THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX LIVE

Presenter: PAUL LEWIS

TRANSMISSION: 29th DECEMBER 2008 3.00-3.30 RADIO 4

LEWIS: A hundred years ago this week, 600,000 people over 70 years old went to their local Post Office on New Year's Day to collect the very first state pension. It was just 5 shillings a week, about £21.50 at today's prices. Well a hundred years on, things are rather different - we're all supposed to have a pension of one sort or another - but will the pensions we've paid into ensure a comfortable retirement? Share prices have fallen by a third over the last year, taking the value of company and private pension funds down with them. That's led many companies to scrap their guaranteed pension schemes as the cost grows of keeping the promises they have made. Falling share prices have also cut the value of the funds we saved up in personal or other kinds of work based pensions. Anyone retiring in the near future will find there's less money there and that will mean a lower pension for life than they were expecting. So what choices do we have? And just as important, how do we find out what they mean because if ever a subject was surrounded by impenetrable thickets of unintelligible language, it's pensions - from SIPs to SERPS, from salary sacrifice to salary related, and from life styling to lower earnings limit? But whatever the jargon, we'll bust it if you call Money Box Live on 03700 100 444. And my top team of jargon busters today are Michelle Cracknell, who is Strategy Director at investment group Skandia; Malcolm McLean, Chief Executive of the Pensions Advisory Service; and Tom McPhail, Head of Pensions Research with IFA's Hargreaves Lansdown. Our first question is from Andrew in Connel. Andrew, your question?

ANDREW: I've read several press reports over the past few years that said that as you approach retirement, your pension provider will normally transfer your funds out of equities into something more stable like gilts and cash. Unfortunately for me, Standard Life did not. I was 65 in July and just beforehand they wrote to me to tell me that my fund was valued at £72,000 in round figures. Because I have a small business and decided to work on for a further 4 or 5 years, I elected not to take the £15,000 lump sum on offer or any of the pension. Six months later, Standard Life sent me a year end statement that showed that that £72,000 fund had crashed in value to something less than £55,000. That's a drop of £17,000 or 23.8% to be precise in the space of 6 months. Like anyone else, I understand that the value of these pensions go down as well as up, but it is less easy to understand why Standard Life is effectively gambling with the life savings of a 65 year old pensioner. Perhaps you can explain on the programme why this should be so?

LEWIS: Okay, well let's look into that. I'm sure this is an experience many people will have had, though you found it quite dramatically because you got the valuations just 6 months apart. Tom McPhail?

McPHAIL: Okay, those investment losses you've experienced around 24% are pretty typical for what we saw going through September, October, November of this year. Unfortunately, there is no automatic process that means that your investment will be moved into something safe in the run up to retirement; and whilst many pensions do now use what's called this life styling, this transition from more volatile investments to cash and to government bonds, there's no guarantee of it. I should add that in fact there are situations where life styling can also work against you. As it happens, in the last few months if you'd had life styling, you would have been protected. Very often, in fact, life styling can simply result in you ending up with a smaller pension fund, but unfortunately the bottom line is it's not Standard Life's fault that they didn't do this because ultimately it's your money and your investment and your responsibility.

LEWIS: We've had a lot of emails about this. In fact one has just come in from Julie who says she was divorced. She put her share of her husband's pension into a SIPP - again with Standard Life - and the value, she says, has dropped by a third in a year. And of course she wants to know - and I'm sure Andrew's curious - you know should she move it now or hope it will move up? We talk about things going up and down. They’ve gone down. Are they going to go up?

McPHAIL: And the worst thing is that if you cash your investment in now, you could actually make the situation even worse.

LEWIS: Because you’re crystallising the losses, as they.

McPHAIL: You’re crystallising the losses. And in fact government bonds are looking quite expensive at the moment, so if you move into them now you could just be setting yourself up for further losses in the future.

LEWIS: Okay, Michelle Cracknell?

CRACKNELL: I think the important point is that if you’ve got a personal pension plan, the investment choice is an individual responsibility and therefore it’s something that you need to either think about yourself or take advice in order to find out what the right investment portfolio is for you.

LEWIS: Yes, but even a few months ago you would have all have been saying shares are the place to be with your pension, wouldn’t you, and over the last 3 or 4 months we have seen this devastating fall in the stock market?

CRACKNELL: Absolutely. I think we have to take into account that if you’re going into shares, it’s a long-term investment. I think as a individual in a pension scheme, you can’t hope to try and time the market. The investment professionals don’t even time the market correctly. So you should have a correct balanced investment portfolio taking into account when you need to take the money.

LEWIS: And doing perhaps a bit of your own life styling, as they call it, by moving your fund yourself when you’re 5 years away from retirement.

McPHAIL: A managed and strategic kind of transition at your discretion is the ideal solution.

LEWIS: But you see most people don't do that, do they? I'm going to pay them this much and I'm going to get out that much when I retire. Malcolm?

McLEAN: Yeah, absolutely. I think there's a real problem here, and of course the nub of the problem is the way the stock market has suddenly gone down very dramatically, which, as you said Paul, none of us really could have anticipated quite how bad it was going to be. I've a lot of sympathy for the question raised by Andrew. I would also add though that life styling when it is used is a purely automatic process and it can backfire quite badly, and I've seen examples of people who would actually be now moving out of shares at exactly the wrong time. So I think the underlying message is although this is a very difficult area for anybody to judge correctly if you do take an interest in your pension, if you do try and monitor it, try and find out what's happening and take advice at the appropriate stage as to what is the best thing to do. As regards cashing in your pension as it were at the bottom of the market, there are options there as well. If you can delay taking it, we don't know for sure that the stock market will recover but it always has done in the past and therefore there's a reasonable expectation it will happen again. It's also possible, for example, to go for a sort of income draw down arrangement whereby you perhaps just take the lump sum and don't take an income from the pension; leave the money invested. And, finally, there is the concept of phase retirement where you use part of your fund to take an annuity and leave the rest invested. So there are options here, but it really is a case of getting advice and doing the best thing for yourself in the circumstances prevailing at the time.

LEWIS: And, briefly, Michelle, we've had a number of emails. I mentioned Julie who says she's 55, she plans to retire in 8 to 10 years. Another one from another Julie actually who's lost money. She's got 10 years before she retires. Somebody aged 28 - 'I've got a tracker pension following the FTSE'. I mean over that sort of timescale, would you say don't panic, just hold on and things at that stage should be better?

CRACKNELL: Certainly if you've got more than 10 years to go, then you shouldn't panic. And, as we've already said, taking money out of shares now is probably completely the wrong time to do it. But try to get yourself when you're within that 10 years of retirement, keep taking profits every year by withdrawing some of your funds and putting it into safer investments, so you don't get exposed to what could be a huge loss just prior to your retirement.

LEWIS: And I think I know the answer to this, Malcolm, but just very briefly. Someone who has been paying into a pension and it's gone down - as Andrew's did by 25% nearly - any redress? Can he complain to anyone? Or is it just tough, it's the market?

McLEAN: Probably not. If you can be sure that you've been misled and therefore mis-sold a pension in the sense that you were promised something which couldn't possibly materialise, then you may have a case for compensation against the individual. But the ups and downs of the stock market, nobody can predict that accurately and that in itself wouldn't be grounds for a complaint for compensation.

LEWIS: Okay, well thanks very much for your call, Andrew, and thanks to all of those who sent emails on a similar topic in a similar vein. We'll move to Jane now who's calling us from Gosforth. Jane, your question?

JANE: Hello. I have been asking about my state pension for over 2 years. I actually became 60 in August of this year. I still haven't had the answer. I've been told what I can pay to top up my state pension, but I've had no written confirmation of what I will get should I pay these extra payments. I'd really like to know why I haven't had the answer and what I'm likely to get if I do top up.

LEWIS: You're over 60 now, Jane, you say …

JANE: Yes.

LEWIS: … so you're actually getting your pension, are you, or not?

JANE: Yes, about two-thirds.

LEWIS: You are getting it. So it's about two-thirds of the £90, so about £60 a week.

JANE: Yes.

LEWIS: Do you know how many years you're short?

JANE: Not offhand - no, sorry. About 4 to 6 years because I had some credits and I was working, but I'm no longer working to pay any stamp.

LEWIS: Okay. And do you know when the gaps occurred? Was it recently or was it in the distant past?

JANE: Not too distant past, but there were some recently but I had credits for those years.

LEWIS: Right, okay, so they'll already be there. Malcolm McLean, this is a hideously complicated topic, but help us out.

McLEAN: It is, very complicated indeed. I think what Jane has demonstrated though is an important point - that it is possible to pay voluntary national insurance contributions to meet gaps in your record even though you've actually reached state pension age and retired. You can go back currently as far as the tax year 1996/97 to meet any gaps, but you can only pay voluntary contributions for gaps in your record which occurred *prior* to you reaching state pension age. So you can, if the gaps are there, sort of bridge those gaps by making voluntary contributions. Now the Government has also very recently in the latest Pensions Act brought out a concession - which they accept it is a concession, something that many people argued for many years should have happened - but the concession is that people will be able to make good gaps in their records for a further 6 years going back to April 1975. But that will only apply to people who are reaching their state pension age between April this year and 2015, so the question really for you, Jane, is when did you actually hit state pension age? Was it this year or was it last year or …?

JANE: Yes, it was this year. It was August 2008.

McLEAN: Oh right.

JANE: But the point that I'm trying to make is I'm quite happy to make up the shortfall of the years where it wasn't sufficient, but I need the guarantee that if I make that up I will then get the full state pension because otherwise what's the point of paying it in?

LEWIS: I mean you should, shouldn't you Malcolm? I mean every extra year you pay is 2 or 3%, depending on how it exactly falls, on your pension. So Jane should be able to buy the contributions with confidence.

McLEAN: Yes, to qualify for the full basic state pension, you need 39 qualifying years. And you have currently 34. Is that right?

JANE: Something like that, yes.

McLEAN: Well, therefore, you're looking for 5 extra years, and then it depends where the gaps are and whether you should do it now or leave it till next April when you can pull out of the hat as it were these extra 6 years going back to April 75. But there should be no reason why you shouldn't be given the information in pretty clear terms and if you're dissatisfied with what they're telling you or not telling you, then I should lodge a formal complaint about it.

LEWIS: And also act before April because of course in April one of those years might drop out. Tom McPhail?

McPHAIL: Two things there. I'm guessing from the tone of your inquiry you know you've already pursued this, but the Pension Service, which is a division of the Department of Work and Pensions, is there precisely to address these kinds of questions. They have a telephone helpline, they have a website. That's what they're supposed to deliver for you. So if you haven't tried them - I assume you have - then that's the first place to start.

LEWIS: And just to interrupt, you can ring Malcolm's Pensions Advisory Service at any time and the number's on our website, which I'll give you in a moment, and they should also be able to help. Sorry Tom.

McPHAIL: In terms of every extra year, 39 years qualifying for women, so one thirty-ninth additional state pension for every year you buy. For men, it's 44 years for now, dropping to 30 years from 2010.

LEWIS: Yes for everybody who reaches pension age after 2010, it drops to 30 years, so that will be even better value, though the contributions will go up. Anyway, thanks for raising that. Hideously complicated, as I said. We've only just touched on it. But let's move onto a different subject now and talk to Patricia in Harrow. Your question, Patricia?

PATRICIA: Yes, hello. I'm in my 40s and when I was self-employed in the 1980s I took out a personal pension, as we were all encouraged to do in those days, and I had to stop paying into it when I became unwell. I have between 22 and £25,000 locked up in it. It's with Standard Life. My life expectancy is nowhere near pension. I'm not going to be able to use this money. I probably only have between 6 and 12 months, but I would very much like to be able to get hold of it so that I can make adaptations - have heating, buy services for the amount of life that I have left. Do I have any right to obtain this money?

LEWIS: Right, well I'm very sorry to hear about your illness, Patricia. Let's put that to Michelle. Michelle?

CRACKNELL: Yes, you do have certain rights. There are facilities within pension schemes for people who are very, very poorly to be able to get hold of the capital as a lump sum. There has to be medical evidence to prove your life expectancy, but I would strongly suggest that you approach Standard Life. They can provide you with all of the information necessary, so that you can make a claim regarding your life expectancy, and it may be possible to receive all or some of the fund as a lump sum under the special rules that apply to people who are very sick.

LEWIS: And Tom, broadly what do you have to show to get your hands on your pension fund?

McPHAIL: The principle is you have to be able to show life expectancy of less than 12 months - so if you've got medical records that substantiate that, then you can take that information to Standard Life. They can make an application to HMRC on your behalf. Yes, go and ask them the question.

LEWIS: Good. Well that's some news anyway, Patricia, that will help you over the next few months, so I hope that's helpful. So go to Standard Life with your medical condition and you should be able to sort that out and I hope you get the facilities you need using that money. Thanks very much for your call. David now is calling us, I think in a Money Box Live first, from Kuala Lumpur in Malaysia. David, your question?

DAVID: Oh yes, hello. Yeah, I'm living in, as you say, Kuala Lumpur, Malaysia, and we're one of twelve, about a dozen countries throughout the world where our British pension is frozen at the rate which we first receive it. In my case, it was 2001. There have been test cases about this, but it seems a rather immoral thing after one has paid pension for all one's working life and then just because of a particular choice of settling down, you have to suffer this penalty.

LEWIS: Indeed. And just to be clear, when you say it's frozen, you mean that you get your pension as you claimed it in 2001, but every April when the population in Britain sees their pension go up with inflation, yours stays at the same rate, so you're still getting the 2001 pension?

DAVID: I am indeed. And of course this applies to almost half a million people …

LEWIS: Around the world.

DAVID: … in about these dozen countries - some big, some small. The stupidity of it is if I were living three hundred metres up the road in the Philippines, I would be getting it.

LEWIS: Yes, there are these rather stupid borders, aren't there? There's one between Canada and America, which is exactly the same, I know, and, as you say, Philippines and Malaysia. Malcolm McLean, there's not much advice we can give, I don't think to David, except to say that this does sound a bit daft and what can we do about it?

McLEAN: Well I think that's the term I once used actually, Paul - daft - that applied to these rules. It's hardly a technical term, but it's one that really does apply. There is really no sense in it at all. I mean the state pension can be paid anywhere in the world, and *is* paid anywhere in the world to ex-pats, but it's only in certain countries that they get the annual uprating in the rate of pension. And, as we've observed, there doesn't seem any rhyme or reason for it. These things follow on from what are known as reciprocal agreements - i.e. the two countries get together and sign some sort of agreement to the effect that the pension will be increased in line with the increases in this country. Now I'm not absolutely sure what else goes into that reciprocal agreement - whether there's a certain amount of horse trading or whatever involved in it - but certainly on the surface, it doesn't make any sense at all and I'm very sympathetic to your point, David, but I can't really offer any solution to it.

LEWIS: Michelle?

CRACKNELL: Yes, I've also got no answer unfortunately for David. I think just a couple of general points. The first one is that if you are planning to retire abroad, it's worth in advance checking out the position in the country that you intend to retire in. And, secondly, the other way round: if you have worked abroad, you could be entitled to a pension from a foreign country, so it's worth trying to keep in contact with the relevant tax departments of that foreign country to see if you're entitled to a foreign pension.

LEWIS: Yes, so if you work for a few years in a European country or America, then you can claim that pension here and their pensions are often more generous than ours. The list of countries where countries *are* uprated - as Malcolm said, there's no rhyme or reason to it - there's actually fifty-one states on my count: the whole of Europe virtually and then some others such as Philippines, Turkey, Serbia. Well that is Europe of course. And I'm looking for one that *isn't* Europe actually. Oh Jamaica, Israel where they *are* uprated. But in most of the rest of the world, they're not. The big ones where they're not, of course - Australia and Canada - where several hundred thousand pensioners live, and I have to say a great many of them have emailed us about this very topic this morning. And there's also a link on our website, which is bbc.co.uk/moneybox, to an article I wrote about the various rules and conditions about getting benefits and winter fuel payments and so on abroad. There's a link to that on our website. Thank you very much for your call, David, from Kuala Lumpur. Let's move onto Jason now from Lancashire.

JASON: Hello there. Yes, I've recently joined a university which operates the teacher's pension scheme and I was hoping to reactivate a University Superannuation Scheme which I joined in the mid-80s at a previous university which I left about 10 years ago. Unfortunately, it seems I can't transfer into the USS scheme again because I've been in a period of self-employment, as I say, between two university posts. So my question relates to the options I have for transferring from my dormant USS scheme to the new teacher's pension scheme; whether there are any benefits from doing that or hitches which I should be aware of?

LEWIS: Tom?

McPHAIL: I can't immediately see any significant drawbacks to making a transfer. It would make life simpler to you if you had all your pension rights in one place. Having said that, I equally see there's probably no harm in leaving the benefits where they are unless you have some compelling reason to move them. So if you're being told that you can't simply resume service from where you left off, if you want to tidy up your administration of your various pots of pension rights, then look at transferring them. Otherwise, I'd be inclined to let it go.

LEWIS: Malcolm?

McLEAN: Yeah, I think taking this as a sort of general question, the concept of bringing pensions together is sometimes a good idea and sometimes it isn't. I mean if you've got a number of personal pensions, for example, and you're coming up to retirement age, then it is often a good idea to transfer them into one to get the benefit of a bigger pot of money and, therefore, hopefully a better rate of annuity as a result of it. But it is frequently not a good idea to transfer a final salary pension from a final salary scheme into another non-final salary scheme, so it does depend on the type of pension that you've got and the circumstances and the stage of life that you're at. So a difficult area. As Paul said before, we do run a helpline. If people want to ring us to talk through these sort of things, we're very happy to hear from them.

LEWIS: Right. And, as Jason has mentioned the public sector pension that he's joining, I suppose I should read out this email from Paul who emailed us to say do you think in the coming depression, the Government will be able to continue paying out the what he calls "fantastically advantageous" public sector index linked final salary pensions after handing out so much money to the banks? Tom?

McPHAIL: I find it amazing that they've managed to resist doing anything meaningful about it for so long. I think as we go into next year, we're going to see more private sector pension schemes coming under pressure. We saw Woolworths close down recently and final salary pension provision in the private sector I think will continue to dwindle and the gap between them and the public sector is widening all the time. I think the Government pretty soon is going to have to do something pretty significant there.

LEWIS: Yes, if only raise the pension age at which pensions can be drawn.

McPHAIL: Absolutely.

LEWIS: We've also had an email from David who says, 'Just switched on and kicked myself for missing half of Money Box'. Well I agree with you there, David. And he says he works for a company that he obviously doesn't name. It's getting a bad press and he's wondering if it would be wise to take his pension - and I presume he's old enough to do that, a final salary pension - but then carry on working in the hope the company won't go under, but at least securing the pension. Is that possible, Michelle?

CRACKNELL: Well I think, first of all, pension schemes and the companies are separate entities, so if the company's in financial trouble it doesn't necessarily mean the pension scheme's in the same position. That's the first thing. And the second thing is if you have passed the normal pension age for the age of the pension scheme, you do have a degree of protection either from the pension scheme if it's still viable or from a Pension Protection Fund if the pension scheme gets into difficulty.

LEWIS: Malcolm?

McLEAN: One of the disappointments to me of the changes made in recent years by the Revenue & Customs was the concept of allowing people to draw their pension and carry on working, which seemed to me an excellent idea and would encourage many people to actually avoid the situation this gentleman's raising here. But in point of fact, it does depend on the individual pension scheme and the individual employer as to whether that is permissible or not. If it is permissible, then it's an often a sensible thing to do, but it isn't always allowed under the rules.

LEWIS: It's legally possible now, but the scheme has to agree to it as well …

McLEAN: Absolutely.

LEWIS: … which they don't all do.

McLEAN: I mean the worst example of this really is in the public sector where you know you would think that they may be setting an example in this, but in point of fact you cannot normally draw your pension and carry on working.

LEWIS: Okay, let's just try and squeeze in a couple more calls. Rosamond is calling us from Chislehurst.

ROSAMOND: Yes, hello. Since 2001 I've been in receipt of a civil service pension and have just received a letter to say it has been overpaid. When I receive the reduced figures, do you suggest I get them confirmed; that they are actually in fact correct? And, if so, by whom and what information would they require from me?

LEWIS: That's a very good question, Rosamond. This of course are the public sector pensions, Malcolm, that about 95,000 of them were overpaid by relatively small amounts but very annoying amounts if you lose them, aren't they?

McLEAN: Yes. And we're not absolutely clear what happened here and whose fault it was, but it was all to do with a thing called the Guaranteed Minimum Pension, which not many people actually understand - even people …

LEWIS: Including the people paying the pension.

McLEAN: Including the people working in the pensions industry. But it was to do with that and the fact that from a certain point in time - and that would normally be the point where you start to draw your state pension - an increase that was being allowed in your private pension should have been allowed as part of your state pension and what seems to have happened is it's been allowed twice, so people have actually been getting money that they weren't entitled to. And almost the tragedy of this really is that the older you are, the larger the overpayment may actually be. Now the Government has said very clearly and very categorically that they're not intending to recover the money overpaid, there will be no claw back, but they are intending to reduce the pension going forward from next April. And that amount will vary. The average cut in the pensions, as I understand it, is understood to be around £250 a year or £5 a week.

LEWIS: And, Malcolm, the question that Rosamond particularly asked is can she get it checked because having got it wrong once, how will anyone know they haven't got it wrong again?

McLEAN: Well the first thing to get is an explanation as to how all this has been calculated and how they've arrived at the figures, and then if you don't understand it to ask for a further explanation as to what it all means. And then if you believe that it's wrong, and you may need to take advice on that - and again our helpline might be able to help with that - is to complain about it and appeal. And I suspect the public sector is expecting to get quite a number of complaints in this area.

LEWIS: Michelle?

CRACKNELL: For checking the figures, you'll really need the salary details - you know the salary that you were receiving during the period the civil service pension was accumulating. I know it's a fairly tall order, but if you've got all those past payslips, yes you could get somebody to check the amounts have been recorded correctly and was calculated at your retirement date for the right amount.

LEWIS: Okay, well thanks Rosamond. It sounds a tricky thing to do - but there we are, that's the answer. I think that's just about all we have time for now. Just time to read an email that's just come in - somebody saying that for the civil service pension every new entrant since 2007 *does* have a retirement age of 65. That of course isn't existing.

McPHAIL: It still leaves decades of existing workers who are going to be retiring at 62 for years to come.

LEWIS: *(over)* I thought you might say that, Tom, but anyway I just thought I'd pass that on from Richard. But that is all we have time for. My thanks to Michelle Cracknell from Skandia; Tom McPhail, who you've just heard, from Hargreaves Lansdown; and Malcolm McLean of the Pensions Advisory Service. Thanks to all of you for your calls and emails. They're still pouring in. Now before we go, don't forget our Christmas Quiz on our website, bbc.co.uk / moneybox. Very tricky. Your aim is to beat my score of 18 out of 20 - but then I did write many of the questions, so I had a good start. More than 10,000 have done it. Why not try it over the New Year? More about pensions on the BBC Action Line - 0800 044 044. Our website, as I said, bbc.co.uk/moneybox. Listen again, download the podcast, watch videos and read a transcript. And now, important announcement. Starting in the New Year, Money Box Live gets a new place on Radio 4. It will be every Wednesday. Same time - 3 o'clock - but a different day. On Wednesday next week, 7th January, Vincent Duggleby's here taking calls on tax. Money Box is back on Saturday. From all the team, Happy New Year.