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MONEY BOX

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LEWIS: Hello. In today's programme, the Government's accused of taking cash from pensioners by its policy of creating money to boost the economy. We find out why. Are interest only mortgages ever a good idea? Another bank makes it much harder to get one. Halifax is accused of breaking its promise to pet owners after it cancels thousands of pet insurance policies which it sold as 'life long'. And we look at the charges elderly leaseholders or their heirs have to pay when they sell or rent out a retirement flat.

But first - quantitative easing. No, don't turn off because this week the Government's accused of taking money off millions of new pensioners through its policy of creating money called quantitative easing. This week the Bank of England announced another £50 billion of this magic money dust would be sprinkled on the economy. It uses it to buy government bonds back from the banks - the idea being that they'll then lend that money out and boost the economy. But it also drives down the interest paid on those government bonds and this week the Director General of Saga, Ros Altmann, says that means pensioners are paying the price for this policy as it cuts the pension for life, the annuity, they can buy at retirement.

ALTMANN: If you had a £100,000 pension fund in 2008, the income that you could have got from that would have been around £7,800 a year for the rest of your life. If you have £100,000 in your pension fund now and you want to buy an annuity, because of what’s happened to interest rates on government bonds you will now get around £5,800.

LEWIS: And it’s worth saying, isn’t it, that most people don’t have £100,000?

ALTMANN: The average pension pot is only around £30,000. But even worse than that, almost everybody who buys an annuity with their pension savings buys one that is fixed for life and doesn’t take account of inflation. So every year that inflation goes up, the amount of money that pensioners have to spend will go less and less far, so it whittles away the value of their pensions as well.

LEWIS: How do you react though to people who say that it’s important to boost the economy? Quantitative easing is designed to put money back into the economy to cause that growth, get us out of recession.

ALTMANN: Despite the quantitative easing that we’ve had, the facts are that banks haven’t been lending as much. Bank lending has been falling and the economy hasn’t been recovering very much. Actually by doing what it’s doing and silently stealing older people’s pensions, the Bank of England is actually damaging growth because these are the people who would have money to spend and we’re taking it away from them.

LEWIS: What would you do instead?

ALTMANN: If we need to create new money, we should use that money more intelligently. For example, why not lend it directly to small companies or underwrite loans to small companies, so that banks can lend more easily and on better terms? I mean you know we’d be better off just dropping £10 notes out of a helicopter. You know £50 billion is a huge amount of money and could be very useful to stimulate the economy if it was actually spent, but by buying gilts the money is just getting locked in bank balance sheets or is going to overseas investors who aren’t even spending it in this country.

LEWIS: What about individuals who are at the moment coming up to the time when they're thinking of retiring? What advice is there for them? Should they hang on in the hope that annuity rates will rise once quantitative easing is over?

ALTMANN: This is the real dilemma and the real scandal in my view. If they think that and they put the money into an income drawdown policy - the government says they can't take it all out, they have to take only a certain amount a year. That income has also fallen if you decide you want to try and live on your savings income for a while. Again the amount of money you get from your savings has disappeared.

LEWIS: And this is why I suppose you're saying that government policy is quite literally taking money away from older people?

ALTMANN: It is being done by silent stealth, and many people don't realise it.

LEWIS: Ros Altmann of Saga. Well live now to talk to Graeme Leach, Chief Economist at the Institute of Directors. Graeme Leach, do you accept that quantitative easing does make many new pensioners poorer for life?

LEACH: Well I think you're only looking at one side of the argument here. Ros is saying that quantitative easing hasn't boosted the money supply. And that actually is the key point: that in the absence of quantitative easing, the money supply would probably be contracting; and if the money supply contracts, the economy is much weaker; it's an alarm bell that we're heading for deflation and depression. And that has a consequence as well. That's a consequence in terms of much lower equities. And quantitative easing is actually fed through to boost equity prices in the past and it'll do so now.

LEWIS: So you're saying share prices are higher? Though of course they fell last year, didn’t they, quite considerably?

LEACH: Well but this is the point here. We’re always dealing with a slightly difficult economic concept here, which is the counterfactual. Things would be even worse in the absence of quantitative easing. You know we would have had … The first time around if we hadn’t had quantitative easing, we would have had a 1930s depression.

LEWIS: Okay, we would have had a depression. But you do accept that the price that’s being paid for not having one then is the fact that pensioners retiring now are poorer for life because they’re getting less for their savings, their pension fund?

LEACH: They’re certainly getting lower annuity rates and yes that’s an unfortunate consequence. I’m very aware of this. When I get out of this interview, my mother and father will no doubt be haranguing me and disagreeing, but we’ve got to think about the equity consequences as well; it’s not just about annuities.

LEWIS: No, in a sense you’re saying it’s a price worth paying, I suppose. The other aspect of it though, which Ros Altmann mentioned, is that she doesn’t really think that this money is feeding through to the economy and it would be much better if you want to put money into the economy for those benefits you mentioned to give it directly or lend it directly to small businesses, or even - in the classic Milton Friedman idea - take a helicopter up with 50 billion quid in it and just chuck it out the door.

LEACH: Well helicopter money and quantitative easing are actually quite similar in some ways. But the key thing is here we’re not going to get £75 billion or £50 billion out there to small businesses as quickly as we need it to. The quickest and most effective way of doing this is quantitative easing.

LEWIS: Well really because surely the best way would be to divide that 50 billion between the UK economy and send everyone a cheque for, what, nearly £1,000? Most of them would go out and spend it, wouldn't they?

LEACH: Well you're talking about a separate thing there. You're talking about maybe increasing government spending …

LEWIS: *(over)* I don't see why it's any different. No-one outside the economic profession sees why that's any different.

LEACH: Well the key thing is when you do quantitative easing, you're buying bonds. That will give more money to pension funds and they will go and spend that money in whatever way - boosting equities; they may buy commercial property; they may …

LEWIS: *(over)* But not to pensioners. They spend it on you know their staff, don't they - on paying bonuses to people?

LEACH: Well I think that's a bit simplistic to say all pension funds are suddenly wasting all the money they've got on staff bonuses. I think we both know that's not true.

LEWIS: Alright. So your position is that this is a price worth paying - that the fact inflation is higher than it would have been, that pensioners are having lower amounts is worth paying because it is actually doing the economy good? In a word.

LEACH: What I'm saying is annuity rates are low and that they suffer from that, but they gain from the fact that the economy is not in recession, they gain from the fact that equity prices are high. And let's not forget as well, there's light at the end of the tunnel here. When the economy finally recovers and becomes strong again, the Bank of England will reverse quantitative easing and that will raise annuity rates and gilt rates then.

LEWIS: Graeme Leach of the Institute of Directors, thanks. We'll report on the light at the end of the tunnel when it arrives.

Now when an insurance policy is advertised as offering 'life long' cover for your pet, you might think it means it will ensure your pet for as long as the animal lives. Thousands of pet owners insured their pet with Halifax because of this promise of 'life long' cover for your cat or dog; but over the last few weeks Lloyds, the bank that now owns Halifax, has been writing to its customers saying it's pulling out of the pet insurance market and their lifelong policy will not be renewed. Money Box listener Deborah is one of them. She insured Billy, her Yorkshire terrier, in 2006.

DEBORAH: It was sold as 'life long and continuous' and they even gave examples of what they meant by life long and continuous like skin problems and asthma. Just everything suggested it was a life long commitment for the pet.

LEWIS: What do you think now looking back at those terms?

DEBORAH: I think they were absolutely dishonest because I cannot believe that they've done this.

LEWIS: What's happening now to Billy's insurance?

DEBORAH: He won't be insured. I can't get cover. I've spoken to different underwriters and because Billy's condition is heart-related (although it's not life threatening) it's a heart condition, so it would exclude anything heart related or cardiovascular, which would practically exclude everything other than broken bones.

LEWIS: Well from last night Billy is indeed uninsured. I put Deborah's points to Adam Samuel, a compliance consultant who advises financial services companies.

SAMUEL: Halifax made a promise to customers in their promotion that they would insure customers. It’s not a might insure, it’s a will insure their customers for the lifetime of their pet. They have decided to pull out, therefore they’re in breach of that promise. Now they might argue that in the policy conditions there is a provision which actually says we (namely the insurer or the Halifax pet insurance) may also cancel this policy giving you five days notice. However, that doesn’t really cancel out the effects of the contract that they entered into by making the promise they did in the advert. You can’t make loud promises in public material and then in the small print take the promise away.

LEWIS: So when Halifax says to us that they were never referred to as life long policies in the terms and conditions, you’re saying that’s irrelevant; it’s the advert that is key?

SAMUEL: It is on this occasion because the advert is quite specific. It says five star rated life long cover for your cat from £3.50 a month or your dog from £4.50 a month. That’s a promise. It’s not we’ll think about insuring you for the lifetime of your pet. It’s we will. And there is quite good law that says it doesn’t matter that in the printed conditions there is something that disagrees with that promise, that’s different from that promise. And there’s a court of appeal decision that says that that goes back to the 1940s, so Halifax can’t really get out of this promise except by making up the difference in the cost to the customer of insuring their pet somewhere else.

LEWIS: But the experience of Deborah, the owner of that Yorkshire terrier, is that because her dog has (since she took out the policy) developed a heart condition, she thinks the dog is now uninsurable. So how would she deal with the loss in that case?

SAMUEL: Well the loss in that situation is going to be the expected veterinary and other relevant costs that will be associated with the treatment of that dog till the day it dies at some point in the future.

LEWIS: So her complaint to Halifax would be to underwrite those costs, or if it does incur such bills then to sell the bill to Halifax?

SAMUEL: Absolutely. In fact one way of dealing with this would be for her to pay a sum of money representing the likely life span of this dog to the Halifax and for the Halifax to purchase the relevant insurance from someone else who is willing to provide that insurance. That would be one way round the problem.

LEWIS: Adam Samuel. Well I put his views to Lloyds Banking Group, which owns Halifax, but the bank refused to comment directly, repeating its defence that the insurance policy was annual and could be ended at five days notice. The bank refused to put anyone up for interview. Now if you want to complain you should write to the bank first, and then if you're unhappy with the response take it to the Financial Ombudsman Service. Links on our website, bbc.co.uk/moneybox, and you can also let us know your thoughts about it there as well.

Santander has this week announced tougher restrictions on people who want to take out an interest only mortgage. More than a third of outstanding residential mortgages are currently interest only, but this form of borrowing has been tightly restricted recently. Are they always a bad idea? Bob Howard's been looking into this.

HOWARD: Yes, Paul, the statistics around interest only mortgages, particularly for first time buyers, are very striking. Five years ago almost a third of first time buyers were choosing this sort of borrowing. Last year it was around 3% and lending criteria has certainly been tightened. For example, until 2 years ago Santander and Halifax would accept the promise of a future inheritance as a possible repayment vehicle.

LEWIS: So just how much tougher have things got, Bob?

HOWARD: Well this week Santander said new applicants will require 50% loan to value to get one. Previously, like many banks, Santander had been asking for 25% minimum. The bank will still accept sale or downsizing of a property as a way of paying it off. Nationwide will also still accept sale or downsizing, but only if you have £150,000 in equity in the property and a loan to value not above 66%. But Halifax will no longer accept sale of a mortgaged property at all. It says you have to have a repayment vehicle like an endowment, ISA or bonds. Not everybody thinks this tightening of criteria is a good thing. David from Sussex has a son currently looking to buy his first home. He would like him to have an option of an interest only mortgage.

DAVID: Investigating what mortgages are available from the high street lenders, in particular, a bit surprised and disappointed that they're only really looking to really offer capital repayment mortgages. And with my son's circumstances, which I'm sure is the same with a lot of first time buyers, their intention is not to stay in the property for that long - the first property that is - and in those first years obviously the budgeting side is particularly important and the savings on the repayment between an interest only and a capital repayment are not insignificant.

HOWARD: So has the mortgage lending industry swung from recklessness to over caution? I put that to Sue Anderson from the Council of Mortgage Lenders.

ANDERSON: I don't think the message was ever you don't need to pay your mortgage off. I think the message was you have different ways that you can pay your mortgage off. I think that's still the message, but it's to a narrower group of people. It's for those people who are really aware that in the absence of house price inflation, they may not be able to assume their property itself as the repayment method. The FSA has made quite clear that lenders need to be very cautious about that method in the future and really only use it where someone's got an awful lot of equity and it's plausible and realistic that when they trade down they will be able to buy a smaller property and pay off their loan.

LEWIS: Sue Anderson. And thanks Bob for that rundown. Live now to talk to David Hollingworth, Associate Director of mortgage brokers London and Country. David Hollingworth, these tougher rules that we now see, are they about right in your view?

HOLLINGWORTH: I think that there'll be a lot of people feeling quite disappointed. So what you potentially have is a situation where an existing borrower who has got a perfectly credible repayment vehicle they've been contributing to could run into tougher criteria that suddenly forces them to rethink the whole strategy of how they're repaying the mortgage, and it's those borrowers who are going to feel it hardest, I think.

LEWIS: So these are borrowers who borrowed interest only when it was in the sort of heyday, and now they're coming to an end they are going to have difficulties. Do these tough criteria apply to them equally?

HOLLINGWORTH: They do. I mean the Santander move is ahead of the rest of the market, so typically the maximum loan to value, so the proportion of the property value will be 75% on an interest only. Santander going to 50% is obviously a more radical shift.

LEWIS: Yes and of course if you have just been paying the interest, foolish though that might have been really, you're not going to own any of the property, are you?

HOLLINGWORTH: Well I mean hopefully you've got some other strategy in place. Many people will have been contributing to long-term repayment vehicles. But yes, it is going to be one of those where you're going to have to switch to repayment potentially.

LEWIS: And that would put up your monthly costs quite considerably. Now the listener we heard from, his son wanted one just to buy a home. In the first few years he said you aren't repaying anything. Do they have a place for young people trying to get that first home?

HOLLINGWORTH: Well I think some of the fears stem from that, so in more recent years people have been using interest only perhaps as a cheaper option.

Obviously ultimately you would preferably be looking to repay the mortgage rather than just relying on the property value going up and up and up, but people do use it as more flexible way of approaching the mortgage and perhaps paying down from other sources as their budgeting eases.

LEWIS: Yes and self-employed people find that very useful, I know. David Hollingworth of London and Country, thanks.

Now you might think it didn't take very long to work out if something was fair or unfair, especially perhaps for the Office of Fair Trading. But for nearly two and a half years the OFT has been puzzling over the fairness of fees charged to leaseholders when they sell or rent a retirement home. The fee is typically a percentage of the value of the dwelling, but can amount to thousands of pounds. Campaigners call them a "fine" on selling or renting the property. We highlighted these problems on Money Box when the OFT began its inquiries in 2009, but, judging from emails and the claims of campaigners, the problem's as bad as ever. And Bob Howard's also been looking into this. Bob?

HOWARD: That's right, Paul. We've been contacted by Money Box listener Sheila Williams whose mother bought a leasehold retirement flat in East Sussex in 1999. It's managed by a company called Peverel, Britain's biggest manager of retirement homes. After her mum died two years ago Sheila, as executor, tried to sell the flat, but there were no takers and over the next 18 months Sheila and her husband had to take out various loans to pay the service charge of more than £2,000 a year, so they decided to rent it instead. But Peverel charges a fee (known as an exit or transfer fee) equivalent to 1% of the flat's value every time a new tenant moves in. Sheila thinks it's not fair.

SHEILA: My mother knew the terms of the lease would be that she paid ground rent and she paid service charges. That's all part of it. But what you don't read is that there are extra charges, extra contingency and transfer fees, and it's like why am I paying a transfer fee? I'm not transferring the property; I'm just letting a tenant in there.

HOWARD: Peverel refused to do an interview, but did send this statement.

PEVEREL STATEMENT: We sympathise with Mrs Williams, but when buying a property residents should be advised by their solicitor that when a property is sold or sub-let a contingency fee for the upkeep of the property is payable and a transfer fee for the landlord is also payable under the terms of the lease. This is usually 1% of the sale price.

HOWARD: Sheila's story is a familiar one to Melissa Briggs who set up the Campaign Against Retirement Leasehold Exploitation after her own experience.

BRIGGS: My mother was 79 when she bought into a Peverel development. The lease was 150 pages long. And as it happens, after she died and I read it, I found that all the bad news was on page 149.

HOWARD: The Office of Fair Trading has told Money Box it hopes to give an update on its investigation later in the spring. Until then Melissa Briggs has this suggestion for those paying transfer fees.

BRIGGS: My advice if you do get charged it is to pay it (because you have to), but when you pay it you provide a legal letter provided by your solicitor that says very clearly I have paid these fees under duress and I reserve the right to reclaim the money should the OFT investigation into unfair terms within the lease finds that exit fees are indeed unfair.

LEWIS: Well that was Melissa Briggs and thanks again for that, Bob. Well live now to talk to Tish Hanifan, a barrister and director of Solicitors for the Elderly. Tish Hanifan, we heard from Sheila earlier. She's paid thousands of pounds for what she considers to be very little. What can she do about that?

HANIFAN: Well I'm heartened to hear that she did make the very important point, Paul, that whatever you do you really must pay any fees such as the transfer fees. Unfortunately, listening to what the people have said on your show, the difficulty very often is that these leases are very complex, the devil I'm afraid is in the detail, and the ability for someone to actually take action against the lease - yes there are rights you have in law but they're expensive, they're costly. The Office of Fair Trading's review really couldn't come soon enough. This is something that happens frequently that solicitors that deal with older people find all the time. So certainly first of all it's very important to check the lease, and make sure it's absolutely clear that under that term of the lease - whether or not that's an unfair contract term or not the Office of Fair Trading will determine - but if it is that they should pay it.

LEWIS: And what about Melissa Briggs' advice that you should pay it, but with a letter saying you'll want it back if the OFT eventually decides that these charges are unfair?

HANIFAN: It's a good idea to reserve your position and what she's saying there is she's making the point that she believes that at this point she would have to pay it. Actually her right to take action subsequently would be there whether she did that or not, but it is a very good idea to put that clearly in writing. It's always a good idea to put your concerns in writing.

LEWIS: And is there any way you could not pay it pending the OFT decision - if you put it in a separate account and said well I'll let you have this money but not until the OFT's told me that it's fair?

HANIFAN: It wouldn't be good advice to do that and I would really suggest to your listeners that the law of leasehold property - leaseholds and freeholds, Paul - is quite different from other contractual matters, and so you would put yourself almost certainly in breach of the terms of the lease if you don't pay it to anyone other than the person it's supposed to be paid to.

LEWIS: Right. And what about people who are thinking of moving into one of these properties? This can seem very attractive. What precaution should they take now?

HANIFAN: That I think there's a little bit more positive things you can say. The difficulty is that people who are already in these leasehold situations are in a position where they are bound by the terms of the lease and it's quite difficult to extricate yourself from that; but if people are looking to move into a property, then I would say they can be very attractive. So what I would say is first of all make sure you get specialist legal advice. And by that what I mean is this is a form of conveyancing, but ask if the solicitor has experience of these kind of retirement properties. And the other thing from that is …

LEWIS: Briefly.

HANIFAN: … make sure that you get lifestyle related advice. And by that what I mean is not just a description of the legal terms but what if my circumstances change, what if I need to go into a care home?

LEWIS: Tish Hanifan of Solicitors for the Elderly - good advice there, thanks. We are getting emails in about quantitative easing. Jenny wants to know why is it that the price has to always be paid by ordinary people denied reasonable annuity rates. We need a plan for growth, she thinks. And Richard also uses the phrase "ordinary people who have not been brainwashed by Keynesian pseudo economics", he says. It's pretending there's more money in the economy than there is. He even calls it "jiggery pokery". But that's enough jiggery pokery. That's it for today. There's more on our website, bbc.co.uk/moneybox. Vincent Duggleby's here on Wednesday with Money Box Live taking your questions on saving and investing. I'm back with Money Box next weekend. Today the reporter was Bob Howard, the producer Richard Vadon. I'm Paul Lewis.