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MONEY BOX

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LEWIS: Hello. In today's programme, more than 2 million widows, lone parents and disabled people could be without money for a week when their benefits are moved to fortnightly payment. Bob Howard's been looking into further problems for customers of the collapsed travel group XL.

HOWARD: Some are finding a promised refund from their credit card company isn't materialising.

SHIRLEY: Whatever way you pay for a holiday, you should be able to get your money back. It just seems nobody wants to take responsibility.

LEWIS: We debate the future of company pensions as more and more come under strain. And the charities waiting to give money away.

But, first, more than 2 million people who claim weekly social security benefits could be left without money for a week when they're moved to fortnightly payments. The people affected are all under 60 and include lone parents, widows, some disabled people, and some who are unemployed on jobseeker's allowance. The Department for Work and Pensions has confirmed that upwards of 2 million people already on benefit will face a week's gap in their money and that most will only be offered a loan to cover it. A few who are being moved from weekly payments in advance to fortnightly in arrears will also be offered a grant of one week's money. I asked Government

Minister Rosie Winterton why this change was being made.

WINTERTON: People very often complain that there's so many different ways that people receive their payment, so many complications, and why don't we actually make it simpler. So governing the changes that we're making are that no-one will lose out as a result of the changes; but we actually want to make the process simpler and, through that, improve the service to customers.

LEWIS: Well you say no-one will lose out, but some people are being moved from a payment they get weekly in advance to one they get fortnightly in arrears. So there's a big gap, isn't there?

WINTERTON: Well what we will do in circumstances like that where we are aligning the benefits is to move the payment in two phases. First of all, they'll move to a weekly payment in arrears and we'll give them a grant equivalent to one week's benefit to help them to adjust to that; and later on they'll move to a fortnightly payment in arrears. So nobody will lose out. I do want to stress that.

LEWIS: But I don't think that's true really because if somebody moves from weekly in arrears to fortnightly in arrears, they're without money for a week.

WINTERTON: No because what we've said is that we will give them a grant equivalent to the one week's benefit in order to …

LEWIS: *(over)* No, no, in those circumstances you're given a loan. The people who get a grant are the ones paid in advance, but people who are moving from weekly in arrears to fortnightly arrears are getting a loan that they have to pay you back.

WINTERTON: Well pay back in a very gradual sense. And the point is is that we can leave the system as it is at the moment with all the differences there are, with the difficulties there are for individuals and with the difficulties there are in providing a streamlined service.

LEWIS: And when you say no-one will lose out, presumably that implies that this won't save the Government any money. Is that true?

WINTERTON: There will be no reduction in benefits.

LEWIS: No, but will it save the Government any money?

WINTERTON: It's not … That isn't the aim of it …

LEWIS: No, but *will* it save the Government any money?

WINTERTON: … and it is difficult to predict whether it would save enormous amounts of money or not. This is in no way a money saving exercise. It's about responding to the points that are made to us that you do need to have a simpler system in terms of administration of benefits, so people can understand it, and it is less open to mistake the simpler you make a system.

LEWIS: Government Minister Rosie Winterton. Eddy Graham is a Welfare Rights Specialist from Child Poverty Action Group. He explained how repaying the loan will affect people.

GRAHAM: For many people, that will be a substantial amount off their payment for the next 12 weeks, as much as 10, 15% of their weekly income, and I would imagine that this will push very many people into financial hardship and cause them real difficulties in meeting their day to day bills. In the next couple of weeks, we'll have a Budget which will be talking about, hopefully, eradicating child poverty and a fiscal stimulus, and yet at the same time we have these changes which are directly taking money out of people's pockets, the poorest people in the country. And I think many of those people will feel that in effect they've had money taken or stolen from them.

LEWIS: Eddy Graham. Well live now to talk to Liberal Democrat MP Steve Webb, the party's Shadow Work and Pensions Secretary. Steve Webb, what's your reaction to what you've heard?

WEBB: I must admit I was appalled when I heard the department were going to change the rules in this way. It seems as though it's driven by the bureaucrats. You know, it might be neater for them, but the idea that people on benefit are clamouring to get their money in arrears rather than advance and this is some response to public pressure is just nonsense.

LEWIS: But the Minister says no-one will lose out and there is this loan to cover the gap. No-one will actually be without money for the week. That is true, isn't it?

WEBB: Well at the very least there will be additional hassle to people who are already struggling to get their way through a complex system, but what they'll have to do to avoid being without money for a week is apply for a loan simply to get the money they thought they were going to get anyway and then pay that back over a 12 week period, which means over those 12 weeks they'll be about 8 or so percent down on the basic benefit they were expecting. So this is extra hassle for people. It's driven by the bureaucrats, not by the needs of the people who perhaps are already struggling to get by.

LEWIS: And Rosie Winterton said it wasn't about saving money and no-one would lose out. She said it wasn't about saving money. The department said that to me as well. Do you think it *will* save the Government money?

WEBB: Well if they simply did this without this loan system, it would help their cash flow. But of course if everybody who misses a week's money then applies for a loan, they won't even get a cash flow benefit. And of course they've got to write to these millions of people, allow them to claim the loan which will then have to be administered and you can appeal against the decision. All of that will cost money. So it could actually … at a time when the DWP ought to be concentrating on helping people find jobs, this seems a complete distraction and could actually cost money.

LEWIS: What's been said in Parliament about this, Steve?

WEBB: Well what was rather startling is that there is an obscure statutory instrument, a piece of legislation that allows this to be done, but I haven't been aware of any single debate about it at all. We're now in parliamentary recess. So by the time Parliament resumes a week on Monday, it will actually be in place and what the Liberal Democrats will be doing is pressing for them to stop. Because this is going to happen over the next 2 years. We've got 2 years of hassle for people. Parliament needs to hold the Government to account on this and to say this is crazy, stop it.

LEWIS: We've had an email I must say from one listener who is a single parent, and he says MP's and ministers no longer have any connection with what he calls the poor and no sense of right or wrong. Do you think he's got a point?

WEBB: Well certainly hearing the Minister's response where she claimed that this is somehow a response to what people on benefits are calling for is just nonsense. And it seems to me, yes, people want a simple system, but this whole 2 year transition will just make life far more complicated for people and I think if the Minister was actually meeting people every week, she wouldn't think that this was going to help them.

LEWIS: Steve Webb, thanks very much. And I must stress this affects benefits for people under the age of 60. No plans yet to change state pension, which can still be paid weekly in advance if you ask.

It's more than 6 months since the collapse of the holiday firm XL, but more than half of the 60,000 customers who've sought refunds from ATOL, the aviation industry's guarantee scheme, are still waiting. And some people who paid for their holidays on a credit card are wondering if they'll *ever* get their money back. Bob Howard reports.

HOWARD: Many XL customers thought they had two types of protection when the travel group went under - firstly from the Civil Aviation Authority's ATOL compensation scheme, which most travel agents are signed up to; and, secondly, from their credit card company if they paid on a credit card. Shirley from Suffolk booked a holiday to Florida with her extended family costing £6,000. She paid the deposit on her Tesco credit card and other members of the family helped to pay the balance. She first applied to ATOL to get her money back. After 3 months of waiting, ATOL finally told her to go to Tesco to get her full refund even though only the deposit was paid on her credit card.

SHIRLEY: We got all our documents back and then the letter to say that because we paid the deposit on the credit card that the actual credit card was liable for the whole cost of the holiday. I was sceptical actually. I sent all the documentation to the credit card and hoped for the best.

HOWARD: ATOL wanted Shirley to claim under something known as Section 75 of the Consumer Credit Act, which holds credit card companies liable for goods or services which are not received, even if only the deposit was paid for this way. But this week, after a further 3 month wait, Tesco Personal Finance wrote to say it wasn't refunding her because the balance for the remaining cost of the trip had not been paid by just her but also some of her relatives. Its advice: go back to ATOL.

SHIRLEY: We are a lot of money out of pocket and I think whatever way you pay for a holiday really you should be able to get your money back. It just seems nobody wants to take responsibility.

HOWARD: And Money Box has learnt another bank is even clawing back money from a customer's account, which it had already refunded. Stephanie and Richard from Bristol paid £440 for two XL flights to Turkey, putting the whole amount on their NatWest charge card. They applied for a refund straight to NatWest, and when it paid up thought that was that. But 3 months later, the bank changed its mind and said that in fact they should go to ATOL to claim their money instead, as Stephanie explains.

STEPHANIE: I was very happy to receive the money, so I thought that that was all settled. And then late December I got a letter saying that they were unable to refund my money and as a good will gesture they said they wouldn't re-debit my account for another 12 weeks while I settled it with ATOL.

HOWARD: But 12 weeks on ATOL hasn't settled her claim, and when Stephanie checked their bank statement this week the refunded money had gone back to NatWest. It's puzzling because the payment card industry says it reached an agreement with ATOL several years ago about exactly who should pay out in these situations. Money Box has learnt that the umbrella body, the newly named UK Cards Association, has written to its members this week to remind them of their obligations. The organisation's Sandra Quinn admits some customers haven't known which way to turn.

QUINN: I think there has been quite a bit of confusion recently where customers have been sent to-ing and fro-ing between ATOL and between their credit card companies. Those people who've paid by credit card have a legal right to claim to their credit card company, and we know this is a legal liability and those companies ought to meet those claims.

HOWARD: But when I spoke to ATOL's David Clover, it was clear there is a still major disagreement between his organisation and the banks.

CLOVER: If in law a credit card company is not obliged to make a refund, then we will certainly review those cases and we will look again at whether we can pay those back ourselves.

HOWARD: Is there any time limit whereby you would say if the card company isn't going to pay out, we will pay out, or could somebody be left in limbo pretty much indefinitely?

CLOVER: If our legal advice is that the credit card company is liable, then that is the view we will take.

HOWARD: So they could be left in limbo then?

CLOVER: Well there might be circumstances where this needs to be tested?

HOWARD: The word ‘tested’, ATOL admits, means that the Financial Ombudsman Service is likely to be called upon to be the final arbiter, delaying things even further. ATOL says 40,000 people who have claimed are still waiting to be paid and there may be as many as 20,000 more claims yet to be filed. I asked David Clover how long the whole refund process is now likely to take?

CLOVER: How long is a piece of string? We’re getting claims still today and we’re getting something in the region of three to four hundred a week. We will continue to process those claims until we receive the last one.

HOWARD: You can’t even say by the end of the year then?

CLOVER: Well we’ve said we would aim to process and complete by September, but clearly if we continue to receive claims in the volume we’re getting them then that period will extend.

LEWIS: ATOL’s David Clover ending that report by Bob Howard.

It’s not a good year for pensions. The plunging stock market has wiped more than £160 billion off the pension pots of millions of people who followed government advice to save for retirement, and many companies are closing down or restricting their own schemes which used to offer the best guarantees of a decent pension in retirement. Over the next 2 weeks, Money Box will be debating the future of pensions with four experts. We start this week with company schemes. Tom McPhail, Head of Pension Research at independent financial advisers Hargreaves Lansdown, began by explaining company schemes with no guarantee.

McPHAIL: Defined contribution pension schemes, also sometimes referred to as money purchase, work on the basis that you and your employer between you put the money in but there’s no certainty about what you will get out at the other end. So you accumulate this pot of money, it’s invested typically in the stock market and when you get to retirement you convert that accumulated pot of money into an income, but how much you get back will depend on how well the investments have performed and what kind of level of income you can buy at that particular moment. So there are no guarantees involved.

LEWIS: And of course over the last few months, we've seen the value of those pension pots that people have been accumulating plummet in value with stock market falls.

McPHAIL: Absolutely. We've had a very stark reminder of the kind of investment risks that people are exposed to.

LEWIS: So those people in those schemes are subject to risk and they don't really know what their pension is going to be. That's in contrast to the other sort of pension - the more traditional sort of pension, often called a final salary scheme, a pension related to your salary. Joanne Segars is with us. She's Chief Executive of the National Association of Pension Funds and your members provide those pensions, Joanne. Just tell us how they work.

SEGARS: In a salary related pension, you and your employer will put money into the scheme and you'll get a fraction of your wages at or around retirement for each year that you have been in the scheme, so there's more certainty in terms of what you will get in a salary related or a defined benefit scheme than with a defined contribution scheme. And what that means is that the employer takes on the risks, so the employer takes on the risks of scheme members living longer or some of the investment downturns that we've seen.

LEWIS: Well also with us is John Ralphe. He's an independent pensions consultant. And John Ralphe, when we hear that pension schemes are in deficit, this is what's meant, is it - that those pension schemes that are promising to pay a particular pension don't really have enough money in them to do it?

RALPHE: Yes, it means that the value of assets that's necessary to pay all the promised pensions just isn't enough. And there isn't any magic money tree, sadly, so what that means is that over time - and it is usually over time - that the company has to write a cheque, has to put more money into the pension scheme to make it better funded.

LEWIS: Right, I just want to introduce Glynn Jenkins who's also here. He's Head of Pensions at the trade union Unison, which represents more than a million workers. Although your members are in the public sector, what do you think about private sector schemes? A lot of them are closing, aren't they? Do you think there's a future for private sector schemes without this taxpayer guarantee?

JENKINS: Well I do. I think obviously that we go through different eras and this is a particularly difficult era. There are companies obviously going to the wall where there are problems with pension schemes, but equally there are some employers that are taking this as an opportunity to cut their costs and cut their risks. And we believe that there is a lot of short-sighted, knee jerk reactions to what is going on and I think they really should survive; and if they don't survive there will be very serious consequences for the future.

LEWIS: Joanne Segars, the suggestion is that your members are cutting costs, closing down schemes - and many of them are indeed doing that. Do you think there is a real future for salary related pensions, final salary schemes?

SEGARS: They are dealing with the real world of the increased costs of providing those schemes. The Pensions Commission Report, which the Government sponsored a couple of years ago, suggested that the cost of providing a final salary pension scheme had doubled since many of those schemes were set up. Now you know partly that's because pensioners are living longer, and that's a good thing, but partly it's also because of the costs of regulation that surrounds those schemes. So what we want to see is government stepping in to help employers manage those schemes, manage those schemes' costs because there are 28% of schemes in the private sector final salary schemes are still open to new members, there are 3 million working people in the private sector saving in defined benefit pension schemes and we want to see them safe.

LEWIS: John Ralphe, obviously these pensions are more expensive than the pensions that don't make any guarantees on behalf of employers. Do you think they have a future? Do you think employers can continue to make these guarantees realistically and pay in the money they have to?

RALPH: I slightly disagree with Joanne because I think defined benefit pension schemes have had their day; and in terms of a value judgement, whether we think that's a good or a bad thing, is a matter of fact. Defined benefit pensions were always a con. The cost of providing those pensions was always understated and the risk of providing those pensions was always understated. What we've had in the last few years is companies realising that they're very expensive, realising that they are very risky and moving away from them - closing to new members, increasing member contributions, reducing benefits.

LEWIS: You might say though, Tom McPhail, that the other sort of pension scheme, the one you told us about at the start, was a bit of a con because by moving to that employers are just paying in a great deal less, aren't they? I think the average into a salary related, a final salary scheme is 15.6% for employers. The average into a pension pot, a defined contribution scheme, is only 6.5%, and the contribution from the members is also less. So it's not just a different kind of scheme. It's also a lot cheaper for everybody, so obviously it produces a much worse pension at the end.

McPHAIL: Well this is a very important point, Paul, and if you look at the overall contributions from employers and employees typically you're getting around 20% of salary going into a final salary scheme and around 10% of salary going into a money purchase scheme. This is the problem - you get what you pay for. And money purchase pensions, defined contribution pensions are not of themselves a bad thing. If you put 20% of salary into a money purchase pension, you'll probably get a pretty good pension out at the other end ,and I think one of the key challenges over the next few years is to encourage employers and employees to increase the contributions they're making to money purchase pensions. These are long-term investments. You have to accept that they will go down as well as up. What we need to try and do is to get people to engage with this.

LEWIS: Glynn Jenkins from Unison, how do you react to what John Ralphe said about final salary schemes are really a con?

JENKINS: Well I would totally disagree with that. One issue I think we need to make clear is that it isn't that final salary schemes are expensive per se and defined contribution schemes are cheap. All pension provision is just as expensive.

LEWIS: Especially if people are living longer.

JENKINS: Yes, exactly. The only thing is if you're in a defined contribution, if you don't get the extra bucks in you are going to have a totally inadequate pension and I think the real crisis that we have in the UK at the moment is the large number of low paid workers who are not saving towards their retirement.

LEWIS: And briefly, John, how long do you think it will be before there are no salary related pension schemes left?

RALPHE: I haven't taken a bet with anybody, but I'm very clear in the next couple of years at least one household name will close their scheme to existing members - and that has happened amongst smaller schemes but not really amongst larger schemes - and once the first one does it, they'll all do it. So I think if we're having this conversation in 2 years time, you know the final salary schemes will be a real rarity.

LEWIS: Well we may do that. Let me just ask Joanne Segars to comment on that.

SEGARS: We will see some employers change their behaviour, but we've also got a huge number of employers who are really committed to wanting to provide good pensions and we need to support those employers. You know we can have a sort of the end of the world is nigh debate or we can have a discussion about what we do about it, and that's the area that we ought to be in. You know, let's come up with some practical solutions to help those employers to continue with their defined benefit pension schemes.

LEWIS: My thanks to Joanne Segars, Glynn Jenkins, Tom McPhail and John Ralphe who'll all be back next week to discuss the future of public sector pensions. You can have your say on company pensions and the problems they face on our website, bbc.co.uk/moneybox, and on Wednesday afternoon Money Box Live will be taking your calls on retirement planning.

With more than 4,000 people losing their job every day, it's hardly surprising that charities which give money to people in need have seen a big increase in demand, often from people who never thought that they'd have to ask for charitable help. Live now to Mike Carter who's Chair of the Association of Charity Officers. He also runs the benevolent fund for surveyors called LionHeart. Mike, these charities generally help people with particular jobs. I've seen bankers, coal workers, confectioners, footwear friends I particularly like, even journalists and broadcasters. Is there one for everybody?

CARTER: I think there's one for most trades and professions, and if there isn't one there's a variety of other general benevolent funds that people can go to for help.

LEWIS: And what sort of increase in demand is this group of charities seeing?

CARTER: Well at the present time our big demand of course has been the result of people being made redundant or being put on short-time working and many charities have seen a 400% increase in calls to helplines with these problems.

LEWIS: 400%!

CARTER: Yes.

LEWIS: And presumably the people coming to the charities are not really people who thought they would ever have to seek charitable help? They've had a good job, probably for many years.

CARTER: Precisely, yes. They've been in good employment, they've had well managed lives and they've been coping quite sufficiently until they're suddenly struck by redundancy or short-time working. You know in one case we had somebody whose salary was cut by 25% and they had a big mortgage to pay and it made a huge difference.

LEWIS: Nearly 200 of these charities I think altogether, they give away over £120 million a year. Where do *they* get the money to give out?

CARTER: Well most of the money comes from different sources. We have money from people who will be potential beneficiaries who make donations. We encourage that. Obviously money comes from legacies, from fundraising events, sometimes from corporate support and from investment.

LEWIS: But all of those things will be falling off presumably?

CARTER: Exactly, yes, it's all going down at the time when we're getting more requests for help, so it's getting quite difficult.

LEWIS: And people listening who might be having problems in their own lives with, as you say, redundancy or illness or other things, how can they find out which charity might help them?

CARTER: Well there's two main ways to find out. There is a website, www.benevolencetoday.org and there's a telephone helpline 0808 802 2000.

LEWIS: Okay and there'll be links to that on our website. And just briefly, Mike, growing demands, falling funds. What's the future for this sector?

CARTER: Well it's going to be very difficult, but funds are there to help people.

Most funds have reserves which they will draw upon to help at this difficult time and hopefully it will raise awareness and people will contribute more enthusiastically in the future.

LEWIS: Mike Carter, thanks. And there are links to those benevolent charities on our website and with the helpline .That's it for today. Just time to say we're getting lots of emails about the benefit changes. One man rather starkly says: 'Why not just line us all up by a wall and shoot us? PS: use Russian ammunition. It's cheaper'. That is it for today. You can find out more from the Action Line - 0800 044 044. Of course our website is bbc.co.uk/moneybox where you can do all sorts of exciting things - watch videos, sign up for my weekly newsletter, listen again, have your say on pensions, email us moneybox@bbc.co.uk. Back on Wednesday with Money Box Live, as I said, taking questions on retirement planning. Back next weekend with Money Box. Today the reporter was Bob Howard, producer Penny Haslam. I'm Paul Lewis.