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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, the banks confirm they want to get rid of cheques by 2018. Bob Howard's been looking at how well they're going about it. Bob?

**HOWARD:** There's talk of a replacement voucher system, but some MPs believe the whole process has been botched.

**TYRIE:** This was rushed through and not planned properly. We had the proposal announced before the work had been done, and that's certainly no way to organise this.

**LEWIS:** New freedoms for people who don't want to buy an annuity with their pension fund. Current restrictions will be scrapped from April. Price wars in the pound shops. We report from Eccles. And the over-65s get less than younger people from the tax changes due in April.

But first, the banks are planning to get rid of cheques by 2018. Since the move was announced a year ago, there's been a lot of opposition to it from people who rely on cheques. The banks say they won't make the move if there is no alternative, so Bob Howard's been looking into what might replace cheques. Bob?

**HOWARD:** Well Paul, one theory is that they could be replaced by something called

secure vouchers. They could be in a book like a cheque. But you'd need to put the details of the payee's bank account on the voucher, which would also contain your bank details. The payee would then take it to their bank where they'd turn it into an electronic payment. Now some European countries which have pretty much got rid of cheques like Sweden and the Netherlands already operate a system along similar lines. The positives are that it should clear more quickly than a cheque and wouldn't have to be carted off to a special clearing facility, but there are concerns that the vouchers could have a similar risk of fraud attached to cheques if they fall into the wrong hands.

**LEWIS:** So Bob, how keen are the banks to explore this alternative?

**HOWARD:** Well Paul, I've discovered there are big differences between the banks on this one and a high street bank told me it's very unhappy that the search for another payment method on paper has been mentioned at all. The bank spokesman told me she thought this announcement was "unhelpful". But another high street bank told me that the banks were looking into five different alternative voucher payment systems.

**LEWIS:** And how close are these? Are they being piloted?

**HOWARD:** Well, Paul, one bank told me it was approaching the charity Age UK next week to see if it would be willing to participate in a trial of its proposed voucher system. Jane Vass, one of the people at the charity responsible for liaising with the banks on this, told me she would take some convincing that a voucher system would be suitable.

**VASS:** My message to all the banks is that we're very concerned about moving away from cheques unless acceptable alternatives are in place that meet our criteria of usability, convenience, security and, above all, accessibility. We don't want to see a system which effectively rations it by making it a special service just for a few people. It's got to be something that's widely accessible, low cost and convenient.

**HOWARD:** And Paul, some MPs have been even more outspoken about their concerns. Andrew Tyrie, the Chair of the influential Treasury Select Committee, has heard evidence from the banks and thinks they've handled the proposed withdrawal of cheques "very badly indeed".

**TYRIE:** I was very concerned at what appeared to be a pretty high-handed approach to getting rid of cheques. The Payments Council came forward allegedly with a cost benefit analysis that clearly showed that there were enormous benefits to getting rid of cheques, but when we asked them what number they had written in for the disbenefit to those who want cheques of losing them, they said that they'd not written any number at all for that. So this was rushed through and not planned properly and not costed properly. We had the proposal announced before the work had been done, and that's certainly no way to organise this.

**LEWIS:** Treasury Select Committee Chairman Andrew Tyrie. Well the UK Payments Council is the industry body responsible for the change. I asked its Chief Executive, Paul Smee, why cheques had to go.

**SMEE:** There is a continuing decline in the number of cheques issued. We could take the view of just letting the system fall away or we can take an active role in promoting alternatives and helping people who currently are dependent on the cheque to move to them.

**LEWIS:** And what might an alternative to cheques look like?

**SMEE:** There are many possibilities. I think you can envisage new forms of making electronic payment, for example.

**LEWIS:** But most of the people who use cheques don't want to do that. They want to write on a bit of paper, put it in an envelope and stick it in the post. The Chairman of the Treasury Select Committee Andrew Tyrie said you've decided the policy before doing the work on the alternative. Why have you done it that way round? Why didn't you have an alternative and then decide to get rid of cheques?

**SMEE:** First because I think that having set a target date, we have been able to enter into much better discussion both with those who are innovating in the industry and those who might be affected were the clearing to close about what their needs are and how those needs can be met.

**LEWIS:** Is the real answer, Paul, you haven't got a clue, but you hope you will have in a few years time?

**SMEE:** I think I've given several clues.

**LEWIS:** But if there are still hundreds of millions of cheques being written in 2016, will you say we can't do this?

**SMEE:** Well I think you can argue that it would be very difficult to satisfy those criteria if there was a huge number of cheques still being written.

**LEWIS:** Huge being how many?

**SMEE:** I'm not putting a figure on it.

**LEWIS:** Paul Smee. And don't forget cheque guarantee cards will disappear in just 6 months at the end of June next year. Well you can let us know what you think about the proposed end of cheques - some of you like it, some of you don't - on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). Lots of comments coming in.

The government has announced radical plans to allow people much more freedom when they come to turn their pension savings into an income for their retirement. From April no-one will have to buy an annuity, a pension for life, with their pension fund - after taking their tax free lump sum, of course - even when they reach the age of 75. They can buy an annuity, but if they already have a guaranteed pension income of at least £20,000 a year, they can effectively do what they like with the rest of their pension savings - even spend it all at once, though it will be taxed as income. Those

with less can keep their money in a fund and draw from it regularly at roughly the same rate they would get from an annuity. I asked Pensions Minister Steve Webb why he was giving so much more freedom to those with a pension of more than £20,000 a year.

**WEBB:** Instead of having to turn their money into a pension at a particular date, they will be able to draw some of the money in the pension, carry on investing some of it, potentially get a better return as a result. And obviously I recognise that some people simply have to take their annuity as soon as they possibly can, so it will on the whole tend to be better off people, but we're all in favour of greater flexibility. It is essentially their money and, subject to floors that the government sets, ought to be there to do what they want to with it.

**LEWIS:** But the real flexibility is only for people who have a pension income, including the state pension, of £20,000. That really is a small minority, isn't it? I think the Treasury is talking of a few tens of thousands of people.

**WEBB:** It is a minority at the moment. The idea of this £20,000 floor is that if we know people have got that coming in, then over the course of their retirement, as inflation erodes that value, they still won't fall back on means tested benefits. So we have had to set a floor. It's easy to forget that it looks like a high number at pension age, but people are typically living, as you know, 20 years or more through retirement. Twenty years of inflation at 2.5%, and that's half the real value of a pension gone. So although it looks quite a high figure now, for somebody who's you know into their 80s or 90s, that will be quite close to means tested benefit levels.

**LEWIS:** That was Steve Webb. Well some commentators think the government has missed the point by concentrating on the better off minority. Ros Altmann is Director General of Saga.

**ALTMANN:** Nearly half a million people every year are now buying an annuity. Many of them are ending up with the wrong annuity and a poor rate for that annuity. The regulatory system is not adequately regulating the sale of annuities and people are

being misled into buying the wrong product, often at a poor rate. And the problem with annuities, unfortunately, is that once you've bought it, you can never change it. You are stuck with it for the rest of your life.

**LEWIS:** So what would you like to see done?

**ALTMANN:** I am hoping that we can persuade the regulator to stop companies offering a default annuity to people who come up to retirement.

**LEWIS:** So that's when the company you've been saving up with, you reach retirement age - whatever you've set that at - and they say here's the annuity we'll offer you and then many people just accept that, you'd like to stop that process happening at all?

**ALTMANN:** Yes. I think what we need is a situation where when people come up to retirement and they have their pension fund, however much it is - £20,000, £100,000 or whatever - the company that holds that pension fund should write to them and say this is the amount of money you've got. Now you need to decide what it is you want to do. That will then force people to make a decision and find out the necessary information. There are places that you can go, there are websites that you can use, there are leaflets that the FSA produces, for example - all of which could help. The ideal would be obviously for people to get advice, but at the very least what we shouldn't do is say to people when they come up for retirement, this is your pension fund and this is the pension you can get when we don't know whether that pension being offered to them is actually right for them at all.

**LEWIS:** Ros Altmann of Saga. Well listening to that in Bristol is Malcolm McLean, a consultant with actuaries Barnett Waddingham. Malcolm McLean, do you agree with Ros Altmann pension providers should be forced to offer customers the choice of the whole market when it comes to buying an annuity?

**McLEAN:** Yes, I do agree with Ros. We've been talking about this problem for what seems years, Paul - on Money Box and elsewhere - and the fact is it's just not working

because people are not actually understanding the real value of shopping around and are sometimes been rather misled indeed as to quite what they have to do. It's not quite as simple as people think. And of course human nature being what it is, if somebody's offering you on a plate as it were a pension, then there's an inclination to accept it without all the hassle of doing a lot of research yourself to find out what to do. So I would favour some alternative arrangement whereby the information is provided at least to the person without them having to do a lot of legwork to find out what it is, so they then can make an accurate choice.

**LEWIS:** Yes because it's not just the kind of annuity. You've got to consider your own health. If you've got ill health, you might get a higher amount. You've got to decide whether you want a dependent - a wife or a husband perhaps to benefit after you die. There's all sorts of things to think about.

**McLEAN:** Yes, it's the type of annuity and the provider who's going to give you the best deal. Now I'm not sure about Ros's idea of preventing the pension scheme with whom you've been saving from quoting on this, but I think it would be a good idea if quotes were obtained perhaps by that provider themselves, perhaps using the FSA comparative tables, and the information then being presented to the individual so they could decide what's best for themselves.

**LEWIS:** And of course most of the changes that were announced this week from April relate to actually having to buy an annuity in the first place. Restrictions at the age of 75 are scrapped; if you have more than £20,000, you can do what you like with the rest. One newspaper said you could use your pension fund as a cash machine. Will it really be that simple?

**McLEAN:** Yes, I saw that. The thing that worries me about this - and first of all let me say I'm very much in favour of this greater flexibility, of removing the 75 age limit which again has been a problem for many years - but what does concern me, all this talk about new types of income drawdown, more flexibility and all the rest of it might encourage people to go for a drawdown arrangement instead of going for an annuity; and I'm pretty convinced that for the majority of people, given that we are

living longer and people have got much longer to go in retirement than they had hitherto, an annuity for many people will be a better bet. So let's not get carried away with these new income drawdown arrangements, but let's make sure that the annuity offer is the best deal possible and people can actually benefit from it.

**LEWIS:** Yes because they can be very expensive, can't they? You can pay up to 2% of your pension fund in charges and get very little for it.

**McLEAN:** Absolutely. And income drawdown of course, you are running certain risks there. You've got the risk of the fund actually going down, of annuity rates in the future if you do have to go for annuity having dropped. So there are some risks. Whereas if you do take an annuity, you've got a guaranteed income for the rest of your life, which as I say for many people will be a better option.

**LEWIS:** Malcolm McLean, thanks very much. And the government did say in its consultation that it might legislate if the industry doesn't improve its ways. Pensions is the topic for Money Box Live on Wednesday with my colleague Vincent Duggleby, and indeed Malcolm McLean will be back there too. Radio Four, Wednesday at 3.

The number of pound shops is growing: up 11% in the last year, a survey for the BBC found. But how much do pound shops charge? It might sound an odd question, but Ruth Alexander reports from Eccles in Salford where two pound shops are in a price war.

**ALEXANDER:** The Mega Pound Shop opened up a year ago on Church Street, popular with bargain hunters from the first. It was doing well in these hard times, but then a couple of months ago, three doors up, the 89p Superstore opened. It wasn't long before a banner went up outside the Mega Pound Shop declaring prices had dropped to 85p. A price war had broken out. Customers couldn't believe their luck. *(to customer)* What have you just bought?

**FEMALE CUSTOMER:** Air fresheners, which was only 89. Plus the socks, are not a bad buy for the men in this weather - 89p yeah.



**ALEXANDER:** But aren't you in the wrong one? There's the 85p shop up there?

**FEMALE CUSTOMER:** Well you've got much more variety. It's a bigger shop.

**MALE CUSTOMER:** I prefer this one myself. It's cheaper. That one says 89p, but you get prices in here for like 79 - different bits and bobs.

**ALEXANDER:** Really? So in this one you find prices even less than 85p, which is the advertised price above the door?

**MALE CUSTOMER:** Yeah.

**ALEXANDER:** I notice you're in the 85p shop. Does this 4p difference matter to you?

**FEMALE CUSTOMER:** Yeah it does, it adds up. Pennies here and there, yeah they do.

**ALEXANDER:** Customers are the foot soldiers of this war, according to Abdul Khaleq from the 85p shop.

**KHALEQ:** The customer won't see the quality. They see the price. They say oh look, they're selling 89p. If we started arguing with the customer, that's not good.

**ALEXANDER:** You have to say okay we'll meet that price?

**KHALEQ:** Yeah, yeah.

**ALEXANDER:** Three doors up in the 89p shop, Mahmood Khan is standing firm.

**KHAN:** We're working twice as hard, but I mean I don't mind. If I put it up to a pound, they'll probably think I've lost the battle.

**ALEXANDER:** So it's pride in here now as well?

**KHAN:** I think it's more pride than anything else.

**ALEXANDER:** But how can a pound shop price war even be possible? By name and nature, they're already discount stores. Well here's the secret according to Abdul Khaleq.

**KHALEQ:** Mostly these brushes are selling 85p.

**ALEXANDER:** Hairbrushes.

**KHALEQ:** It's cost price we're selling most of the time.

**ALEXANDER:** Cost price. Well how are you making a profit then?

**KHALEQ:** If we sell this one on cost price, then we get 15p on this one.

**ALEXANDER:** So if you're selling this hairbrush at cost price, 85p, then you'll put 15p on for example this set of nail brushes? And of course he's hoping that customers won't just put the cost price item in their basket. And indeed they rarely do, according to Mahmood, up the road in the 89p shop.

**KHAN:** The majority of the people spend more than they really wanted to spend really because when they're going along, they'll just see something. "Oh, I like that and I like that and I like that." By the time they get to the till, they've spent more than they really wanted to.

**ALEXANDER:** You came in for the dog beds because they're a bargain, but you've come out with a lot more.

**FEMALE CUSTOMER:** Yeah.

**ALEXANDER:** How much did you just spend?

**FEMALE CUSTOMER:** £18.

**ALEXANDER:** Most pound shop enthusiasts will recognise this scenario. Experts say that's because although shoppers are drawn into pound shops because low price is their top priority, this careful approach will soon disappear once they get inside. Leigh Caldwell of Inon advises companies about pricing strategies and consumer behaviour and says pound shops are peculiar psychological environments.

**CALDWELL:** Once you're inside, you're kind of in this odd world where you're divorced from the price of things. You are maybe noticing things about products that you wouldn't normally think of or you're open to buying things you wouldn't normally buy because the price equation is taken away.

**ALEXANDER:** You've come in for?

**FEMALE CUSTOMER:** Kitchen towels, but we've not got none yet. *(laughs)*

**ALEXANDER:** But you've got your arms full of other stuff.

**FEMALE CUSTOMER:** What we didn't come in for. *(laughs)*

**ALEXANDER:** So what's that? You've got air fresheners.

**FEMALE CUSTOMER:** And a photograph frame.

**ALEXANDER:** Self-adhesive hooks, cable ties, DVD labels.

**FEMALE CUSTOMER:** Yep and some dressing labels.

**ALEXANDER:** What brings you in here?

**FEMALE CUSTOMER:** You just think if you're getting a bargain when you go in and if you like what you see, well then you have got a bargain.

**ALEXANDER:** Well not necessarily, according to Rich Lewis from consumer behaviour consultants Decision Technology. He says you might often actually be paying over the odds in a pound shop.

**R. LEWIS:** Walking round a supermarket, you've got a much larger range of items. So if you see a packet of biscuits at a pound, you'll also see other packets of biscuits at 50p or £2 and you'll get a sense of whether that's a good deal or not. If you're walking round a pound shop, you don't have that information. There's a much more limited range and there's no variation in the prices. So what a consumer then has to do is they need to say have I bought that item before, have I seen it in other shops? What did that cost? There's a lot of marketing research that says people are very, very bad at doing that task. There are studies where people have been stopped in a supermarket literally seconds after taking an item off the shelf and you ask them, "What does the item cost that you've just picked up and put in your basket?" and fewer than 50% of people can give you a reasonably accurate answer.

**ALEXANDER:** So when you triumphantly lift the toothpaste off the pound shop shelf, you might have forgotten that you bought it for less than that in the supermarket last month.

**FEMALE CUSTOMER:** You can impulse buy though for a pound or 89p, can't you?

**ALEXANDER:** What's the phrase: it's an investment?

**FEMALE CUSTOMER:** Yeah.

**ALEXANDER:** That's what you've got to tell yourself.

**FEMALE CUSTOMER:** Well obviously you needed it. You just didn't know you needed it until you get in. (*laughs*)

**LEWIS:** Shoppers in a pound or 85p shop in Eccles ending Ruth Alexander's report.

Another 400,000 people will pay higher rate tax from April next year following the announcement that the threshold to pay the 40% rate will be reduced. The cut is needed to make sure that higher rate taxpayers don't benefit from the £1,000 a year rise in the amount of money allowed before any tax is due to most other people. The Treasury also announced this week that it was clamping down on some tax exemptions and other loopholes. Live now to John Whiting who's Tax Policy Director at the Chartered Institute of Taxation. John, higher rate taxpayers first. Why will 400,000 more be paying it?

**WHITING:** Well because, as you say Paul, the actual threshold at which you start paying the 40% tax rate will drop and that sort of claws back the excess benefit if you like of the £1,000 increase to the personal allowance. So rather than as this year starting with income for in most cases £43,875, it drops down to £42,475.

**LEWIS:** But most people with incomes below that - below about £42,500, which is 90% of taxpayers - they'll pay less tax, won't they, because of this £1,000 extra tax free? I think 880,000 won't pay tax at all.

**WHITING:** Absolutely. It really is a significant increase going up from £6,475 to £7,475, and of course there's this sort of commitment to get it up to £10,000 in due course.

**LEWIS:** Yes, a commitment but no timescale on it.

**WHITING:** Indeed. It's the aim, aspiration shall we say?

**LEWIS:** But oddly, John, one thing we did learn in the last few days is the position of

people over 65. They're not going to get the extra £1,000.

**WHITING:** Well of course this has been one of the things we've all wondered about, haven't we Paul? We've spoken about it before. They don't get the extra £1,000. But they do get a reasonable increase. The current for those over 65 is £9,490. That goes up to £9,940, up by £450 - although of course, as everybody knows, it starts getting withdrawn if you've got a high income. Although paradoxically of course if you have got a high income as a pensioner, you get that £1,000 increase.

**LEWIS:** Yes because at £24,000 it's reduced. And then by just under £29,000, the higher allowance has gone and you're back on the extra £1,000 if people can follow me.

**WHITING:** You're back to £7,475, yes. Yes, there's that sort of irony in there.

**LEWIS:** Now there's also a bit of clamping down going on, isn't there ...

**WHITING:** There is, there is.

**LEWIS:** ... on trusts for example?

**WHITING:** Well yes, but a fairly specialised type. This is to do with employee arrangements, in particular employee benefit trusts where certain organisations do use trust arrangements (there's actually been a few football clubs been portrayed as using them) to make benefits available - loans, assets given out or whatever - in such a way that you don't pay tax on them. So government from next April is cracking down a little further, ratcheting down to tax those assets loaned.

**LEWIS:** Well see if that works, I suppose, once the accountants pore all over it. And also 65,000 people who have a furnished holiday let, they're going to have to let it out for longer.

**WHITING:** They are. Now this has been long coming. Like a lot of things, it's the old curate's egg. There's some good in parts because if you have the furnished holiday lettings, they aren't going to cancel the rules as they were going to. Indeed they're now all over Europe, the European economic area. So that's good. But, as you say, the time that you have to make it available goes up from 140 to 210 days and you've actually got to let it for 105. But those are only from 2012. Meanwhile loss reliefs are more restricted from next year and that'll hurt some people.

**LEWIS:** John Whiting at the Chartered Institute of Taxation, thanks. And Bob Howard's still with me. And, Bob, just time to mention two arrests in connection with Crown Currency Exchange.

**HOWARD:** That's right, Paul. Money Box was the first to report back in October the collapse of the foreign exchange firm, which allowed customers to pre-order foreign exchange at a set price up to a year in advance. Its customers are owed more than £16 million. The police said this week two former directors of the company have been arrested and released on bail until next year. They're understood to be Peter Benstead and Edward James who's a Conservative councillor and former Mayor of Glastonbury.

**LEWIS:** And also, Bob, an important court decision for people who get social security benefits and are overpaid.

**HOWARD:** That's right. The Supreme Court has dismissed an appeal by the Department for Work and Pensions and ruled that it cannot recover overpayments of social security benefits through the courts where the claimant is not at fault.

**LEWIS:** Thanks very much for that, Bob. Now that's just about it. There's much more on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). There you can read my weekly newsletter - that's an innovation; listen to the items on the programme; and also hear a web only interview with Pensions Minister Steve Webb about the plans to move from the Retail Prices Index to the Consumer Prices Index for company pensions. That's only on the web. You can also have your say on the end of cheques, and I must say we are being

flooded. John says, 'I thought it should be competition, not a cartel', which he thinks the Payments Council is. Harvey says, 'If it ain't broke, why fix it?' Albert says, 'We need cheques'. Some though say, 'I never use cheques. Why worry?' Vincent Duggleby's back here on Wednesday with Money Box Live, this week taking your questions on pensions. Email your question now through our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). I'm back with Money Box next weekend. Meanwhile keep up to date with my random money thoughts 24 hours a day on my twitter account: Paul Lewis Money. Today reporters Bob Howard, Ruth Alexander; producer Lesley McAlpine. I'm Paul Lewis.