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MONEY BOX LIVE

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LEWIS: Hello. There can't be many people in their 50s and some in their 60s who are wondering not just *when* they'll be able to retire but whether they can ever afford to. Hardly a day goes by without more bad news on pensions, whether it's company pensions in trouble or the value of personal pensions collapsing. One option of course is to work longer if you can, but the European Court recently confirmed that your company can sack you at age 65 despite laws which prohibit age discrimination. And with unemployment rising, what chance of getting another job in your 50s or 60s? At the same time any cash you've saved up is likely to be earning almost nothing. There's no shortage of advisers encouraging you to invest to earn more money, but is that really a sensible option as you approach retirement? It's difficult, and for many people new territory, but not for my panel of experts. So why not call them now - 03700 100 444? And with me on Money Box Live to answer your questions about retirement planning are Stuart Bayliss, who's Director of independent financial advisers Annuity Direct, specialises in annuities; Chris Ball is Chief Executive of the age and employment network TAEN, which helps older people with work and training; and Mark Meldon is a director of independent financial advisers R.C. Gray, who specialises in pre-retirement advice. And the first question is from Harry in Southend. Harry, your question?

HARRY: Yeah, I'm retiring in about 18 months time. My pension, which is with Scottish Life, has gone down or the value's gone down to about £180,000 or £140,000 with the annuity values going down. I don't really know what to do when I come

round to retirement because I don't necessarily need the income at the time, but I would like to get hold of a cash lump sum.

LEWIS: Okay, so it's options. How old will you be when you retire, Harry?

HARRY: 65.

LEWIS: 65.

HARRY: I've waited till I'm 65 and I've seen my pension pot reduce as time's gone on in the last 10 years.

LEWIS: *(laughing)* Yes, should have gone at 63 really, shouldn't you? I'm afraid an awful lot of people who've emailed us are in exactly that position. Let's start with Mark Meldon. Mark?

MELDON: Hello there. Do you know what investment fund you're currently in at the moment?

HARRY: I'm with Scottish Life Talisman.

MELDON: Right. Are you in the managed fund or with-profits or ...?

HARRY: With-profits I think it is, which is abysmal. I got £300 I think it was profit last year on £120,000 quid invested.

MELDON: Yeah, it's very difficult. I think you might find that the reduction in value would be were you to actually cash the plan in right now because a lot of these older style contracts do have penalties if you take the benefits other than exactly on the day you're due to. So I think you need to look very carefully at that.

HARRY: I was intending to leave it, but the thing is on that that I wanted to know ...

I didn't necessarily want to go for an annuity straightaway.

MELDON: Well you can do that nowadays. You can take the cash if that's what you want to do, but you'd have to use an alternative home for the three quarters of the fund that would normally be used to buy an annuity or some other form of retirement income. And that would involve some cost, but not a great deal. You are now allowed to defer taking the income right up until age 75, but access to cash, and we do do that for clients.

HARRY: And just to be clear, Mark. You're saying that under rules which are really quite recent, aren't they - when you retire, if you like, or (as they call it) crystallise your pension, you can take that tax free lump sum of a quarter of it without taking an annuity with the rest, which is a much better deal than it used to be?

MELDON: Yes, that's true. I think the only potential problems though, which need to be pointed out, is that quite often the products that are being developed by the pensions industry to receive the money that's *not* being accessed tend to be based on riskier funds, such as equities, although some of them do have some quite attractive guarantees.

LEWIS: And can you choose something less risky?

MELDON: You can.

LEWIS: I mean there are several funds that are cash or almost like cash now.

MELDON: Yes, there certainly are cash and index-linked gilt funds, for example, available through most of these products. But don't dismiss taking the annuity. Even if you don't actually need to spend the money, you can actually recycle those payments and defer the pension contributions, for example.

LEWIS: Let's ask Stuart Bayliss to comment. Stuart?

BAYLISS: I think that last point is one of the lines that I would make, but you also ought to talk to Scottish Life because there are new modern - this Talisman plan you have has been replaced in a modern context and these new plans integrate the two things that Mark was talking about, Harry. In other words, you can actually move as little as £10,000 from your pension pot to your crystallised or post-pension pot and you needn't make any difference to your investment and you take £2,500 tax free cash. Now so what you can do with that is you can actually plan your need dependent upon how much income you've got, how much extra income you've got. So I think what you need to do is look at your options over the next 18 months and realise that there are some new and better ways to utilise rather than this once and for all decision that you're wanting to avoid, and I can understand that.

LEWIS: So not only can you take the lump sum and not get the pension, but you can take it in bits? You can take little stages of it as you see fit, as you need it and as you think ...

BAYLISS: *(over)* With the newer plans. And Scottish Life have one of them.

LEWIS: Right, so that's very flexible.

HARRY: So it's a matter of going back to Scottish Life and enquiring what options they can offer me now really?

BALL: Well I think you should probably take independent advice. Go and see a good adviser who will go through all of the options from the whole of the market. You're not restricted to Scottish Life.

HARRY: I have no intention. Okay, thank you very much.

LEWIS: Okay. Chris Ball, I think you had a slight comment there.

BALL: Well really just to say that you don't have to think in terms of all or nothing

at all as far as work is concerned because it's not an on or off situation. You can carry on working and take your pension; you can reduce your hours; you can work part-time. And many people who are facing these sorts of problems now with annuities and so forth are actually taking the decision to carry on working either beyond the age at which they take the annuity in their early 60s maybe or even beyond state pension age. You can take your state pension and continue work if you wish to do so.

LEWIS: Yes. Let's talk to Barry next. Thanks very much for your call, Harry. We're now going from Harry to Barry who's calling us from Doncaster, who that point might be very relevant to. Barry, your question?

BARRY: Hi. Good afternoon, gentlemen. It's a similar question actually. I've got about two and a half years left to go before I'm 65 and I've been paying into an occupational pension with my employer for about the last 9 years, so my pension pot's not that great. I've got a number of other pensions which are due to come you know to fruition when I'm 65 from other previous employers, but my current one that I'm working with now, I'm wondering what to do because the annuities, from what I understand, have been really good recently and I wondered if it might have been worth you know cashing in early and going rather than going for another 2½ years - basically what the panel might advise.

LEWIS: Take an annuity now when they're reasonably good rather than waiting. Stuart Bayliss, are they going to go up or down, annuities?

BAYLISS: They're going to trend down and there might be particular circumstances where they could fall very quickly. And the problem is that those circumstances coincide with good news for the economy, which is that quantitative easing, which we all read about, begins to work.

LEWIS: This is when the Government prints or at least creates in its Bank of England computers a lot of money and that pushes down or changes the bond rates and that affects annuity values?

BAYLISS: And that indeed does, and that could have a really rapid effect. So, Barry, I think you're right to address it, but are you in good health?

BARRY: Yes, thank you.

BAYLISS: Right. Well you know I think annuities are good value at the moment relative to their own value in the past, but what you need to think about is you're going to be retired for a very long time. You've got these other pensions as well, which I presume were related to your earnings in those careers. They're not a money purchase scheme?

BARRY: No, they were earnings related.

BAYLISS: Yuh. What you need to do is bring together all these different aspects and then sit down with somebody who you can trust and just go through them and make a decision based on that flexibility then. But you should bear in mind that annuity rates will probably fall.

LEWIS: You say bring them together, though of course you shouldn't put your salary related pensions into a pension.

BAYLISS: No, no.

LEWIS: ... but I think Mark Meldon was about to make that clear. Mark?

BAYLISS: I meant bring the information together.

MELDON: Yeah, I was going to say the other thing to remember, of course, is that your employer will be paying into the pension scheme and to forego 2½ years of deferred pay, if you like, or free money - another way of putting it - would be perhaps a matter of some regret later on. But sometimes employers will do deals for their older employees; that they will allow them to take benefits now out of their main money

purchase pension scheme, but contribute again to something like, for example, a stakeholder personal pension for the next 2 or 3 years. If you've got an understanding employer ...

BARRY: I have, yes I have.

BAYLISS: Well then you should certainly ask them.

LEWIS: And, Chris Ball, you mentioned earlier the possibility now that you can draw your pension and carry on working. And that's another important new right, isn't it?

BALL: Absolutely. You can do that, both your pension from a previous employer and from the existing employer. Since 2006, you've technically been able to take your pension from your present employer and continue to work for that employer - in some cases on reduced hours. Of course the employer has to agree to do so. It's not compulsory.

LEWIS: And so does the pension scheme. Barry, sorry, you wanted to come in there.

BARRY: Yeah, I just wanted to ask what roughly is the annuity rate at the moment?

LEWIS: I think that's one for Stuart.

BAYLISS: Well your age at the moment, at 62, it will be just under 7%, around 7% on a level basis.

LEWIS: So if you have £100,000, you'll get £7,000 a year pension. Is that what that means?

BAYLISS: Yeah. And on a joint life, it would be - a partner of similar age - you'd be talking around 12% less. And if you wanted to protect yourself against inflation with

RPI, it would be 25%, a quarter less, or slightly more than a quarter less.

LEWIS: Mark Meldon, is it worth protecting yourself against inflation in that way? You get a lot less and calculations I've certainly done in the past indicated it took 20 or 30 years before you got that back.

MELDON: That depends on the future rate of inflation.

LEWIS: And you don't know what that's going to be.

MELDON: No. But we had over a decade, not so many years ago, where inflation averaged 8%, and I think you'll find an RPI linked annuity would cash up a level in probably 6 to 8 years rather than 17 to 20 years. It's a very difficult thing to do. Someone like Barry will have some pensions that may be automatically increasing.

LEWIS: These are the salary related ones?

MELDON: That's right. And he would need to sit down and do a bit of number crunching, or ask them to do it on his behalf, and establish as to whether he should buy a level pension or one going up by fixed percentage or hopefully linked to RPI. I have to say if at all possible people should think longer term when setting up annuities. I'm sure Stuart would agree that 30 years ago, lots of us were doing different things. Most people can expect to live 20 to 30 years in retirement. It's a long time.

LEWIS: It is. And, Stuart, I know in the past you've been someone who said flat annuities were the way to go, but you've changed your mind because of the fear of very high inflation.

BAYLISS: Look, for most people buying average sized annuities, level annuities are a sensible route. And I think you're absolutely right, Mark about - and that was one of the reasons for my saying gathering all the information together - about the defined

benefit benefits because you have got some that will increase by inflation even if it's only your state pension. But one of the things that people are looking at now is you know it wouldn't do the Government any harm at all in a few years time to have a little bit of inflation because that would reduce the value of the borrowing money and that in itself means that we might be in for a period of inflation because policymakers will see some advantage in it.

LEWIS: And of course printing money, as we journalists like to call it, will fuel inflation because that increases the money supply and it's inevitable inflation will start going up again. But we don't know how far.

BAYLISS: No and we could have a couple of years where it's at 7, 8% for a couple of years before it comes down again, and that means that people will see a radical change in their lifestyles.

LEWIS: Yes and makes inflation proofing more important, of course. I remember it at 26.9% I think in August 1975. We're going to go to an email, a couple of emails now. Val says 'You should try getting a job in this country at 40 plus', which I presume is what she is. 'My neighbour emigrated after looking for a job for 18 months and got more than one application back with his age highlighted. I applied and was told they only took on people between the ages of 18 and 23.' Chris Ball, that's illegal, isn't it, now?

BALL: It is illegal. Half the problem is that when you apply for a job and you're turned down, you don't usually get told that you're being turned down because you're too old, so Val is very unusual in that sense and she would seem to have a pretty good case to bring to an employment tribunal. Most people who experience problems of age discrimination probably experience them when they're applying for a job, but proving it is another matter.

LEWIS: And another related email from Margaret who says that her experience of being a woman approaching 60 now, she set up her own business and she thinks that in a sense it's better to set up your own business where there's no age discrimination,

where in a strange way you're taken more seriously if you've got grey hair, than trying to become an employee. Is that something you're finding - a growth in demand for self-employment?

BALL: Absolutely and it's a useful way out. I mean often it's a way out that doesn't necessarily generate the kind of income that you want, but at least it keeps you active. And if you're still interested in obtaining employment as opposed to being self-employed, then often you're in a far better position to get a job if you're self-employed than if you're unemployed. Being unemployed for a period of time is probably the worst news as far as the job market is concerned.

MELDON: We're finding lots and lots of people are doing more than one job.

LEWIS: Mark, yes?

MELDON: I mean financial advisers are always going on about diversification, but I think people are doing that with their own lifestyles now. You know they work for an employer 2 days a week and have a business running on the side and all the rest of it. We are beginning to see a bit of a change, I think, from the old patrician employer to more self-reliance, I'm afraid.

LEWIS: Yes. Well that kind of flexibility's good, isn't it? You have your pension on Monday, your self-employment Tuesday and Wednesday, and your job Thursday and Friday.

MELDON: Well it means that you've got Plan B and it's always a good idea to have Plan B to fall back on. And I think that that applies in terms of qualifications and skills and so forth as well, so if you can keep yourself not only fit and healthy obviously but also with more recent skills that you've acquired, more recent qualifications and so on, even if you've been in a job for 20 years you may be able to do something else.

LEWIS: Yes and it gives you more to put down on that CV if you are applying.

MELDON: On that CV, absolutely.

LEWIS: It's important to get all the positive, recent things up at the top.

MELDON: Absolutely - to think of everything that you're doing, including your voluntary work and so forth. And often people undersell themselves, I think, when they're applying for jobs. They just put down their formal qualifications and they put down their formal job titles and things like that, but actually it's often the case that something that you're doing on a purely voluntary basis, something that you're passionate about, your interests and so forth, are really going to be the things that enable you to get that job.

LEWIS: Okay. Well thanks for those emails, Val and Margaret, and also thanks to Barry and Harry who I didn't thank earlier. Let's move onto Richard now in Croydon. Your question Richard?

RICHARD: Good afternoon, gentlemen. Yes, I'm currently 61 and looking to retire in maybe the next 18 months or so. I'm one of the fortunate few that has an occupational AVC scheme along with a final salary scheme. With the interest rates being so appalling at the moment, my AVC scheme allows me to take up to 25% of my total pot tax free cash. Is it as a higher rate taxpayer more advantageous for me at the moment to put all of my salary into the AVC's, hence get an immediate 40% benefit, rather than putting the money into savings?

LEWIS: Right, so you're thinking you can live on your savings for a year or two and put all that you earn into a pension. Which of course you can do, Mark Meldon now, can't you?

MELDON: You can, but really you shouldn't let the tax tail wag the investment dog. The disadvantages I suppose with AVC's and other forms of pension planning is that

a great deal of money isn't readily accessible once it's in there. You've really locked it away to produce a pension, which is what they're for. There are plenty of other things that you could put some money into. Don't dismiss index linked National Saving certificates.

RICHARD: No, I've got those already.

MELDON: Have you? And every time there's a new issue, you should maximise those. Cash ISA's, stocks and shares ISA's.

RICHARD: No stocks and shares. Not at 61, thank you.

MELDON: Well I take your point. There are some lower risk alternatives. You can hold index-linked gilts and things like that and conventional gilts if that's your thing.

RICHARD: Yeah, my point is though that the AVC's are giving me an instant 40% boost ...

MELDON: Yes.

RICHARD: ... whereas I've already taken up this year's £3,600 for ISA's, we've got index linked stuff. I don't really want to tie up things for another 3 years.

MELDON: So do you think you'll be a higher rate taxpayer in retirement?

RICHARD: I haven't really worked that out.

MELDON: That's quite important because you have to remember that pensions and annuities, they're taxed as earned income. Whereas if you take the tax free cash, you can actually buy a relatively obscure type of annuity called a purchase life annuity with your own money, and the Inland Revenue - or HMRC as it's called nowadays - they treat a significant proportion of that income as a return of capital, so the tax

burden in retirement is lower than it would be from a pension annuity. They do have the same advantages and disadvantages of pension annuities, but they're often overlooked. And I think certainly for a higher rate taxpayer, although perhaps you're a little young to be doing one, they shouldn't be dismissed out of hand.

LEWIS: Okay, Richard, thanks very much for your call. I'm going to move on now to possibly the youngest man in the country thinking about his retirement - Andrew, who I think is 27. Is that right, Andrew?

ANDREW: Yes it is, yeah.

LEWIS: Great. I'm glad you're thinking about it so early. What's your question?

ANDREW: I've just become eligible for my company's share scheme. I work for a large global company called Fujitsu. I'm a sales rep. And they're offering to pay 10% of my salary as a pension contribution, matching a 3% contribution from my own as a deduction. And I'm a bit of a pension novice. I don't know much about it. Half of the people I've asked about it have said now is a terrible time to start thinking about buying into a pension or putting money into a pension.

MELDON: Well that's nonsense.

LEWIS: Mark?

MELDON: Bite their hand off.

ANDREW: And some people are saying now is a great time.

LEWIS: Mark Meldon says bite their hand off. Mark, just advise Andrew.

MELDON: Someone of your age really ought to be contributing around the 13, 15% of total income into pensions anyway. Forget the long-term possible changes in

legislation, etcetera, etcetera. The 10% employer contribution is ... you know if they offered you a 10% pay rise tomorrow, you'd probably say, "Well yes, please, thanks very much". Look at it as deferred pay. You've got to wait a long time to get it, but it is effectively free money and I personally, I mean if they piled the money up on the breakfast table, you wouldn't set fire to it with a box of matches.

ANDREW: I see.

MELDON: And a 3% contribution from yourself, well that's interesting because that's what's proposed under the new scheme which the Government's due to introduce in a few years time as the minimum sort of contribution level. And I do think that that's a very generous offer from your employer.

ANDREW: Right. The thing I've got as well, I've got a second property which I'm renting at the moment, which I sort of jokingly refer to as my pension, which I'm not really intending to sell. I'm going to keep paying that off until I own it and that hopefully will be worth a nice lump sum in the future. Really I suppose I'm not expecting to be with this employer for the rest of my life. It is a personal pension that they'd be contributing to, so if I left the employer would it still be ...

BALL: (*over*) That's your money. You can take it with you.

LEWIS: Stuart Bayliss?

BAYLISS: I just think look it's your money, you're getting an extra 10% added. You're losing 3%. Just go through yourself - what does this 3% cost me versus the extra 10? When your friends tell you it's a bad time to start, they're wrong because actually if you're going into a kind of general fund with some stocks and shares, you're buying it cheap today. And, what's more, you're going to be buying little by little in that fund and any investment adviser will tell you that's actually a good way to buy. Never buy at the top because then you get very little and see it go down. It's not a bad time.

LEWIS: I think we'd have a lot fewer ...

BALL: *(over)* It's staying in there a long time as well.

LEWIS: Sorry, Chris?

BALL: It's going to stay in there a long time.

LEWIS: Indeed, 40 years, which is the sort of time you need for a pension. I think we'd have a lot fewer callers today, Andrew, if they'd all been quite so ... what would you call yourself, naïve, about pensions?

MELDON: Just do it, Andrew. Don't even hesitate.

LEWIS: Andrew mentioned a company scheme, which was one that he pays into a pension pot and so does his employer. I've also had an email from Fiona who wants to know about buying added years. Now, Mark, can you explain that to us? This is for salary-related pensions, isn't it?

MELDON: Yes. They're quite expensive, but the attraction of added years is that you purchase added years in the main pension scheme. So for example if you have 20 years service, the maximum qualifying for the maximum pension is 30, then you could voluntarily purchase an extra 10 years. It'll cost a great deal. It tends to be the larger schemes that offer these and they're not always available from all employer schemes, but certainly in the National Health Service and teachers, they offer that facility.

LEWIS: But certainly worth thinking about if you're in that fortunate position?

MELDON: Yes you are buying guaranteed benefits.

LEWIS: Let's move onto Brenda in Pontypool. Brenda, your question?

BRENDA: I'm a married woman of 38 years. I'm 58 now and I've had a pension forecast and I get my full pension at 60 years 8 months.

LEWIS: This is your state pension?

BRENDA: Yes. My husband's 60 and he's had his pension forecast and he'll get the full pension, but I don't know whether or not we both get a single pension in our own right or between us we just get one married couple's pension, which is actually less money than what our two single ones in our own right are?

LEWIS: No, I can answer that very quickly, Brenda. You both get the pension you've paid for into the national insurance scheme. Married pensions is a misnomer that the press generally have created. You'll both get the pension you've paid for that the forecast has told you you will get and they'll be your own individual pensions.

BRENDA: Thanks very much.

LEWIS: (*laughing*) That's okay. I can answer that without bothering our experts, but thanks for your call. We've had a number of calls about state pensions. Let's move onto our next caller now, who is Michael in Tunbridge Wells.

MICHAEL: Hi there. Yeah, my question basically is I'm 56. I've got two or three frozen pensions in various schemes not offering much at the moment. My current employer is offering - I've can join my current employer's pension scheme, which is a group stakeholder, and they are prepared to put in 3% of my salary and leave up to me how much I put in myself. I just wonder what your basic advice would be in my situation?

LEWIS: Right, Mark Meldon, this can be quite complicated, can't it, when you've got several pensions from different sources?

MELDON: Yuh, the first thing to point out is unfortunately they're not frozen as

such. If they're old personal pensions or their pre-cursor, the retirement annuities, some companies are still taking charges out of those pots which combined with poor investment returns over the last few years is not generally good news. However, really old - I mean do you know how old your policies are?

MICHAEL: Well the oldest goes back about 15, 20 years.

MELDON: Well the reason I ask is that some of these very old contracts also incorporate guaranteed annuity rates, which in very simple terms offer much higher incomes compared to what would be available in the open market as we speak. That may not be the case in the future. But basically what you would need to do is analyse the benefits that might emerge from these policies, then make a decision as to whether or not it would be worth consolidating them. Our regulator, the Financial Services Authority, is extremely interested in this particular area at the moment and has effectively ordered a review, which I don't think is necessarily a bad thing because some people have switched out of contracts with these old guarantees. Even if we're talking about fairly small pots of money, the guarantee foregone is you know quite disastrous really. So what I think you need to do is to sit down, get up to date with information from the companies you have old pension plans with, ask them for projections until the normal retirement age and then simply compare those projections with what may be available from your employer's scheme, which clearly you should join because again it's free money from the employer, isn't it?

LEWIS: Stuart Bayliss, how easy is it to get this information for an individual from these schemes because some of them, it's quite hard, isn't it?

BAYLISS: Yes and particularly given that 15 or 20 years ago there was a much larger number of insurance companies and pension companies around. They've consolidated. Quite a lot of them have gone out of business. And you may have read and heard about these zombie funds which are made up of closed funds and they are quite tricky to get full information from and even trickier when you're asking about guaranteed annuity rates because some of them had a different way of expressing a guaranteed annuity rate and it wasn't the annuity rate that was guaranteed, it was

some other part of the pension. And so what you really do need to do is, as Mark has said, gather together the information that you can get about these old schemes, Michael, before even dreaming of making your life simpler by putting them together because you might find that you've got a little nugget there. And the level at which it is is a Scottish Widows GAR at the age of 65 is 11.11% and that compares to 7 point something for a level rate at the moment.

LEWIS: Thanks very much for that and thanks for your call, Michael. I'm sorry, we're going to have to stop now because we've got endless calls and endless emails coming in. That is all we have time for. I'm sorry if we didn't get round to you. But you can read a transcript of the programme and find lots of information on our website, bbc.co.uk/moneybox, or from the Action Line, which is 0800 044 044. My thanks to my guests - Stuart Bayliss of Annuity Direct; Chris Ball from the age and employment network TAEN; and Mark Meldon of R.C. Gray. Also on our website you can listen again if you want to, download a copy, subscribe to the podcast and, as I say, read a transcript. Now I'm back at noon on Saturday with Money Box and here to take more of your calls on Money Box Live next Wednesday. Now that is Budget Day and our subject though will be mortgages. Don't worry, we'll be answering Budget questions on Thursday at noon with our annual Budget Call.