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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, the deadline approaches for major pension changes. Two groups should act now or lose the chance perhaps forever. We ask if you should hitch your fortune to the dragon's tail. We go to a school where children are being taught about money.

CHILD: When you're older and you're getting maturer, when you get your own place you're not just going to spend it on all comics and all that.

LEWIS: I think they've got it sussed already. And we find the best cash ISA deals and point out the tricks to beware of.

(Fx: *clock ticking*) But first pensions and the clock that's ticking. Are you between 50 and 54? If so and you want to retire or at least take your pension or lump sum, then you'd better get your skates on because that clock is ticking for you. There's less than a month to organise what's quaintly known as a benefit crystallisation event - in other words, taking your lump sum and perhaps the annual income from a personal or company pension fund. At the moment you can do that once you reach the age of 50; but on the stroke of midnight between April 5th and April 6th, that age rises to 55. (Fx: *alarm*) So if you don't wake up and act now, you'll have to wait up to 5 years. Now I'm sure some of you are thinking retire at 50? Chance would be a fine thing. Most of us will have to work till we're 70. But taking money from your

pension and stopping work are two different things. Live now to Tom McPhail of independent financial advisers Hargreaves Lansdown. Tom, who might be able to do this?

McPHAIL: Paul, hi. In theory anybody who has a private pension *could* do it. I think the sort of people who are likely to *want* to do it are those who expect to need money over the next few years, before the age of 55, and who are going to struggle to get that money from any other sources. So, for example, someone who anticipates that they might lose their job or will have a mortgage shortfall or might need to put their children through university and who feels that they won't be able to find that money from anywhere else, those are the kind of people who might want to act now.

LEWIS: Yes because of course by taking out the lump sum early, you're losing the growth that amount might have between the age of your early 50s and probably your late 60s or early 70s when you finally do retire?

McPHAIL: Absolutely. And I think we should stress that for most people the answer is just keep on going because, as you've already said Paul, they probably haven't got enough money in their pension now. You need to keep investing. You need to keep that pot of money growing. So you should only really be looking at this if you genuinely think you're going to have a financial need over the next few years that can't be met from elsewhere.

LEWIS: And of course if you do take the lump sum, you can draw the pension as well, and you can then recycle that into another pension, can't you?

McPHAIL: You can do that. You just need to be slightly mindful of the Inland Revenue's somewhat convoluted rules regarding recycling of tax free lump sums back into pensions. So just be aware of that if you're going to go down that road, if you're going to increase your contributions - but in theory, yes you can do that and put the money back into a pension.

LEWIS: The rules apply to lump sums rather than the pension itself, don't they?

McPHAIL: Correct, yes.

LEWIS: And the deadline. It is 5th April legally. I mean that's Easter Monday, so really you've got to do it by the end of this month. And we are hearing ... Some listeners have emailed us this morning saying 'Well it's too late. I talked to my pension company and they say the shutter's already come down.'

McPHAIL: We're already pretty close to the wire. The important thing is you need to get the money to wherever it is you're going to draw your pension from. So if you're going to take your pension from your existing pension company or from your existing company scheme, then really all you need to do is to have got the request in to say please start paying me my pension. But if you're planning on transferring that money somewhere else to buy an annuity or into a drawdown plan - then you're right, it is almost too late.

LEWIS: And very briefly, Tom, this is all hideously complicated. We've done it in two and a half minutes, and congratulations on that, but where can you get help?

McPHAIL: Starting point is go and talk to a good independent financial adviser. Contact your pension company as well, so that if you are planning on doing it, you can get the wheels in motion.

LEWIS: And start Monday because it's almost too late. Tom McPhail of Hargreaves Lansdown, thanks very much.

Now another pension deadline is also looming. Well it's the same deadline - April 5th - but a different pension issue. And this one is complicated, very complicated. *So complicated you might like to sit down and relax, as Money Box's Ruth Alexander explains it to me.*

ALEXANDER: (*Music*) Paul, this deadline, which is April 5th, affects a group of people who are now in their mid-60s to mid-70s. They're women born between 6th April 1938 and 23rd October 1944, and men born between 6th April 1933 and 23rd October 1939. So that's the first thing: they must be that age. The second thing is that they must have a state pension, which is reduced because they haven't paid enough national insurance contributions.

LEWIS: Okay, so born between those dates and details will be on our website, and a reduced state pension. What's the deal for them?

ALEXANDER: These people - men aged 70 to 76, women aged 65 to 71 - these people can buy extra national insurance contributions for the 6 tax years between 1996/97 and 2001/2002. So if any of those years are ones they missed, then they can buy the contributions now at a special rate - about half price in fact - between £310 and about £350 for each missed year. But that offer ends absolutely on 5th April.

LEWIS: And, Ruth, I'm sure people know 5th April is Easter Monday, so the last working day before that is Thursday 1st April and they have to get all this sorted out and the money paid well before that. What do they get for these contributions?

ALEXANDER: Well by spending £300 or so, they get a bigger state pension worth £100 or perhaps £150 a year more. So a good return.

LEWIS: Ruth Alexander. Well with me is Malcolm McLean of the Pensions Advisory Service. No music for you, Malcolm. I'm sorry. It sounds a good deal, but there could be downsides to it.

McLEAN: Yeah, it is a good deal and it's worth emphasising the points that Ruth has made - that this is a special concession for a particular group of people.

LEWIS: Of those ages.

McLEAN: Yes, of those ages. Unusually we're talking about people who are probably drawing their pension now, so this is quite a different situation. As regards drawbacks, well I think it's worth emphasising - and this will create fury, I know, amongst the ladies affected - you can't do it if you've signed up to the so-called married woman's stamp. You are excluded from this. And the other sort of person that perhaps ought to be drawing back from even considering this is somebody who is really in a family which are claiming means tested benefits because it may well be that the only outcome of this is to increase your basic state

pension and then lose on your means tested benefits as well. So you need to watch out for that. But generally speaking, it is a good deal. It's worth emphasising as well that if you qualify for this, the extra pension will be backdated to the date you first started drawing your state pension and any extra contributions you have to pay will be offset against that, so you may not even have to pay any money upfront. It's almost free money in that sense.

LEWIS: Yes, for people in those particular groups. And there'll be details on our website and I know on yours, Malcolm, that you want to mention later. Now that's the one particular group, but other people can also pay extra contributions, can't they?

McLEAN: Yes, well the normal rules are that you can go back over a preceding 6 tax years to make good gaps in your record, which have occurred during that time. More recently, the government has also extended that to cover any period of 6 tax years back to 1975 for certain people - certain people who already have paid a number of contributions. So we've got two sets of rules there, plus this one now makes three.

LEWIS: Yes and again there are age limits on that new one, aren't there, and I believe very few people have actually taken advantage of that?

McLEAN: Yes, it's people basically who have recently retired or are coming up to the state pension age between now and 2015.

LEWIS: Yes. And there are many changes happening on April 6th anyway, aren't there? Very briefly.

McLEAN: Yes April 6th is going to be one of those significant dates in the pensions calendar. And the main change of course is the one that I'm sure we've mentioned before on this programme and elsewhere - the fact that to qualify for the full basic state pension, from 6th April you will only require 30 national insurance qualifying years instead of at the moment 39 for a woman and 44 for a man. That is a complete cliff edge change. It's not the date you retire. It's your date of birth that determines it. So it's for people who reach the state pension age on or after 6th April 2010. They will only require these 30 years.

LEWIS: Malcolm McLean from the Pensions Advisory Service, thanks. And there's more on our website and links to Malcolm's Pensions Advisory Service website there as well. And of course married women ... sorry *all* women have their pension age rising from 6th April. I'm sure we'll be returning to that later.

(Music) Ah, the Orient! Music to the ears of our investment industry with our own economy in the doldrums and the stock market here much where it was 12 years ago despite the recent hefty rises. So what better to tempt us to go East and hitch our money to the dragon? China's economy is now growing at I think 8% a year. That'll soon take it from the third to the second biggest economy in the world. So should you try to catch the dragon's tail or are there too many bulls in the China shop already? One of Britain's biggest fund managers, Fidelity, is in the process of launching its new China Fund. It'll be run by its legendary fund manager Anthony Bolton, now out of retirement and in Hong Kong. We'll hear from Fidelity in a moment, but the new fund hasn't impressed everyone. One financial commentator in particular: Merryn Somerset Webb, who's Editor in Chief of Money Week. She's in our Edinburgh studio. Merryn, what are your criticisms of this fund?

SOMERSET WEBB: Well they're mainly about the cost of the fund. You know the issue of whether China is a good investment or not is a different thing.

LEWIS: We'll come back to that. What about the costs?

SOMERSET WEBB: This fund is an investment trust rather than a unit trust, which means that it's effectively a company, the business of which is to invest in other companies. These are normally rather cheaper than investment trusts. The annual management fee will be less than 1%. This one will cost you 1.5% a year. But that's not all. You'll also pay a performance fee of potentially another 1.5% a year. Now I don't like performance fees in general, but this performance fee particularly irritates me because, like lots of others, it's charged on a relative basis, not an absolute basis.

LEWIS: By which you mean?

SOMERSET WEBB: So Anthony Bolton won't get a performance fee for making you ... for *actually* making you money. He'll get a performance fee for losing you less money than the index might lose you. So say Chinese equities in general fell 45% and the value of this fund fell only 35%, Anthony Bolton would get a performance fee but you'd still have lost money. Now that's the kind of thing that makes sense to the financial services industry, but does not make sense to the rest of us at all.

LEWIS: No, but I mean the fund has to be set up, there's expensive people to pay to run it. Investors have to pay that cost one way or another, don't they?

SOMERSET WEBB: Oh absolutely, but the 1.5% ... If the fund raises the amount of money it intends to, which is a billion dollars, they'll get \$15 million a year just from the basic fee, which is surely more than enough to pay Anthony Bolton, who I accept is probably a very expensive person, and a few overheads. You know who needs more?

LEWIS: *(over)* Well I'm sure it's not just him who's taking this money.

SOMERSET WEBB: And other funds manage to do it on a great deal less.

LEWIS: Let's find out the answer to that from Fidelity's UK Managing Director who's with me, Gary Shaughnessy. Gary, full of new Eastern promise, but burdened with old Western charges?

SHAUGHNESSY: Well afternoon, Paul. I mean I guess the first thing to say is this is an actively managed fund. It's not a passive fund. It's an actively managed fund in a prospering but a very volatile market.

LEWIS: But these charges are high even for actively managed investment trusts.

SHAUGHNESSY: Well I think the key thing here is that we think that China really is a stock picking market and we brought together Anthony Bolton, who's you know a stock picking legend as you put it, but also our extensive Hong Kong and China team to seek out the under

researched stocks that we think will create value for investors. And we put that in exactly the same approach as we did with Special Situations, but we put it into an investment trust.

LEWIS: So you're admitting it's dear, but you're saying it's worth it because it's going to be good?

SHAUGHNESSY: No. What I'm saying is the most important thing to start with is to understand what value we're trying to create for investors. And in terms of the price, the annual management charge is pretty much the same as most equity funds available in the UK ...

LEWIS: But not investment trust management.

SHAUGHNESSY: ... and it's pretty much the same as most equity investments that are looking at China at the moment. In addition to that though, we do have the performance fee, and the important thing is that Anthony only gets a performance fee and the fund only gets a performance fee if performance is delivered. And if you look at Special Situations, which under anyone's judgement I think delivered an exceptional return over 28 years ...

LEWIS: This was Anthony's old fund that he's now left?

SHAUGHNESSY: It was. What Anthony did was not only did he deliver out performance when the market was going up, but he also lost less money for investors in stocks when the market was going down.

LEWIS: So you're saying it's quite right to pay a performance fee if he loses you less money than you would if you were invested in the China index or the MI...

SHAUGHNESSY: In the context of over the period of time creating value. So Special Sits, for example, it created 148% return, 114,000% return over 28 years.

LEWIS: Yes. But that's the past and, as we know, past performance is no guide to the

future ...

SHAUGHNESSY: Absolutely.

LEWIS: ... of a person or indeed a new fund in China. If it makes less than his target, do you give people anything back?

SHAUGHNESSY: If it doesn't hit the performance target, which is MSCI China Plus 2, then it actually makes it more difficult for him to get a performance fee in subsequent years. So if he underperforms by 5%, that 5% carries forward to the next year.

LEWIS: But you don't give anything back? I mean it's heads you win, tails you don't lose?

SHAUGHNESSY: We don't give anything back. What we do is, as you say, we charge the normal 1.5%, which is comparable in some cases under most of the China funds in the market.

LEWIS: And Merryn, are you convinced by this?

SOMERSET WEBB: Oh no, of course not, not remotely. I mean the 1.5% is still very high and the performance fee is still charged even if you lose money. So what you're paying for here or what Fidelity want you to *think* you're paying for is the enormous skill of Anthony Bolton; and he has shown himself to be very skilful in the past, although I would point out he didn't get a performance fee on the Special Situations Fund and seemed to manage just fine. However, Anthony is only committed to this fund for 2 years, so it's given to us as a long-term investment from the UK's best stock picker but he's not going to be there for the long-term.

LEWIS: Gary?

SHAUGHNESSY: Well most fund managers don't give you a formal commitment of any time. What Anthony *has* done is committed a minimum of 2 years. He's moved himself and

his family out to Hong Kong. His expectation is that it may well be significantly longer. And I'd also add this is not just about Anthony Bolton. It's also about the scale of the research team that we've got over in Hong Kong.

LEWIS: Okay, Gary Shaughnessy, thanks. And Merryn Somerset Webb. You both said you could talk about it for ages, and you could, but I'm afraid we've run out of time. Details of that fund and the deadlines for investing are on our website.

The government's keen to promote the idea of teaching children about finance in school. Next year personal finance will become a mandatory part of the school curriculum, and to get its message across the government's recruited a young, urban music star. He's a London man who raised the money to record his first album, partly by selling clothes online. Our reporter, Gillian Lacey-Solymar went to meet him at St. Matthew Academy in South East London.

LACEY-SOLYMAR: The kids in this Lewisham school are very excited about the talk that's about to take place, but I have a sneaking feeling that it's more about the guy who's going to introduce the speech than about the subject itself, which is personal finance.

CHILDREN: Tinchy Stryder! (*laughter*)

LACEY-SOLYMAR: Tinchy Stryder may not be the name on the lips of most Money Box listeners, but to these kids the number one rapper is certainly worth listening to.

MUSIC: Tinchy Stryder

TEACHER: Okay, I'm going to hand you over to our special guest today. Tinchy Stryer is here.

STRYDER: Hello everyone. How's everyone doing? Yeah man, I'm just here to like speak to you about personal finance and about money and that.

TEACHER: Thomas, well you've got a very good idea what you're going to do with your

money. You said when you get to 11 ... What did you say you were going to do?

THOMAS: Putting it in some bank accounts. Lots of different ones to see which deal is the best really.

TEACHER: How are you going to look at which deal is the best? What is that special word we talked about before?

THOMAS: The compound interest.

TEACHER: Oh excellent.

RIANAY: My name is Rianay (ph) and I'm 9 years old.

LACEY-SOLYMAR: How do you think about your money? Do you ever think about money?

RIANAY: Yes, all the time.

LACEY-SOLYMAR: And why's that?

RIANAY: Because I like money a lot. Then I can get new books, new toys, all of that.

HARRY: I'm Harry Clark and I'm 11. We learn about money a lot. I think it's crucial that we learn money because when you're older and you're getting maturer, when you get your own place you're not just going to spend it on all comics and all that. There's nothing to pay your bills. And in this economic downturn, it's really very hard to get jobs out there, so you've got to make the most of every penny.

CROSS: I'm Monica Cross. I'm the Principal of St. Matthew Academy. I think personal finance is really important in schools. One of the things that is the mark of somebody who comes out of school educated should be that they're able to function independently in the kind

of society that we're giving them, and actually understanding not just personal finance but how their own personal finance fits into the world of finance is really important for them.

LACEY-SOLYMAR: But if it's inherently valuable like you say to do personal finance, why do you have to bring a celebrity rapper in to emphasise that?

CROSS: He was very acute in his personal finance. He financed his way through university, for example, by the entrepreneurial skills he had, and his understanding of personal finance is something that the children will respect because he's actually demonstrated it.

LACEY-SOLYMAR: So what is Tinchy Stryder's financial philosophy?

STRYDER: Money is important, but at the same time managing money is even more important because you can make a lot of money, but if you're not managing it, don't know how to spend it or look after it.

LACEY-SOLYMAR: But do you think the right place to learn about money is in school?

STRYDER: Yeah, I guess it's always ... Like cos when I was at school, no-one really sat me down and explained how to manage my money. So I guess learning it from young and being aware of it's always going to be helpful.

LACEY-SOLYMAR: But away from the school, there are of course many other financial initiatives going on aimed at youngsters. I've been taking a look on the web at Oink, the business newspaper for children. It's full of cartoon characters like Posh and Bucks who have money on their minds, and it also runs a virtual stock exchange for children. Its editor and founder Ernest Henry thinks the government needs to be wary of how personal finance is taught.

HENRY: We've heard that there are some lessons where it's very, very, very elementary, and I have a fear that if they keep being elementary on that sort of level, they will bore the children to death and they will turn off. It has to be engaging and it has to be fun, and it has to

be something which stretches the children's minds. And they can be stretched. I mean they're very clever.

LACEY-SOLYMAR: They certainly seemed clever and remarkably well briefed with all their talk of compound interest and economic downturn at the age of 11. To be honest, the whole event was a bit of a media circus. Other than Money Box, several radio journalists turned up, as did TV crews and photographers galore. Having a celebrity certainly helped bring the issue into focus, but rather more weighty attention will have to be paid when personal finance becomes a compulsory part of the national curriculum in September next year.

MUSIC: Tinchy Stryder

LEWIS: Tinchy Stryder ending that report from Gillian Lacey-Solymar. Money's important, but managing it is even more important. I like that.

Now it's open season on your savings. Sorry, did I say open season? I meant ISA season. As banks and building societies compete to take our savings and pay us rather less than the rate of inflation - or looked at another way, with bank rate at its historic low of half a percent, how marvellous that some banks are paying us six or even seven times that on our savings and all tax free. So if you're tempted and have £3,600 or £5,100 if you're aged 50 or more, then where can you get the best deals? And if you've put the maximum into a cash ISA, which could be close on £36,000 since they began, what's the best new home for your money? Live now to talk to Clare Francis, Editor of Moneysupermarket.com. Clare, what are the most tempting offers out there?

FRANCIS: Well I think the best rates available are similar to those on non-ISA savings accounts; and they're on the fixed rate product, so if you've got money you can afford to lock away for a few years, they're worth considering. Clydesdale Bank, for example, has got a 5 year fixed rate ISA paying 5%. Obviously though 5 years is quite a long time and you won't be able to access your money during that period without penalty, so if you want to go for a shorter term fixed rate, Nationwide recently launched a 3 year fixed rate ISA that's paying

4.4%, which is still pretty impressive. It beats inflation and it's significantly higher than the base rate.

LEWIS: Yes, though of course we don't know what's going to happen to inflation or interest rates over the next 3 years. But, yes, that is a good rate. And what about instant access though because that's what a lot of people want, don't they?

FRANCIS: Yeah, a lot of people do and especially at the moment, as you were saying, because base rate's at a record low. It will start to go up at some point and the danger is that you lock your money away, you're stuck on a rate that becomes uncompetitive. If we're looking at easy access accounts, Santander's Flexible ISA is paying 3.5%, which is a really, really competitive rate. It really stands out from the rest of the field at the moment. The only thing with that account is it's only available for the current tax year's ISA allowance, so you can't transfer money invested in previous tax years over into it. If you want to do that, you're looking at 2.75% from First Direct.

LEWIS: Right. There is a lot of money, there's 150 billion in cash ISAs and obviously people do want to transfer. You say 2.75 is about the best you can get on that?

FRANCIS: Yeah First Direct, Nationwide and Santander again actually, they're all offering cash ISAs paying 2.75% that are available for transfers.

LEWIS: Now, as I said, these are a lot higher than bank rate and I think it shows that the banks and building societies are after our money. Sometimes though the deals are not quite what they seem. What little, could I call them tricks or traps, are there that we should be looking out for?

FRANCIS: Yeah, well we mentioned earlier about the Santander, the 3.5% deal that's only available for new money, so for the current year's ISA allowance. That's one to look out for because they don't always allow transfers in. The other things to be wary of are short-term rates or introductory bonuses. There are a number of deals that offer ... you know the rate's guaranteed or includes a 12 month bonus. So look out for that because obviously this time

next year, the rate could plummet quite significantly. Withdrawal penalties, particularly if you're fixing, you will be charged. You'll lose interest if you want to make a withdrawal.

LEWIS: And some of even the instant access ones actually do have a penalty if you do take out more than a certain number of times a year, don't they?

FRANCIS: Yes, so limited withdrawals. The other thing with a number of products is limited eligibility, so they're only available ... NatWest, for example, its cash ISAs are only available to existing savers or current account customers.

LEWIS: Clare Francis of Moneysupermarket.com, thanks. Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - our website, bbc.co.uk/moneybox, where you can do all sorts of exciting things. Having your say on teaching kids about money is one of them. Now thanks to all of you who got in touch about Cartel Client Review last week. We've read all your emails and we'll be returning to the subject hopefully next weekend. Vincent Duggleby's here on Wednesday with Money Box Live taking questions on tax planning. I'm back next weekend with Money Box. Today the reporter was Gillian Lacey-Solymar, the producer Karen Kiernan, and I'm Paul Lewis.