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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, people approaching retirement face lower pensions as a direct result of the government creating £75 billion to boost the economy. And it could get worse. Bob Howard's been looking at a government loan scheme to help small businesses.

**HOWARD:** Some entrepreneurs are complaining the banks are forcing them to guarantee 100% of the loans and that's not fair.

**BARTON:** I fail to see how it can be promoted as a scheme backed by the government when in fact it's backed by the company's own directors.

**LEWIS:** If you have a new mobile phone and get a cold call offering insurance - beware, it could be a scam. And there's just 3 weeks left to fill gaps in your national insurance record before the cost rises by 50%.

But, first, thousands of people trying to plan their retirement have suffered a blow this week. The Bank of England's decision to create £75 billion out of thin air to boost the economy has caused a sudden fall in the pension they can buy with the money they've saved up. In barely a week, the pension you'll get for the same fund has fallen by 2%. So why does creating money in the Bank of England's computers reduce the pension your savings will buy? Rash Bhabra is Head of Corporate Consulting at actuaries Wattson Wyatt.

**BHABRA:** The main reason is that the cost of buying a pension is linked to the price of bonds, and the price of bonds has gone up as a result of the government's quantitative easing programme.

**LEWIS:** Now these bonds are government bonds and the price has gone up because ... is that because the bank's buying them back, so that creates a bigger demand and then prices rise?

**BHABRA:** Exactly, that is so. The government's announced that it's going to buy back 75 billion pounds worth of bonds. That is a pretty big number. The total amount of government bonds in issuance is about 750 billion, so we're talking about 10% of bonds being bought back by the government and that's causing a supply-demand imbalance.

**LEWIS:** And as the price goes up, then the interest you're getting on that bond stays fixed, so in effect it comes down. Have I got that right?

**BHABRA:** That's right. Essentially an insurance company that takes an individual's money and converts it into a pension, invests the money in bonds - so it costs the insurance company more to buy bonds and, therefore, it has to charge the member more to convert a pot of money into a pension. In terms of the kind of implications for someone who might be retiring at the moment, if you had a personal pension with about £50,000 in your account, which was maturing today, then you probably are looking at something like £300 less as an annuity income from that pot of money.

**LEWIS:** So if you have to buy a pension this week, you're going to be £300 a year worse off for the rest of your life because of this policy.

**BHABRA:** Absolutely.

**LEWIS:** Now this is all obviously bad news for people who have a pension pot. Is it going to get worse because this £75 billion is just slice one, isn't it? There's another

£75 billion that the bank could use, if it has to, in the next few months. Would that double the problem?

**BHABRA:** It could well do if the government continues down this road. I think in part it kind of comes down to just what happens to government bond prices. There are a lot of unknowns in all of this. One of the assumptions for example that the government is making is that there are going to be people out there who are willing to sell these bonds back to the government. Now we've heard over the last few days that pension funds, for example, hold a significant chunk of government bonds have no intention or very little intention of selling government bonds.

**LEWIS:** So they're going to hang onto them, so the government's not going to be able to put this £75 billion in in the way it hoped.

**BHABRA:** It may not be able to. It all comes down to whether there are enough sellers of bonds.

**LEWIS:** Rash Bhabra from Watson Wyatt. Well with me is Stuart Bayliss, Managing Director of Annuity Direct, an independent financial adviser which specialises in annuities. Stuart, Rash Bhabra gave one example there - a fall of £300 for a flat annuity on a £50,000 pot. I read today of bigger falls, as I said in my cue: 2%. Is that what you're finding?

**BAYLISS:** Well certainly some rates have come off by 2% in the last week. But if you look at what's happened - annuity rates, as you've reported previously, have benefited from the credit crunch up until now, and these falls now mean that we're 4.2% down on a year ago and actually we're at the levels we were two years ago.

**LEWIS:** Because they were quite high a year ago, weren't they?

**BAYLISS:** They were indeed. And they peaked last summer for a few weeks at nearly 9.5% higher than they are now. But these differentials also vary by age.

Essentially the falls will be higher the younger you are. The percentage I just gave was for males, 65; but as you get slightly younger, the differences get greater. One of the pieces of good news because people are beginning to focus on differentials with RPI because maybe people think inflation may return in the future, they're quite good rates at the moment. They've only fallen 2.9% in the last year. So that's worth thinking about.

**LEWIS:** So those are the choices you have to make sometimes - whether you go for a flat rate or an RPI one. What other choices can people make? What is the advantage of looking around?

**BAYLISS:** Well the key advantage of looking around is the fact that you are looking for the difference between what your company's offering you and ...

**LEWIS:** This is the company you've been saving your money up with?

**BAYLISS:** Absolutely. And they may not be seeking external annuities. In other words, they won't be competing for business from other companies. And if you're in one of those companies - and there are a lot of them that are good pension companies like AXA, Zurich and others - they could well be very substantially off the top rates now. And those differences have doubled. This time last year, they may have been around 12%. They've been as low as 6%. At the moment they can be as much as 25. And if you've got an impaired life, if you smoke, those differences grow even more. Last week, a woman aged 60 who smoked, who had an AXA Sun Life pension, would have got 62% more from the top smoker rates.

**LEWIS:** So it really is important to get advice and find a company that's going to give you in your circumstances, your age, your health, your smoking (or not) the very best rate because that lasts for life. That's a once for all decision, isn't it?

**BAYLISS:** Absolutely. These are absolutely astronomic differences that are available at the moment.

**LEWIS:** And of course the other thing people can do, I suppose Stuart, is say well I'm not going to do it now because they've fallen 2%. I'll wait. Is that sensible? Are things going to get better or worse?

**BAYLISS:** In the short-term they almost certainly will get worse again because the effect of this quantitative easing programme is going to increase. Lots of the bonds that are held by insurance companies backing annuities are not government bonds. We know that this quantitative easing is meant to affect the private sector. As it does, this will affect level annuity rates, in particular, much more. So I do think they will come down, so that instead of looking at, you know, 4%, we might be looking at double that by late summer.

**LEWIS:** Right. So just in a word - wait to see and then what? Is it buy now or buy later?

**BAYLISS:** I think it's certainly, if you have a reason to buy, buy now; and if you want to look to waiting, you are going to be waiting a few years probably, a couple of years before things get better.

**LEWIS:** Stuart Bayliss from Annuity Direct, thanks very much.

Business organisations estimate that every day more than a hundred small businesses go bust. To try to stem this tide, the government launched a £1.3 billion Enterprise Finance Guarantee Scheme in January. Banks lend the money to small businesses. If the firm defaults, the government underwrites 75% of the loan. But many small businesses don't know about the scheme, and some of those that do complain it's not delivering what it promised. Bob Howard's been looking into this. Bob?

**HOWARD:** Well, Paul, the scheme was launched with great fanfare 3 months ago, and in the first few weeks the government said about a million pounds a day was being lent by the banks as a result of it. But a survey this week of 250 firms conducted by the British Chambers of Commerce found 90% of those questioned didn't know about it, and only one of those companies has actually been offered such a loan. And

of those who have heard about it and applied, some are also not happy with what's on offer, as I heard from one small business owner in Essex.

**BARTON:** That one is the Bodytox calm herbal fusion drink. That's the ... (*fades*)

**HOWARD:** John Barton is demonstrating some of the health products he sells via a small business he set up 18 months ago. He wants help from his bank with his cash flow, so he can pay his suppliers earlier. As he imports from the Far East, that's crucial in reducing his costs.

**BARTON:** We are about to place an order with our suppliers in Korea, but we shall have to airfreight them in at greater cost. If we'd had funding from the bank, we could have put that order in a month ago and we would have had the same products delivered to us at a much reduced cost.

**HOWARD:** Last month, his bank told him he could apply for a loan under the Enterprise Finance Guarantee Scheme. As the government guarantees 75% of these loans, he hoped his bank would be willing to lend to him on favourable terms. But when he applied, he was disappointed to hear that the only way his bank would give him such a loan was if 100% of the risk fell in the first instance personally on his firm's directors.

**BARTON:** What we understood was that this was a scheme promoted by the government to help small businesses and whereby the government would guarantee it. But what the bank said to us was that, "We can lend you the money providing you guarantee it with directors' personal guarantee". In the event that we got into default, the bank could go after the directors. Only then would they rely upon the government guarantee. I fail to see how it can be promoted as a scheme backed by the government when in fact it's backed by the companies' own directors.

**HOWARD:** In the end, John decided not to take up the loan. And another small businessman Money Box spoke to this week complained that applying for the scheme was so slow and required so much paperwork, he's now also given up. The Federation

of Small Businesses, which lobbied for the scheme to be set up, says at first many bank managers didn't seem to know about it. Stephen Alambritis, the FSB's spokesman, says the banks are now catching on, but they're still putting up too many obstructions to those applying.

**ALAMBRITIS:** Initially they said they weren't aware of it. Then increasingly they were made aware of it and were looking at it for small business borrowers. But just lately the obstacles they're putting in the way are to say needs to be looked at by other more senior managers and they need more security. And for many small businesses, they wonder whether it's worth the effort.

**HOWARD:** The banks say the scheme is proving successful. Royal Bank of Scotland NatWest, part of the same banking group, says it's now issuing new loans under the scheme worth £2 million a day. Peter Ibbotson is the group's Chairman of Business Banking.

**IBBETSON:** There has been some criticism that not all businesses know about these schemes. Actually that doesn't matter. What we want is our business customers coming to us with the problems and the issues that they have and then sitting down with our managers to work out what the best solutions are. And we are very clear about explaining what the implications of any loan might be and what the solutions are.

**LEWIS:** Peter Ibbetson from Royal Bank of Scotland talking to Bob Howard. Well, as we heard, one complaint about the scheme is that banks are expecting customers to give a personal guarantee for all the loan. I asked Steve Cooper, Managing Director of Local Business Banking at Barclays, if that meant a director could be expected to put their home at risk.

**COOPER:** These are more marginal businesses. If you're asking the government or taxpayer to support some of that risk, you're also asking the bank to support some of that risk, I don't think it's unreasonable if you actually ask the business owner to also provide some of that risk as well. I'm not asking any business owner to put their

personal property on the line or anything like that, I'm asking ...

**LEWIS:** So what's the personal guarantee then?

**COOPER:** The personal guarantee is a personal commitment and liability. What I'm not doing is taking specific security over personal assets of the directors.

**LEWIS:** No. But if I'm a director, you're asking me to put at risk my assets. That must include my house.

**COOPER:** Not necessarily. What I'm asking you to do is to provide a personal commitment behind the support you're being given from the bank and from the government.

**LEWIS:** I'm just trying to understand what that agreement would look like. I mean if I was signing such an agreement with you, would it be clear that my house was or was not at risk?

**COOPER:** What is clear is that you are personally liable for the amount of debt that you are providing the guarantee for. No bank wants to see anybody thrown out of their personal house and that very rarely happens.

**LEWIS:** No, obviously you don't want to see that, but the important thing is what I'm putting at risk and those assets could include their home.

**COOPER:** I can't say yes or no because it depends on the circumstances.

**LEWIS:** So it could?

**COOPER:** It could in theory ...

**LEWIS:** Right.

**COOPER:** ... but not necessarily always.

**LEWIS:** Well that was Steve Cooper from Barclays Bank. Well this week the government department responsible for the guarantee scheme issued a clarification to the banks over whether they could seize directors' homes. But even that seemed a little ambiguous, so I asked the Minister for Small Businesses, Shriti Vadera, what the 100% personal guarantee actually meant.

**VADERA:** It is completely normal for guarantees to be given in commercial lending whether or not the government provides a guarantee or not. We're not trying to substitute for commercial lending. We're not trying to somehow take away the risks of businesses. We have a stake as taxpayers in this scheme. Banks have a stake as taxpayers in the scheme. It would be perfectly legitimate and normal for businessmen to have a stake in their businesses through this scheme. So you can't say that what any other borrower would be required to do somehow this set of borrowers *shouldn't* be required to do.

**LEWIS:** Yes, but we heard from Barclays. They said that they were taking these personal guarantees and they did say that that could include the home that the directors live in. Given that you're underwriting 75% of the risk, it doesn't seem right that people can be expected to put their house at risk.

**VADERA:** On the criteria and Barclays, who I speak to and I've spoken to regularly about this scheme, they cannot expect their home, the primary home to be used if it's a new arrangement. If it's an existing arrangement, then obviously that is already something that exists between the bank and its borrower.

**LEWIS:** Right, so if somebody comes to the bank wanting a loan under the Enterprise Finance Guarantee Scheme, they cannot be asked and cannot be expected to put the home they live in at risk?

**VADERA:** That is correct, as long as they're a new customer with a new arrangement with this bank.

**LEWIS:** The Federation of Small Businesses told us that the government needs to apply pressure to bank managers to make them relax their conditions, to enter more into the spirit of this. You say you've been talking to businesses and you've got your forum set up. Have you been hearing this - that bank managers are not really entering into the spirit of this; they're still refusing to take any extra risk with these companies that you really want to get money?

**VADERA:** I think the small business groups will find that I do exert quite a lot of pressure on the banks during these business finance forums and I did so just 2 or 3 weeks ago. We've now hit the rate that we need of applications, eligible applications every week, which mean that the scheme is completely on course. We've currently got £115 million of eligible applications, about £30 million a week, so I think that they have, after a start, which was needed for banks to get familiar, for borrowers to get familiar with the scheme, I think we're now getting on track.

**LEWIS:** Shriti Vadera, the Minister for Small Businesses. And you can have your say on this scheme or small business finance generally on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

The Trading Standards Office in Swansea is investigating several companies over sales of mobile phone insurance. Many people who buy a new phone are being called within hours and offered a cheaper deal than the one they bought with the phone, but in some cases money has been taken from their account without adequate cover or sometimes any cover at all being provided. Samantha Washington reports.

**REBEKAH:** (*calling to dogs*) Boys! Come here, come on!

**WASHINGTON:** Rebekah lives in rural Oxfordshire with her family and three dogs. She wanted to do something nice for her son's birthday, but it soon turned sour.

**REBEKAH:** Well my son and I went to the Carphone Warehouse to buy him an iPhone for his 17<sup>th</sup> birthday and we also paid for some rather expensive insurance at the same time. We came home and a few hours later his new phone rang and he was

led to believe it was the Carphone Warehouse calling offering him a cheaper insurance deal. We were delighted. We gave over my debit card details over the phone and thought no more of it.

**WASHINGTON:** After paying the money, Rebekah and her son got news that didn't leave them quite so delighted.

**REBEKAH:** Here's the phone, the iPhone, and you can see in the text message it says 'beware insurance fraud'. This got alarm bells ringing. And here is my bank statement - the Carphone Warehouse followed by another debit, which was the insurance fraud, £99.99. And we realised we'd been had.

**WASHINGTON:** And Rebekah isn't alone. There are a number of companies doing exactly the same thing. Many of those are based in Swansea. Trading Standards there says it's been a problem for the past 18 months. Dave Picken has been leading the investigation.

**PICKEN:** We're concerned about it because we've had hundreds of complaints from all over the United Kingdom. As a result of our analysis of those complaints, we're using our statutory powers to investigate more than ten companies in order that we can have an appropriate effect on this scam.

**WASHINGTON:** The operator behind the new iPhone is O2 and I'm looking at the consumer forum on O2's website here and there are nine pages of postings from people who have been caught out like Rebekah. There are many companies operating in this way and it seems, looking here, that they don't all use the same tactics, but it's thought that because the new phone numbers are issued in sequential blocks that the scammers buy themselves a phone and then call all the numbers either side of their own until they get hold of someone. The prefix tells them which operator it is, so they can lead the person on the other end to believe it's about their contract. Carphone Warehouse told us it does flag this up in the paperwork it gives customers when they're in the shop, but it's on page 19 of 20. And Carphone Warehouse isn't the only retailer affected. Phones4U has also confirmed it's had similar problems. And O2

isn't the only operator targeted. Vodafone says its customers have been caught up in this scam too. But because O2 is the largest network provider and the only one offering the new popular iPhone, it's a particular headache for them.

**MASSEY:** (*phone rings*) Hello. Dave Massey, O2.

**WASHINGTON:** Dave Massey is Communications Manager with O2 and he says the company is taking this scam seriously.

**MASSEY:** We're getting at the moment up to 100 calls a month from customers who claim to have been cold called by companies passing themselves off as O2; and from what we can see other networks have faced similar problems. The customer will typically be lulled into a false sense of security and tricked into signing up to something that they weren't prepared to sign up to. Now that's clearly wrong and where we find evidence of a company doing just that, then we'll take action.

**WASHINGTON:** We can't list the companies being probed by Trading Standards until that investigation is over, and not all companies operating in this way are bogus. The company that scammed Rebekah isn't registered with the Financial Services Authority, and because she's got no paperwork certain consumer rights that would kick in to do with contracts probably won't apply. Her bank wouldn't refund the money which had been taken fraudulently because it said she'd given the details willingly. The Banking Code says customers may be liable for losses if they don't take reasonable care. But there are some basic rules of thumb to follow to help you avoid getting caught out. Michele Shambrook is from Consumer Direct.

**SHAMBROOK:** If you receive a cold call it's very important not to provide your bank details over the phone. Ask for details of the offer to be provided in writing, so that you can take some time at home to consider whether it's right for you. And it may also be worth looking at your household insurance policy to see whether or not you're already protected. If you have entered into an agreement and you're unsure of your rights, then contact Consumer Direct for some advice on your position.

**LEWIS:** Michele Shambrook ending Samantha Washington's report.

If you pay a few hundred pounds now for extra national insurance contributions, you could boost your state pension by thousands of pounds over the rest of your life. It's quite a bargain. The problem is the cost goes up on April 6<sup>th</sup>, so there's only 3 weeks to act; but the rules about who can do it are very complicated, as I found out when I spoke to Malcolm McLean, Chief Executive of the Pensions Advisory Service.

**McLEAN:** At the moment there appears to be a pretty good deal for those people who could qualify for extra state pension by paying voluntary contributions. At the current rates, it would cost you £420 to make good one year's missing contributions, and for that you should get a thirtieth extra on your state pension, which would be £156 a year for life. But from 6<sup>th</sup> April 2009, the rate will go up to £626 a year, so in other words there's going to be a 50% increase in the cost of paying voluntary contributions.

**LEWIS:** So these are years contributions that you're buying to fill a gap in your national insurance record for years when you may not have been working and paying contributions. Which gaps are important to fill?

**McLEAN:** Well to qualify for the full basic state pension at the moment, you need 44 qualifying national insurance years if you're a man and 39 years if you're a woman. But from 6<sup>th</sup> April 2010 you will only need 30 qualifying years and that applies to both men and women.

**LEWIS:** So there will be people who've got quite big gaps who will still get a full pension - so there's no point in them paying extra contributions, you don't get any extra pension. It's the people who've got gaps and have not reached that threshold.

**McLEAN:** Very important point, that. There's no point paying money for nothing because at the end of the day you will only need these 30 qualifying years. And if you pay more than that then you don't get any extra pension because of that; you still get the basic rate of pension only.

**LEWIS:** And even if you have a gap, there are still people, aren't there, who shouldn't be paying this extra contribution?

**McLEAN:** Yes. If, for example, you or your wife or the family as a whole is receiving pensions credit, for example, the means tested benefit, then any increase in the basic state pension will simply be offset against it. Another situation would be if a woman had a husband who was 5 years older than her, she would get 60% of his state pension anyway without paying any contributions at all. So these are all factors obviously that complicate things, but are very relevant in answering the question: do I need to pay any voluntary contributions?

**LEWIS:** So it's only worth her doing it, for example, if she could boost her pension to more than 60% ...

**McLEAN:** Yes.

**LEWIS:** ... because she could get that anyway from her husband.

Well that was Malcolm McLean. Well it was actually me ending that report, not Malcolm McLean. And although the price is rising in April, there are some people who will only be able to fill the gap after the price has gone up. Now if your head is spinning details of how to contact the Pensions Advisory Service are on our website and with the helpline. I'm glad I'm not answering the calls.

But that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), where you can do lots of exciting things - sign up for my weekly newsletter, watch videos, download a podcast and have your say on small business finance. Personal finance stories on Working Lunch, BBC2 weekday lunchtimes. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on tax. I'm back next weekend. Today reporters Bob Howard and Samantha Washington, producer Lesley McAlpine. I'm Paul Lewis.