Okay. Well that's the very rich. I mean Alison mentioned a SIPP, a Self Invested Personal Pension. Now those have been very heavily sold to people way down the income scale. Are these suitable for people? Do they cost a lot?

**BEECH:** They do cost a lot because obviously you're employing a SIPP provider, and how

much they charge is going to be dependent on the amount of work that they do and very dependent on what investments you've got in it. Most people want to access a SIPP to diversify investments because a SIPP can go into things like commercial property or ploughed into trading company shares.

**LEWIS:** So you're paying the SIPP person - the trustee or whatever they're called - and you're also paying for the fund manager for the money it's in. So there's a sort of double charge, so you've got to be sure it's worthwhile.

**BEECH:** That's right, you're not benefiting from the sort of major companies.

**LEWIS:** Now the other 99% of us - literally - whose income is under £150,000 a year, there are fears that that tax relief may be under threat in future. What can we do now, particularly people who are over 50, approaching retirement, to boost their pension before this Chancellor or another starts having another raid?

**BEECH:** Well obviously if you are over 50, you need to be very careful to take advantage of the fact that there are some new rules coming in from next April where the age at which you can access your pension will increase to 55. So you may want to look at taking your lump sum now. That's 25% of the fund value. And depending on the amount that you get, you could reinvest that into the pension and get some further tax relief.

**LEWIS:** Yes. And it's possible, isn't it, to put an extra lump into your pension, as long as you've got less than £150,000 income, and then take the lump sum straight back tax free? So that's quite a worthwhile thing to do.

**BEECH:** Yes, exactly Paul.

**LEWIS:** Okay Angela Beech of Blick Rothenburg, thank you very much for that. Well, goodness, that's it for today. We're running out of time. Find out more from the BBC Action Line - 0800 044 044 - and of course our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), where you can do all sorts of exciting things - watch videos, sign up to my weekly newsletter, download the podcast, listen again, and of course have your say (as many of you are) on age discrimination.

It does seem to be rife. You can also find out who voted Money Box 'Best Radio Programme' this week, and email us [moneybox@bbc.co.uk](mailto:moneybox@bbc.co.uk). Vincent Duggleby's here on Wednesday with Money Box Live. This week he's taking your questions on renting and letting. I'm back with Money Box next weekend. Today the reporter was Bob Howard, the producer Caroline Bayley, and I'm Paul Lewis.