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MONEY BOX

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TRANSMISSION: 18th DECEMBER 2010   12.00-12.30   RADIO 4

LEWIS: Hello. In today's programme inflation is up again, so how do you get a positive return on your savings? Is now the time to go for shares? Should you pay less national insurance and put that money into a personal pension for the last 2 years before contracting out ends? Bob Howard's here looking into mortgage arrears.

HOWARD: We reveal the key phrases you need to say to your bank if you want to get help early.

LEWIS: And we hear new concerns about mortgage broker Yes Loans. And more of your savings will be protected from the end of the month.

But we start with how to protect our own savings during times of high inflation. The Retail Prices Index showed an annual rise of 4.7% this week and the lower Consumer Prices Index showed them rising 3.3% over the year. Well whichever you think is right, it's very hard to get a better return than either of them in a cash savings account - especially if you pay tax. In other words, a year from now your cash savings will buy less than they do today. There's no shortage of advisers telling us to give up savings accounts and put our money on the stock market. One newspaper used its front page lead this week to tell readers to 'abandon pointless savings accounts'. Well first let's go to Leeds to talk to Morven Whyte, who's Investment Manager at stockbrokers Redmayne Bentley. Morven, we hear a lot about inflation, of course, but just how does it affect our savings when inflation is getting on for 5%?

WHYTE: It has a major impact. I mean if you're fortunate enough to have £100,000 in the bank or building society, then in order for the money to stand still in real terms and inflation was running at 4.5% every year for the next 10 years, that £100,000 would need to be worth £155,000, as I said, for you to stand still. So another way of putting it: that if you did nothing and put £100,000 under the bed and you got no return from it, it would only be worth £65,000 in 10 years time. So that's the impact of inflation.

LEWIS: Yes. And of course that doesn't just affect cash savings. It also affects it if you invest it, doesn't it?

WHYTE: Absolutely. So if inflation's running at any rate at all, then in real terms things are going to cost you more, so that value of your cash, investments, whatever needs to be rising.

LEWIS: And of course you've got to take account not just of getting 4.5% or thereabouts. You've got to take account of the fact that that's taxed in most people's cases.

WHYTE: Absolutely. So I mean the figures, I think you've got to get a return of just over 5.6% for a basic rate taxpayer gross in order to stand still; something like 7.5% gross for a high rate taxpayer.

LEWIS: Well that's certainly …

WHYTE: And that's very hard to achieve in banks or building societies.

LEWIS: Yes, pretty well impossible. Stay with us Morven. But with me is Darius McDermott, Managing Director of Chelsea Financial Services. Darius, do you share that Daily Telegraph view I mentioned earlier that savings accounts are pointless and should be abandoned?

McDERMOTT: I think with the cash rates being so low, I do share that view at the moment. It does depend on what rate cash is offering. Earlier - sort of 2006/2007 - you could get 5 or 6% from cash, and cash was attractive then. At 0.5 base rate, cash is not attractive now.

LEWIS: No, though of course you can get more than that. But just explain this point to me that I mentioned briefly with Morven. If I have £10,000 in a savings account, it's worth less in a year's time because of inflation. If I have £10,000 invested in shares, that's also worth less in a year's time. And you know share prices now, although they've risen, they're back where they were in May and December 1998.

McDERMOTT: With cash, you have the certainty of the rate. You invest your cash at a rate - 3, 4, 5% if you're lucky today. The thing about investing in shares is apart from getting the dividend on the index, you actually do have a chance that your capital will rise above that inflationary target.

LEWIS: And what sort of dividend rate are we getting? What dividends are being paid because that's like the interest in a sense, isn't it?

McDERMOTT: Indeed. The dividend for next year's projection on the FTSE 100 is 3.3%, which is very similar to that CPI figure.

LEWIS: Yes, so if you invested across the whole of the FTSE 100 index. And of course the tax is already deducted from that, isn't it?

McDERMOTT: It is less basic rate tax, that's right.

LEWIS: It's less the basic rate tax, yes. But to come back to this question of hoping your money will grow, I mean obviously share prices go up and down day by day, minute by minute, but, as I said, since 1998 they are pretty flat. If you invested now in shares, you might find in another what 13 years, they'd be exactly where they are now.

McDERMOTT: I mean historically equities do outperform cash. You rightly point out that it's been a poor decade for equities. Generally you don't get back to back poor decades for equities, so I would suggest that - using history - it could well be a good time to invest.

LEWIS: We're into the past is no guide to the future, aren't we?

McDERMOTT: Indeed.

LEWIS: But why do you think now is a particularly good time? What are the sort of factors that you think business is experiencing that mean it's a good place to invest your money?

McDERMOTT: With inflation being so high, companies can put the prices for their services and goods up by about that rate of inflation. This leads to the companies making greater earnings. That gives them two choices. One is to raise the dividend, so it actually gives you dividend growth; and the other is you know they make more profits. And both dividend growth and profit growth generally lead to share price appreciation, so you know that inflation actually can help equities.

LEWIS: Right, so it actually helps them out. Let's talk now to Louise Holmes who's in Norfolk. She's from the original comparison company Moneyfacts. Louise Holmes, put some money in cash, maybe even all your money in cash. If you do that, what are the best rates?

HOLMES: Well at present the current top Easy Access savings rate is 2.9%. Now a basic rate taxpayer …

LEWIS: That's from where? That's with whom?

HOLMES: That's from the Post Office.

LEWIS: Right.

HOLMES: Now a basic rate taxpayer would need to find a savings rate of 4.13% to beat CPI.

LEWIS: That's the CPI inflation. That's the slightly lower one, isn't it?

HOLMES: That's right, yeah. In terms of RPI, they would need to find an account paying 5.88%. So in comparison, rates are incredibly low at the moment.

LEWIS: Yes. And what are the best ones? I mean if you're going to tie your money up for a while, you can get better rates than that, can't you?

HOLMES: You can, yeah. If you're willing to lock your cash in for the long-term, the best rate at the moment is from Coventry Building Society and that's at 4.75%. Now a lot of people are reluctant to lock their money in for the long-term with the imminent base rate increase.

LEWIS: Yes, well we're all predicting that of course.

HOLMES: Yeah, that's right.

LEWIS: We don't know, but we're all expecting one fairly early next year, aren't we?

HOLMES: Absolutely.

LEWIS: And of course 4, 5 years from now, that rate may look really bad, so it's quite hard to lock into it now, isn't it?

HOLMES: It is, yeah. Like I say, a lot of people are reluctant to lock their money in for the long-term.

LEWIS: And what are the worst rates because we know base rate's 0.5% and banks lend to each other at about 0.75%? What are the worst rates at the moment?

HOLMES: There are some accounts which actually pay no interest at all and they're both for notice and easy access accounts, which is quite shocking.

LEWIS: Who's that with?

HOLMES: A variety of providers. A lot of them are some of the smaller providers, so local providers.

LEWIS: So the real thing is if you have got money in cash, move it around to get the best rate as often as … well certainly every few months, and at least you won't lose quite as much. And just briefly before we end this - Morven Whyte, if you want income, where do you think you should be putting your money?

WHYTE: Oh gosh. I would probably consider high yielding equities because I think bonds …

LEWIS: The ones with good dividend payments?

WHYTE: Absolutely. And again you'd probably go for a trust, particularly if you're going from cash into the share market because you know you're upping your risk profile. So a trust - an investment trust, a unit trust that has got holdings such as Vodaphone and Glaxo and all the leading international companies that provide maybe an income of 4% and some growth.

LEWIS: And Darius McDermott, very briefly, we've heard about shares. Is there anything else where you'd be putting your money or a bit of it now, just literally in ten seconds?

McDERMOTT: With inflation so high, I quite like commodities. They have historically done well.

LEWIS: Things like gold?

McDERMOTT: Yes. They're very high risk and they're very volatile, but they again have historically done well in times of high inflation.

LEWIS: And they're fun. Darius McDermott, Morven Whyte and Louise Holmes, thank you all very much.

Ever since you could contract out of SERPS, the State Earnings Related Pension Scheme (now called State Second Pension), advisers have been encouraging us to do so, especially younger people. More cautious minds though have been saying perhaps it's not such a good idea, especially for older people. But the debate will end from April 2012 when contracting out of national insurance into a personal pension will stop. But one financial services firm is emailing people now to encourage them to contract out for those last 2 years when it's possible - this year and next. Our reporter Ben Carter's been looking at this. And, Ben, just explain - rather better than I did - what contracting out is.

CARTER: Well, Paul, anyone who makes national insurance contributions can request that some of those contributions are redirected from their State Second Pension (or SERPS) into a personal pension. This system was introduced in the late 1980s, and the idea was that the personal pension provider would invest the contributions in such a way that the investor would be left with a larger pension at retirement than would have been the case under SERPS.

LEWIS: And this company that's sending out these emails, what's it been offering?

CARTER: Well First Contact Financial Services have been sending emails telling people that they are entitled to a national insurance rebate and asking them to visit a website where they're given information about contracting out. They can then fill out an online form which will allow the rebate to be paid into a Friends Provident stakeholder pension.

LEWIS: And presumably there are charges on that?

CARTER: Well there are. There's an annual management charge of 1.5% for the first 10 years and 1% a year thereafter. First Contact has told us that it takes more than half that annual charge in commission for the first 10 years.

LEWIS: And First Contact's taking the commission for what - for the advice it gives on its website?

CARTER: Well there is some confusion here. According to First Contact's Director, Andrew Frank, they're not offering advice at all. In a statement, he told us that his company categorically do not provide advice to people via this website. It's an unadvised facility through which people can contract out if they come to their own conclusion that that's what they want to do.

LEWIS: So what's First Contact doing to earn the commission? What does Friends Provident say?

CARTER: Well First Contact justify their commission by saying that they provide a checking service for those people that fill out the apparently complex forms online. I told Friends Provident that First Contact had admitted they were not offering financial advice; and in a statement Joe Cann, their Marketing Director of Investment and Pensions, said that Friends Provident has no way of knowing what methods IFAs are using to acquire customers but do expect them to ensure customers are treated fairly. And she went on to add that, "we have consistently discouraged intermediaries from submitting by an unadvised business".

LEWIS: Well thanks, Ben. I'm joined now by Bob Campion who's Editor in Chief of Pensions Insight magazine. Bob Campion, the government's scrapping contracting out in 2012. We won't be able to do it any longer. Is it worth doing it for the next 2 years?

CAMPION: Well I think there's probably good reason why the government is recommending we don't do it anymore, which is why they're stopping the rules on it, and that is that although it gives you the opportunity to build up your own … be in control of your own money over a period of time, you are taking a lot of risk on that. And if you put that in equities for instance over the last 10 years - as you said earlier, Paul - you won't have made much money on it. So you're taking a lot of risk and the government's not sure it's worth it in general terms.

LEWIS: And we've seen in the case of First Contact companies like that are encouraging people to contract out - buy now while stocks last - but these annual management charges that Ben mentioned make it a real money-spinner for them rather than the customer, don't they?

CAMPION: Well they do, I'm afraid. And that's almost always the case with pensions and it's because those small percentages every year really compound up over time. They really add up if you keep paying them out. So over 30 years - I've done a few numbers - I think you'll probably end up if you paid £3,000 into a pension like this, you'll end up paying out about half of that - £1400 - in fees over 30 years, and build up a pot worth about £5,600, something like that. So it's a lot of money that you do end up paying out over a long period of time.

LEWIS: Yes, so you pay a lot out. And of course you say the pot will build up to that, but that does depend on performance and it may be better or worse. It may be a lot worse than that.

CAMPION: Oh absolutely. I'm assuming a fairly conservative 4% growth; but even 4% at the moment, I think you'd be glad to receive. The stock market's done nothing over 10 years. Lots of other asset classes are similarly bad.

LEWIS: And that of course we have to compare with what we'd get by leaving it in the State Second Pension. What would you get from that amount of money?

CAMPION: Well this is one of the reasons why the government and IFAs are encouraging people to contract out, to take the money out of that, because it is unpredictable. It's essentially up to the government to set criteria each year which states how much you receive in what they call the State Second Pension. It's a maximum of £157 a week. That's £8,200 a year this year. So on top of your basic state pension, which is £98, about £100, you could be doubling that potentially, but it's guaranteed; and to buy a pension worth £8,000, it's going to cost you a good £150,000 at least to buy on the annuity market.

LEWIS: Right. That's the full amount though, of course, for this 2 years. You wouldn't get anything like that, but anyway.

CAMPION: Indeed.

LEWIS: It's a difficult calculation, I know. Bob Campion from Pensions Insight, thanks very much for talking to us.

Now what should you do if you think you'll have problems paying your mortgage in the near future? The Council of Mortgage Lenders says you should contact your lender as soon as you realise there's a danger that you might miss a payment, and we've often heard similar advice on this programme. But one of our listeners tried it and hit a brick wall. Bob Howard has more.

HOWARD: Paul, Suzy contacted Money Box to say she was frustrated after trying to let her bank know she was struggling to find a job and had realised her savings wouldn't cover the mortgage payments for much longer. In an email, she told us what had happened.

SUZY'S EMAIL: Firstly I went into the branch. They couldn't do anything, wouldn't arrange an appointment, and advised me to ring the special number on my mortgage statement. I rang this number and was told they wouldn't put me through to the specialist adviser until I had actually defaulted on the mortgage.

HOWARD: Suzy says she spoke to four more people from her bank on the phone after that, but to receive the same advice - that they could only do something once she'd actually defaulted on her payments.

SUZY'S EMAIL: It appears that banks have no intention of giving any sort of assistance until they have started to incur their bank charges and have had the opportunity to charge you for that advice. I think it would be much more helpful to inform people that there's no point in ringing the bank until you're already seriously in debt because they won't do anything until you are. At least you could save yourself the cost of a phonecall.

LEWIS: So, Bob, Suzy did the right thing - she contacted her lender before she even missed one payment. It didn't work. Is that common?

HOWARD: Well Citizens Advice has told Money Box there are other people in Suzy's situation being told the same sort of thing. We asked Alex McDermott from the organisation whether he thought Suzy's experience was acceptable.

McDERMOTT: Lenders should be doing everything they can to get people the help they need as soon as possible. It's the message everybody puts out: seek advice as early as possible. When you do that, you should be rewarded, you should be offered help. You shouldn't just be told come back when you're in arrears.

LEWIS: And, Bob, why does Alex think Suzy had so much trouble when she did try to follow that advice?

HOWARD: Well according to Alex, when asking for help, if you don't spell it out with phrases such as "I'm in financial difficulty" then staff don't pass you onto specialist teams that are available. He said it's like you need special code words or insider knowledge to get help, and of course most people wouldn’t know that.

McDERMOTT: When people fall into debt, it’s probably the first time it’s ever happened to them and it can be quite confusing and they might not always refer to themselves as being in financial difficulties or suffering from hardship. They might come into the bank asking for something else such as cancelling direct debits, extending an overdraft, and those should really trigger lenders and banks to think hang about, this person might be having problems, let’s have a more detailed discussion with them and see if there’s any help we can offer.

LEWIS: Okay so the help is there. It’s just a question, he says, of using those code words to make staff realise you need the help?

HOWARD: That’s right. And our listener Suzy was also very persistent. When she tried again after speaking to Money Box, she was finally told they might be able to alter her payments. But Alex says not everybody would be that determined.

LEWIS: Well indeed not. But aren’t the banks obliged to help you?

HOWARD: Well, Paul, if you have defaulted, there are regulations demanding banks support their customers, as well as a number of government schemes which will contribute to payments. But before that banks are not obliged to help, just to act fairly. To get their attention, Alex says don’t expect them to read between the lines. Don’t say you want to change to interest only payments, for example, but say you’re in financial hardship and ask to speak to the specialist team. If you can show your incomings and outgoings, that’ll help. He says be clear, persistent, and don’t be fobbed off.

LEWIS: Well a man who’s never fobbed off - Bob Howard. Thanks for that. And for details of where you can get independent debt advice, see our website: bbc.co.uk/moneybox.

The BBC has been investigating claims that one of the country’s biggest loan brokers is misleading some customers despite having been told by the Office of Fair Trading to improve its business practices. Money Box first investigated Yes Loans in May last year hearing complaints from customers that they were having trouble getting a refund from the company when it charged them a fee but they didn’t get a loan. More than a year on customers are still complaining that refunds are being delayed or not paid at all. Catherine Byrnes of Radio 1’s Newsbeat has been looking into this.

BYRNES: As regular Money Box listeners will know, this company is part of the Yes Group based in Cwmbran. Last year Yes Loans made pre-tax profits of more than £6 million. Here’s how it’s supposed to work. You apply to them for a loan and they charge you £69.50 and shop around for the best deal for you. If you’re not happy with them, you can apply in writing for a refund. But last year the OFT investigated the company and placed a number of requirements on them. If they don’t stick to them, they risk being fined or even losing their consumer credit licence.

LEWIS: And, Catherine, what were those conditions?

BYRNES: Well the best way of summing them up would be to say they’re about being open and transparent with their customers. So, for example, the OFT always expects brokers to make it clear that they’re not the lender, but they’ve explicitly asked Yes Loans to be more specific about this, especially on their website. And they have to pay back written refund requests within a month.

LEWIS: So what’s your investigation found?

BYRNES: Well, as we said, Yes Loans must make it clear that they can’t directly approve customers for a loan. But a former employee has told us they were trained to find ways around that, so they could persuade people to pay their admin fee. They don’t want their identity revealed, so we’ve got someone else to read out their words.

WORDS OF FORMER YES LOAN EMPLOYEE: We were taught how to manipulate people to think that they were getting a loan. We were encouraged to really over-hype it, build it up to this massive sort of climax, and they'd only hear certain little buzzwords. They wouldn't say "you've been accepted for a loan" obviously, but it would say, "congratulations, you've been accepted as a client of Yes Loans" and they'd hear accepted.

BYRNES: Yes Loans deny that and say it completely misrepresents their training, but customers have told us that is how calls to Yes Loans went for them. Here's an example. Martine George called the company about getting finance to set up a business.

GEORGE: They said, "Congratulations, you've been awarded a £12,000 loan." I was like brilliant, it's all sorted dead quick.

BYRNES: Did you explicitly say, "I've been approved for the loan"?

GEORGE: Yeah, 100% said that. "Have I been approved for the loan?" He said, "Yes."

BYRNES: When did you get your £12,000?

GEORGE: I didn't. *(laughs)* Or any paperwork concerning it.

LEWIS: And what does the company say?

BYRNES: Well in Martine's case that she did get some paperwork and that their agents stuck to official scripts. We interviewed spokesman Gordon Bon.

BON: If there are cases where some people have misunderstood what we said, then I'm very sorry that they've misunderstood it, but that doesn't mean that we've been telling lies.

BYRNES: We have spoken to several case studies and seen dozens of pages of emails from unhappy customers, and if you go online there are page after page of complaints about Yes Loans on the internet. Are you happy that you are sticking to the law?

BON: We're happy that we're sticking to the law.

BYRNES: There's also an issue with refunds. The OFT has made it clear if unhappy customers write to Yes Loans asking for a refund, they should get it within 30 days. But we've spoken to people who say they spent months chasing their money. One man ended up taking Yes Loans to court to get his back. Here are just some of the complaints we got on this.

COMPLAINT: I wrote three letters to them, all recorded delivery.

COMPLAINT: I have received nothing from them. I've heard nothing from them.

COMPLAINT: Finally, after probably close to 60 days, I did get my money back.

LEWIS: But isn't that directly contrary to the OFT requirements?

BYRNES: Yes, it is. The company say these complaints represent a tiny minority of the cases they deal with and the vast majority of people do get their refunds back within that 30 day window. And they add they're working hard to improve. As for the OFT, it can't comment on individual businesses unless it's taking formal action against them. But it told us it does actively monitor requirements it places on businesses and that if anyone does have evidence against a company, they should get in touch.

LEWIS: Catherine Byrnes.

New levels of protection for cash savings were unveiled late on Friday by the Financial Services Authority. As expected, the protected amount will be increased from the current £50,000 per person per institution to £85,000 from December 31st. Bob Howard's got the details.

HOWARD: Yes, Paul. The rise from £50,000 to £85,000 brings the UK into line with other European countries where compensation for cash savings is fixed at 100,000 euros. And if your bank or building society should go bust, the Financial Services Compensation Scheme now says it aims to pay claims within 7 days. If it can't, you will receive compensation within 20 working days under the new rules. That contrasts with some customers of Icesave who had to wait 2 months for a payout 2 years ago.

LEWIS: But not such good news, Bob, for some building society customers.

HOWARD: That's right. Those with money in some building societies before they merged currently have up to £50,000 protection with each, but from 31st December they'll only have £85,000 protected across all the different brands.

LEWIS: And a slightly complex position for customers of Lloyds Banking Group.

HOWARD: Yeah, that hasn't actually changed. People who have savings with Bank of Scotland, which covers Halifax Bank of Scotland, BM Savings, Intelligent Finance, AA and Saga would be eligible for one lot of £85,000. If you have savings with Lloyds TSB, which covers Lloyds TSB and Cheltenham and Gloucester, you'd be eligible for another £85,000.

LEWIS: And what about, Bob, what about people who have savings and loans with the same bank?

HOWARD: Well at the moment if you have savings and loans such as a mortgage with the same bank, then you wouldn't get your savings back. Instead they'd be used to reduce your debt. But from the end of the month the rules change and you will get savings up to £85,000 back. The exception (because there always is one) is a particular type of offset mortgage where the savings and mortgage are in the same account. In this case, you won't receive a payout. Instead your savings will be used to reduce the mortgage debt.

LEWIS: Thanks very much for that, Bob. Well that's just about it for today. You can find out more on all the items in today's show from our website: bbc.co.uk/moneybox. You can also sign up to my weekly newsletter or just read it, listen again to the programme, email us with your thoughts and ideas: moneybox@bbc.co.uk. Several of you are. Comments about savings, banks and one about State Second Pension. Vincent Duggleby's here on Wednesday with Money Box Live taking questions this week on Christmas presents for children that just might hold their value. No Money Box next weekend - they let us have Christmas off this year - but we are back on New Year's Day when we put on our Janus masks and look back and forward. Meanwhile you can keep up with finance news on my twitter account: Paul Lewis Money. From reporters Bob Howard and Ben Carter, editor Richard Vadon, all the Money Box team, and from me, Paul Lewis, have a very good Christmas.