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MONEY BOX

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LEWIS: Welcome to the 1,500th Money Box. In today's programme, our research shows high street banks are charging up to £100 to borrow £100 for less than a month. Some pensioners will get less than the £5.30 a week rise promised by the Chancellor. Automatic enrolment into a pension scheme at work is delayed for smaller companies. And listeners who use Orange mobile phones have been shocked by a recent text telling them their bills are going up.

But first, the cost of borrowing small amounts of money over short periods can be very high. Research by Money Box this week shows that the most expensive way to do it can be to exceed an agreed overdraft at your bank. Not something you should do, of course; but if you do, the banks can charge you between £26 and £100 to borrow £100 over 28 days. And if that fee is converted into an APR, the Annual Percentage Rate, it comes to tens, sometimes hundreds of thousands of per cent. Ben Carter did the research. Ben?

CARTER: As you say, Paul, we looked at the cost of unauthorised borrowing - £100 over 28 days. Here are the top three. On Santander's Everyday Account, it charges customers £5 each day they are over their limit, up to a maximum of twenty times per month, meaning a repayment of £100 plus the £100 borrowed. Barclays would charge £88 for use of their personal reserve, which is a pre-agreed facility on top of a customer's agreed overdraft limit. And Lloyds TSB would charge £86.36 in unauthorised borrowing charges and interest.

LEWIS: And when you convert those numbers into APRs, Annual Percentage Rates, they're incredibly large, Ben.

CARTER: That's right. The three banks we've mentioned are charging equivalent APRs of more than 300,000 per cent.

LEWIS: 300,000. And what do the banks say about this?

CARTER: Well Santander told me that it does not charge interest on unauthorised overdrafts. Instead it charges a daily fee as they believe it is more transparent. And Barclays have said that their personal reserve is a pre-agreed emergency borrowing facility which customers can choose to have on their accounts or cancel it at any time. They say they do not charge any unarranged charges or interest, but they charge a reserve usage fee of £22 for each period of five consecutive days the customer uses their reserve facility.

LEWIS: Yes and of course they all say, don't they, these are charges, and converting them to an APR is not appropriate. And I should say the APR is a complex calculation, not a simple interest rate, that takes it over the whole year as if you were paying it for a year. The Office of Fair Trading has also confirmed to us that under the consumer credit regulations banks don't have to quote an APR for these charges. We worked them out for them and the banks have not challenged that arithmetic. Ben?

CARTER: And Paul, last month the Government's Consumer Credit Review announced it's commissioned a further study to look at high cost credit. But it also said commitments made by high street banks will deliver a fairer, more competitive market and mark a real improvement for consumers. But that didn't help Money Box listener Mark Daffern from Stamford who was left with a huge bill for a very small financial mistake.

DAFFERN: I had an account with NatWest. I was 3 pence in credit when I stopped using the account and transferred to a different bank. I was contacted around 6 months

later to be advised that I was £400 in debit, which was the result of charges that had accumulated as a result of a direct debit for £6.99 which had bounced. I wasn't able to pay it at the time. The charges then snowballed and now sit at £775. I was offered to be allowed to pay it off at the lower amount of around £400, but I wasn't willing to do so because, as far as I'm concerned, I shouldn't owe them any of this money in the first place.

LEWIS: Well that was one listener, though I must say we've had dozens of similar emails - some just this morning. NatWest has said it's investigating Mark's case. And, Ben, what are the alternatives, if you need a bit extra for a short time? You're not going to be recommending payday loans, are you?

CARTER: Well no, I mean they charge thousands of per cent as well. An authorised overdraft or a credit card are much cheaper ways of borrowing money. Or of course spending a bit less - though that can be very difficult, especially at this time of year.

LEWIS: Yes it can. Though it is important, isn't it - if you buy presents for Christmas, make sure you don't give a present to the bank as well. Now to get the banks' view, I spoke to Eric Leenders from the BBA.

LEENDERS: When we looked at the analysis that you'd undertaken, we'd say that actually it's a sort of comparison of apples and pears. What you've suggested is that there might be specific overdrafts of £100 for a 28 day period, which would attract a specific fee, and I think what I'm trying to draw out is actually that's not the pattern of borrowing that you see on an overdraft. An overdraft is designed to help with flows of cash - money washing in and out. What it's not appropriate for is for a hard core. That's something completely different and actually is better served by putting onto a loan account and paid down in instalments over time.

LEWIS: So if somebody was £100 overdrawn and they said to the bank, "I'd rather borrow that £100 over a year", they'd say yes, would they?

LEENDERS: Well I think if we were in a situation where someone found that they had to repay £100 of overdraft over a 12 month period, we would really want to be talking about their wider financial circumstances. Going forward of course what we'll be looking to do is to alert customers where they might be going overdrawn without arrangement, to introduce buffer zones to make sure that if there are these smaller amounts of overdraft any charges are mitigated; and also advising people of the period that they might be able to pay in money, so that they can deal with the overdraft, and that way they avoid the fee.

LEWIS: The Government published its response on consumer credit recently and said it was going to commission research on introducing a cap on high cost credit. Do you think that research should include these costs?

LEENDERS: Well I think we'd be quite happy to participate in a discussion around high cost credit and I think that you know one of those components might be overdraft fees.

LEWIS: Eric Leenders of the British Bankers' Association. Well the man who started the campaign against unfair bank charges, as we called them then back in 2005, was Mike Dailly from the Govan Law Centre in Glasgow. I showed him our research.

DAILLY: I wasn't really surprised, but I suppose when you see it in those kind of stark terms, it is quite amazing. And you know I do reflect on the fact that do you know that the Romans two and a half thousand years ago managed to cap lending charges at 8%, and what we've got here is banks with equivalent APRs for overdraft charges up to a million per cent. I mean it really is eye watering.

LEWIS: In the Government's recent response on consumer credit, it says it wants research on the impact of high cost credit in the payday loan market. Now it's clear from our research that banks charge so much, should unauthorised overdrafts be included in that research?

DAILLY: Absolutely. I cannot see how you can have a meaningful review of credit and debt in the UK without including overdraft charges. And if you think about it, I mean the biggest market that's grown is obviously payday loans. But in terms of the size of the market overdraft charges way dwarfs payday loans, so it's a huge issue that's got to be included in the Government's review.

LEWIS: What controls would you like to see on charges for credit?

DAILLY: I think what we need to have is an interest rate cap that includes all costs, so it would include charges. So effectively it would be a cap in terms of lending costs. And that could be quite sophisticated in terms of smaller loans to larger loans. It doesn't have to be such a frightening concept as many people in the banking industry might think.

LEWIS: And that would control payday loans and it would also control unauthorised overdraft costs?

DAILLY: It could do all of that. It would not be a difficult thing to do, and the reality is many of our European neighbours have got this already.

LEWIS: Mike Dailly of Govan Law Centre. Bring back Roman banking. Borrowing and debt are the topics in our phone-in Money Box Live here on Radio Four on Wednesday at 3 pm.

There wasn't much to lighten the gloom of the Chancellor's Autumn Statement on Tuesday, but at least there was good news for pensioners.

THE CHANCELLOR: The basic state pension will next April rise by £5.30 to £107.45 - the largest ever cash rise in the basic state pension - and a commitment of fairness to those who have worked hard all their lives. I wanted to make sure that poorer pensioners did not see a smaller rise in their income, so I can confirm today that we will also uprate the pension credit by £5.35 and pay for this with an increase

in the threshold for the savings credit.

LEWIS: Well with me is Phil Agulnik from Entitledto.com. Phil Agulnik, figures I saw seem to imply that not everybody would get that £5.30 or thereabouts.

AGULNIK: That's right, Paul. What the Chancellor is doing is he's uprating the guarantee bit of pension credit for the very poorest pensioners by £5.30, the same as a basic pension. But to pay for that he's squeezing the savings credit element, so that element of pension credit will go down by £1.54 a week.

LEWIS: Right and there's about 2 million I think get the savings credit. So how much a rise will they get?

AGULNIK: Well they'll get the £5.30 increase, but they'll lose £1.54 in the savings credit. So overall their increase is going to be £3.76.

LEWIS: Right, so slightly less for them. And I should also just add because I know, I've been having emails about it already, that the £5.30 is for people on the full state pension. But of course many people get a reduced one, especially married women. They'll get less, won't they? They'll just get 5.2% of whatever they get?

AGULNIK: That's correct.

LEWIS: And what about people who are low paid, in low paid work - people on tax credits? He was saying that they would in fact, he admitted they would have less or at least they wouldn't be getting much more this year.

AGULNIK: On tax credits, what he's done is he's frozen all the elements, apart from for disabled people and disabled children. And the child element, he's increased with inflation the Consumer Prices Index, as he now uses, but he's failed to implement a promised increase of £110.

LEWIS: Right, so the increase of £110 won't be happening, but there will be an increase instead of that of, what, £100 and ... more than that in fact, isn't it?

AGULNIK: That's right, it will go up. So it will go up by the Consumer Prices Index, so that's £140 per child per year, but he's not doing the extra £110 he promised.

LEWIS: So that will mean not an inflationary rise for many people on those benefits. Now why was there going to be a higher inflation rise in child element? That's now been stopped.

AGULNIK: At the time he justified it by saying that he was going to get rid of child benefit for higher rate taxpayers and he was going to use some of that money, about a billion of it, to help children out of poverty by increasing the child element in child tax credit.

LEWIS: So he's cancelled one. Is he therefore not going to tax child benefit?

AGULNIK: He didn't say anything about taxing child benefit in the Autumn Statement, so your guess is as good as mine, Paul.

LEWIS: Okay, we'll have to wait for the Budget, I expect, in the spring. Phil Agulnik of Entitledto.com, thanks very much.

Small firms are being given an extra year before they have to enrol their staff in a pension and pay into it. For big companies, this auto-enrolment scheme will start as planned next October, but any firm with fewer than 3,000 employees will get a bit longer and those with fewer than 50 employees will get more than a year extra. They won't have to start until after the next election in May 2015. All firms, large and small, that means will have an extra year before they have to pay in the full amount. With me is Malcolm McLean, a consultant with actuaries Barnett Waddingham. Malcolm McLean, what effect will this delay have? Everyone really thought it was

important to get going on this, didn't they?

McLEAN: Absolutely. I think it's true to say that the whole of the pension industry is quite dismayed by this. There's a clear u-turn here. We were told very clearly by ministers that, notwithstanding the economic downturn, that this scheme was going to go ahead. And there is a particular concern about people who work for small businesses. Now I do understand that small businesses are struggling and will continue to struggle during the downturn and there will be a concern about them, but there possibly were other ways to help them rather than doing what they've done now. And basically what they have done with small businesses is to say to in the order of 4 million eligible workers that you're going to have to wait now before you can be automatically enrolled into this new pension arrangement, which is bad news indeed.

LEWIS: And of course even when auto-enrolment starts for the big firms in the autumn, the amount going in is going to be quite tiny - 1% from the employer, 1% from the employee, 2% altogether. Not going to buy you much of a pension, is it, and it's going to stay at that level for an extra year now?

McLEAN: Yes indeed, there's two delay factors in this. There's a staging programme under which, as we said, the big employers come first, followed by the medium-sized employers and then the small employers. That was the plan. And then there is a phasing in programme of the amount of the contributions that are paid. So all this is quite a long process as it is now. And by pushing it back, particularly the bit about small employers beyond the next election, will make people think well is this really just a delay or is there a possibility of it being scrapped. These are the very people for whom auto-enrolment was designed to help. These are the people who don't have access to a company pension scheme and need to be encouraged to save. And, as we all know Paul, we have a looming crisis long-term about people sort of sleepwalking into a very financially insecure old age and this was designed to do something about it.

LEWIS: Indeed. And of course the Government says it is committed to introducing it, though there is this delay. Malcolm, very briefly, the pension age, the state pension

age is to be raised again following an announcement this week up to 67. Who's that going to affect?

McLEAN: Well it's going to affect people basically under 50 or 50-ish - I think 52 is the figure - who would have had an expectation to retire or to take their state pension at 66, will now have to wait till 67. The one good thing about this is the Government has clearly learnt its lesson from the last episode when they moved the state pension very rapidly, state pension age up to 66. They're giving people notice about this now. And we've always said that people need time, probably 10 years, to adjust to these changes, and that's what they've done in this case. So that will help.

LEWIS: And Malcolm, in a word or a number, how far do you think the pension age might go?

McLEAN: I would expect it to be 70 by probably 2035, 2040. I don't have a crystal ball, Paul - that's a complete guess - but the signs are that it will continue to rise.

LEWIS: Malcolm McLean, thanks very much for that slightly gloomy news for many people.

A number of you have been in touch this week about a price rise from the mobile phone company Orange. The majority of their monthly customers have been sent a text saying tariffs will increase by more than 4% in the New Year. Orange points to a clause in its contract which states the company can increase the tariff by up to the rate of inflation, and customers who want to leave as a result must pay a penalty. But Money Box listener Phil Taylor didn't agree. He rang Orange to get the code you need to move to another provider.

TAYLOR: I asked for my PAC code so that I could move to another provider. They said they couldn't give me that because I would need to finish, terminate the contract, and I would have to pay I think it was about £300. I rang Ofcom who told me that if there is a material disadvantage to you, the customer, then they have effectively

broken the contract. So they actually then emailed Orange and phoned Orange. Within minutes I had my PAC code and no way was I being requested to pay the £300. If you feel it's a cheeky imposition, then ring them up.

LEWIS: So is that a lesson: call Ofcom, the regulator, if the phone company says no? Well Orange told us that Phil was allowed to leave his contract without penalty due to what it called "a customer service miscommunication" - hmm - dating back to May, and that it wasn't related to the price rise or the fact he'd called Ofcom. When we called Ofcom, it pointed us to the rule which says customers can leave a contract without penalty if changes are likely to be of "material detriment" though it didn't want to comment on Orange's particular case. Now what is material detriment? Perhaps a bit of help here from a consumer lawyer. Fortunately Ingrid Gubbay, a solicitor with Housefeld and Company, is with me. Ingrid Gubbay, what is material detriment?

GUBBAY: Well thanks, Paul. As you will know, all of these business to consumer contracts are regulated by The Unfair Terms In Consumer Contracts Regulations, which contains in it a term around detriment. And this is a very subjective test, so it's up to individuals to say whether they feel they're being materially affected in some way. So, for example, a person who has a fixed contract of £30 will see a rise here of about £1.50, but if you're a family of five contracts, you may see a material significant rise over the course of 24 months.

LEWIS: Now Orange seems to be saying it's not material if it's no more than the rate of inflation. But, as many people listening will know, wages are frozen for many people and going up by far less than 4% for others, so for them it will be a material detriment, won't it?

GUBBAY: Yes well again, as I say Paul, it's up to the individual circumstances. For some people it may and for some people it won't, and that's why you won't get a broad comment from the regulator. But on top of that, the information and notification requirements are extremely important, and a lot of people when they signed up to what they thought were fixed term contracts understood that they perhaps didn't want

to vary them.

LEWIS: Yes because of course when you go and buy a mobile phone now, you are locked in for 2 years typically and you may well think well that's okay, it's going to cost me so much a month, and then suddenly this comes out of the blue. So many people have told us they think it's unfair.

GUBBAY: Yes.

LEWIS: Do you think it could be changed either by Ofcom or, come to that, the courts?

GUBBAY: You will see, Paul, that in most of these provider contracts, there will be a clause (sometimes buried in the detail) about the provider's right to vary the prices. And so of course it can't be excessive and excessive is subject to some interpretation.

LEWIS: Yeah and that has to of course fit in within the general law even if it's in the contract.

GUBBAY: Exactly. So, as I say, it's governed by the unfair contracts regulations.

LEWIS: Ingrid Gubbay, thanks. Now Ofcom can launch an investigation into whether a firm is breaching its licence conditions, but it's more likely to do so if it gets a lot of complaints, they told us. And there is a number on our website. If you click through from the main page to today's programme page, you'll find the number to call if you want to complain to Ofcom.

State benefits can seem very complicated, but company pensions can also be confusing and not always helped by the information sent out by trustees. Jean is a retired member of the BT pension scheme. She emailed us with a copy of her annual statement, which showed almost a quarter of a billion pounds being spent on management and administration and she wasn't happy.

JEAN: I've been in the BT pension scheme for many years and received their trustee report for 2010 in August. And on reading the cost of investment management administration was the enormous sum of £243 million, and I feel that this could be reducing the pensions payable to me and my co-pensioners by a very considerable amount.

LEWIS: Well Jean contacted the BT pension trustees in August to ask for a breakdown of the expenses. She's still waiting for an answer. So we contacted the scheme and it apologised for the delay, but explained the most significant difference from the previous year came from performance fees paid to managers who had what they said "above market full year performance". Well still slightly puzzled, I asked Roger Turner, General Secretary of the National Federation of Occupational Pensioners, for his view.

TURNER: It is a large amount of money, quarter of a billion, and I would understand how BT pensioners would feel uncomfortable with that because they receive a shortened form of the account and it just says administration expenses. The administration cost of the scheme is something like 19 million - that's the auditors, the professional people, the trustees - and then the scheme has to stump up 9 million a year in a PPF levy.

LEWIS: That's the Pension Protection Fund ...

TURNER: Yes indeed.

LEWIS: ... that makes sure if all things go wrong, the people will at least get something? That's still a long way off 243.

TURNER: It's a long way off. The biggest chunk actually is because BT pension scheme is fairly unique in owning its own investment manager, Hermes Fund Managers Limited. The accountancy rules say that the BT pension scheme has got to consolidate the Hermes account into their own.

LEWIS: But the concern that Jean and I'm sure other pensioners have is that it's money they are losing. Does this affect the pension they get?

TURNER: No it doesn't. Her pension is based on her final salary and is going to continue to be paid. Being a final salary scheme, it is the company BT which picks up any costs over and above that which you get from the investment income and the money going out.

LEWIS: Is the BT scheme one of those that is changing the way it increases pensions every year from the Retail Prices Index for the Consumer Prices Index?

TURNER: Yes it is.

LEWIS: If the pension scheme hadn't got to pay out all these large costs, then they may not have had to change from the Retail Prices Index to the Consumer Prices Index and that would mean that pensioners would get a bigger increase every year for the rest of their lives.

TURNER: I doubt it very much because that cost is relatively small in comparison to the approximately 9 billion deficit.

LEWIS: I've looked at these income and expenditure figures and these are not sent to accountants. These are sent to ex-BT workers like Jean.

TURNER: Exactly.

LEWIS: Shouldn't they be clearer?

TURNER: They've actually said they will be talking to us about how they can make the accounts much more understandable for the member. That's something that we will be pressing now for all of them because these are just bald accountancy figures which accountants understand but members really don't, and to pluck figures out like

that is clearly very disturbing for them. Clarity for the member and not for the professional is what we're after here.

LEWIS: Roger Turner of the National Federation of Occupational Pensioners. Well that's almost it for today, but Ben Carter's come back because, Ben, we've getting a huge response to your overdraft story.

CARTER: We've had hundreds of emails, Paul. Rodney from St. Ives has said that his wife has just been charged £30 for being overdrawn accidentally by £5.20 for one day. He says to be fair the bank do spell out what the charges will be. It's just a pity they can't revert to the old system that allowed an overdraft of a few pounds without charge, and that's fallen by the wayside. And Richard from Peterborough said that high rates are for unauthorised overdrafts meaning taking money without permission. It's no different than taking £10 from a wallet found on a table.

LEWIS: Two views there. Thanks very much for that, Ben. And you can read Ben's story on the website. It's the top read story this morning. But that's it from our 1500th edition. Our website: bbc.co.uk/moneybox. You can let us know what you think about overdrafts. I'm back on Wednesday with Money Box Live taking your questions, as I said, appropriately enough on borrowing and managing debt. Back with Money Box next weekend. Today reporter Ben Carter, producer Lesley McAlpine. I'm Paul Lewis.