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MONEY BOX

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LEWIS: Hello. In today's programme, that pension rise you've just heard about - it was announced on Wednesday, clarified on Thursday, and the minister explains to us why part of the state pension will not rise next April. Customers of NatWest Foundations Flexible Mortgage say the bank has gone back on its agreement.

SUSAN: We're shocked really that they can just write a letter and decide to change the plans that we had for our future life.

LEWIS: Why are thousands of savers who put their pension fund into the safety of cash losing money? National Savings causes some rather un-festive feelings with this message:

NATIONAL SAVINGS MESSAGE: Please note that all of our guaranteed income and guaranteed growth bonds have now been withdrawn from sale.

LEWIS: And for investors who track the share dealing habits of company directors, new research says they're onto a good thing.

But first, on Wednesday the Chancellor made a relatively generous promise to state pensioners.

DARLING: I can confirm that the basic state pension won't be frozen, but it will rise by 2.5% in April, a real terms increase of nearly 4%.

LEWIS But the day after that good news in the Pre-Budget, it was revealed that the 2.5% rise only applies to the basic element of the state pension and not to the additional pension called SERPS. It will be frozen. And Money Box has now been told the freeze will also apply to other parts of the state pension, including graduated retirement benefit paid to 11 million over-60s who worked between 1961 and 1975. Additions for a dependent and the extra amounts paid to more than a million people who delayed their retirement could also be frozen. Government figures show some individuals will miss out on more than £200 over the year. Savings on state pension could reach £350 million. Earlier, I spoke to Pensions Minister Angela Eagle and asked why she was going to freeze some parts of the state pension.

EAGLE: We've decided not to increase the additional pension despite the fact that we've increased the basic state pension by 2.5% in a year when the Retail Price Index is actually minus 1.4 simply because it would cause difficulties because of the connection between public sector pensions and private sector pensions. If we'd have increased the public sector pension provision, most occupational schemes aren't planning to increase and there's no requirement to do so when RPI is negative. So effectively that would have created an un-level playing field between the public and the private sector and I think we'd have been heavily criticised for that.

LEWIS: So if you had raised SERPS, it would have, what, cost company schemes and public sector schemes money? They'd have had to increase that weird thing called the guaranteed minimum pension despite trying to freeze the rest of it?

EAGLE: What I didn't want to do was increase it in the public sector and then expect and find that in the private sector occupational schemes, where many of them are going to freeze pensions - there's no requirement for them to increase pensions when RPI is negative - there would then have been a difference of approach with occupational schemes and public sector schemes and complications because of the fact that a lot of these are connected with opting out. And why we decided to keep additional pension at zero was that it would cause confusion and unfairness across the piece *there*. So what the Chancellor did was put money into up-rating the basic state pension well above the rate of inflation, which as you know is minus 1.5%, and that means that all pensioners will get an increase that's well above indexation and the rate of inflation this year. And I think that's been welcomed by many pensioners organisations.

LEWIS: But don't you think it will cause confusion and great disappointment for people who've got a considerable amount of SERPS? I mean somebody with £65 of SERPS a week is only going to see a rise in their total pension not of 2.5, as the Chancellor said, but 1.5%.

EAGLE: Well that's at the extreme end, I think.

LEWIS: Well no, the extreme end is £150 odd a week. I mean £65 is not uncommon.

EAGLE: If you look, the average additional pension is actually £22 a week - far below the figure you're quoting. So there will be people at either end - the high end and the low end - but the average is £22, not £65.

LEWIS: That commitment to increase the basic pension by 2.5% is several years old.

EAGLE: Yes, but that doesn't mean to say that in this exceptional year with RPI negative, that that commitment would *have* to have been kept to. The Chancellor made the choice in the Pre-Budget Report, and he chose to increase the basic state pension for 11 million recipients in this country by real terms - close to 4% - and by 2.5% with inflation at -1.4. That is by any means, by any way of measuring, in very difficult economic times, a good deal.

LEWIS: Pensions Minister, Angela Eagle. And just to be clear, the basic state pension - category A or category B - will rise by 2.5%. But other bits - including SERPS and graduated retirement pension - will be frozen from April. More details will be published on Monday.

Now the pension freeze was not the only item in the Pre-Budget Report which wasn't mentioned by the Chancellor in his speech. Other things have emerged in the last couple of days from the small print. Money Box's Karen Kiernan is here. Karen, what changes might people have missed?

KIERNAN: Well thanks go to Money Box listener, Mr Leadham, who pointed out this cunning ruse earlier in the week. Now the Chancellor has confirmed that the rate of VAT will return to its usual level of 17.5% from January. It was temporarily cut this time last year to 15% to stimulate the economy. But at the time, the cut in VAT on the price of alcohol, fuel and tobacco was offset by an increase in duties. And the higher duties are here to stay, so in effect there will be a permanent price rise of more than 2% on those products next year.

LEWIS: And people approaching 60 will have to wait longer than they expected to get a bus pass or free prescriptions.

KIERNAN: Yes, at the moment anyone over the age of 60 is entitled to a free bus pass and free prescriptions. But tucked away in page 84 of the report, we learn that from April next year this age threshold will begin to rise. The rise will be gradual, increasing by a month every 2 months - so by April 2020, these concessions will be for the over-65s only. And if you want to know when you will be entitled, look on our website after the programme and we'll put details on there.

LEWIS: Thanks Karen. And the same is also true for the winter fuel payment next year too. All those things of course, following women's state pension age up. It begins to rise from 60 from April. And if you heard Energy Minister David Kidney on Money Box last week, he admitted that he'd lobbied the Chancellor for more money for energy efficiency programmes. Well he got it - a total of £200 million on boilers and Warm Front.

Many NatWest customers who took out a Flexible Foundations Mortgage are angry.

The mortgage was marketed as being the perfect way to make overpayments, safe in the knowledge that you could borrow the money back again for large projects - maybe an extension or even a new business. When the mortgage was launched in 2000, the original press release said:

NATWEST PRESS RELEASE: Customers may borrow up to 90% of their property's value and can raise the borrowing back up to that level at any time during the life of the mortgage.

LEWIS: And in case that wasn't clear, it went on:

NATWEST PRESS RELEASE: Overpayments can be made at any time and can be withdrawn at any time.

LEWIS: And just to make sure readers really got the point, it added:

NATWEST PRESS RELEASE: Many people, particularly those juggling careers and families, want the flexibility in their finances that lets them take future changes in lifestyle in their stride. Our flexible mortgage gives you this.

LEWIS: But this week, NatWest told many Foundations customers that that flexibility to borrow back the money they'd overpaid was being limited. Money Box listeners Susan and Steve Hill used their savings to overpay their mortgage in the belief they could take the money back out when they needed it. But this week, NatWest told the Hills that £60,000 they'd overpaid could not now be withdrawn.

SUSAN: We're still a bit shocked really. We were planning to expand our small business and had actually moved all of our savings into the combined mortgage savings account on the recommendation of our account manager in another part of the Royal Bank of Scotland Group. And now we find that we don't have access to that money anymore. It means that we can't expand business the way we were planning to, but on a more personal level it's actually the money that we've saved for our son to go to university. We’ve been very loyal customers to NatWest. We’ve paid them £55,000 in interest over the 8 years of the mortgage and we’re shocked really that they can just write a letter and decide to change the plans that we had for our future life.

LEWIS: Well two loyal customers who aren’t very happy with NatWest. Live now to Bristol to talk to David Hollingworth of mortgage brokers London and Country. David, NatWest told us the changes were made within the terms and conditions of the agreement. Is this another case of people being caught out by small print?

HOLLINGWORTH: Well I think once again the terms and conditions may allow it, but it’s certainly not within the spirit of the way that the product was marketed in the first place and indeed the way that customers have rightly used the product.

LEWIS: Yes, I mean that couple seemed to be using it exactly as the press release they issued indicated you should. Were customers paying a premium for this flexibility?

HOLLINGWORTH: Well flexible mortgages over the years, that being the key question - how much more are you paying in interest and are you going to use the flexibility enough to make up a difference between that and a traditional mortgage? - so, in short, it’s highly likely. And not only that, but I think the NatWest deal from my memory hasn’t really been near the best buy tables.

LEWIS: No, I mean it was only on the market for 2 or 3 years, I think, in the early part of this century. And what about the way that NatWest is now conducting this? I mean what they’ve said to us is that they can review these every 12 months and they will look at past spending. Is that a reasonable way to see how good a bet, if you like, people are to lend money to?

HOLLINGWORTH: I think the problem is, let’s get this straight, that people are using this product to make their savings work harder for them by reducing the amount of interest that they’re paying on their mortgage. Now for some people, it may just be a case of they're looking to pay down the mortgage as rapidly as possible. For others though, they do need access to their savings at a later date for very specific purposes. It could be a tax bill, for example. And I think what the bank probably should have done is perhaps enter into consultation with the borrowers on a more individual basis, and they may have found that some people would say yes we're quite happy to cut the credit line; others would have said actually I need access to those savings.

LEWIS: Yes. And of course these people are using it more like an offset mortgage, which is slightly different, isn't it, where you have a savings account and a mortgage account and the two offset each other?

HOLLINGWORTH: Yeah. And I think offset deals have come to the fore really, generally speaking, for exactly that reason. People can see exactly what they have in the mortgage pot and exactly what they have in the savings pot, so they can always dive into that savings pot as and when they require it.

LEWIS: I mean overall, would you say NatWest have treated their customers fairly?

HOLLINGWORTH: I don't think so. I think they've moved the goal posts really.

LEWIS: Yes. And, briefly, are there other mortgages like this where people might be caught out?

HOLLINGWORTH: There were reports some time ago. Abbey looked at some of their flexible facilities, but that was more down to the fact of falling house prices. But, again, same end result.

LEWIS: David Hollingworth, thanks very much. Well NatWest said to us… Of course it's part of the taxpayer owned bank RBS. It wouldn't do an interview, but in a statement it said that loans were being reviewed and the facility reduced to the average borrowed over the last 12 months plus £10,000. And you can have your say on this product or flexible mortgages in general on our website: bbc.co.uk/moneybox.

I’m sure we’ll be returning to this topic in future.

Some investors think that the way to make money is to follow not pundits or analysts or even recommendations on Money Box, but the activities of company directors. If you buy and sell shares in their company when they do, the theory goes, you’ll make money. Of course company directors can’t act on inside information when they trade shares in their own firm, but they often do have knowledge that’s perfectly legal to use and new research shows they do use it well. Researchers at Exeter University have found that buying when directors buy can generate returns of up to 20% on top of what you’d expect. One author of the report, Professor Alan Gregory, says you have to first identify what he calls value and glamour stocks. I asked him what he meant.

GREGORY: A value stock is one where the market price seems relatively low relative to the underlying fundamentals. So one concept that people would be familiar with would be the earnings or the profit per share that that firm earns. So a value stock would be one where the price is low relative to its earnings and a glamour stock would be precisely the opposite. So it would be a stock where you’re expected to pay a high price relative to the current earnings that that stock generates.

LEWIS: And when you looked at the trading of directors in shares in their own companies, was there a difference between directors in glamour companies and directors in value companies?

GREGORY: Indeed there is. It seems that directors are keener to buy stocks in their firms when those firms seem to be at the value end of that continuum rather than the glamour end. So the directors in effect trade as contrarians. They tend to buy in these value stocks and they buy following price falls; whereas they’re generally sellers of glamour stocks and they tend to sell after price rises.

LEWIS: And when they do this buying and selling, what sort of returns are they making?

GREGORY: If you as an investor follow those directors - in other words you actually invest in shares where you see the directors buying in these value stocks - if they're smaller stocks, the out performance seems to be anything up to 20% over 2 years.

LEWIS: So it seems as if they have some inside information that they're using to make these trades because these are trades not in general value stocks but in their own company, aren't they?

GREGORY: That's absolutely correct. I mean I must stress this is all perfectly legal. You know we're not seeing directors trading on the basis of some private information that gets released to the market next week. These are really sort of long-term signals about the value of a firm. So the directors for example might just be trading on the basis that they think the stock price looks too cheap relative to what they think next year's earnings might be.

LEWIS: And what about when directors sell shares? Is that a sign of trouble ahead?

GREGORY: It's not so clear-cut. There is a slight hint that if directors are selling shares, then those companies are unlikely to outperform. But you don't see a major negative return to those stocks. And the reason for that seems to be that you know directors sell for all sorts of reasons. One might just be that they happen to need the cash.

LEWIS: So is this a way for small investors to make money?

GREGORY: Yes - provided they are reasonably careful about keeping diversified portfolios, it would be. The recommendation would clearly be look at what the directors are doing, look at how the market's valuing the stock; and if you see directors buying in small firms that appear to be cheaply valued, then it's probably worth getting into those stocks.

LEWIS: You've done the study. Do you do that?

GREGORY: Yes, I do personally.

LEWIS: Professor Alan Gregory of the Centre for Finance and Investment at the University of Exeter, backing his findings with his own money.

Now if you're still trying to get through to National Savings and Investments to buy one of their guaranteed bonds, don't bother. This is the message many irritated customers have heard recently.

NATIONAL SAVINGS MESSAGE: Please note that all of our guaranteed income and guaranteed growth bonds have now been withdrawn from sale. Please continue to hold.

LEWIS: Well at the end of October, National Savings launched a range of chart topping savings bonds. The one year guaranteed growth bond offered 3.95% return, and the 2, 3 and 5 year bonds offered even better rates. But within 3 weeks, the 1 and 2 year bonds had been withdrawn, and this week the remaining bonds disappeared from the market too. When they were launched, Money Box spoke to Dax Harkins, Senior Savings Strategist at National Savings. So this week, I went back to Dax and asked him why the products had been pulled so quickly.

HARKINS: They were very attractive offers, and we set a sales target for these and what happened is these sales targets were achieved much quicker than we anticipated. I think this is really a reflection of a change in the market. Moneyfacts have done some very interesting analysis that highlighted that a year ago bonds were on sale for generally about 180 days, whereas the average now is about 23 days. And I think this was reflected in the media coverage, which really advised people to invest early.

LEWIS: So you've reached the target of the new money that you wanted and that's why they've been withdrawn?

HARKINS: Yes.

LEWIS: It doesn't seem very fair to people though, does it? You launched them with great fanfare. One of them's top of the best buy tables. You come on Money Box and say how great they are. And then 3 weeks later, which is barely enough time to get round to sorting your money out and buying them, you withdraw two of them. 3 weeks after that, they've all gone.

HARKINS: I mean I think, as I said, it's a reflection of the market at the moment. It's not just ourselves. Other organisations have got a similar time period. As I said, the average is 23 days at the moment. And I think a lot of people are used to this type of management of these products where they are out for a specific period and will go after a time.

LEWIS: We've also had complaints from some listeners saying that they did want to buy these bonds, but your lines were so busy they couldn't get through. They were put on hold, not able to speak to the right person.

HARKINS: Yeah, I mean again I think it's a consequence of this changed environment, is that we did experience higher calls than we forecast. We tried to react as swiftly as we could with short-term measures, so we drafted in people from other areas of the business so that we used every phone available and every seat available, and we also had call centre staff working extra shifts and working on weekends. So we tried to do that. We do apologise to our customers for these issues they had during that time. The good news was over the past couple of weeks it reduced and the call times went down, but these were very extreme circumstances.

LEWIS: Are you going to be reissuing growth and income bonds?

HARKINS: We have no plans in the short-term, but, as with all of our products, we constantly keep it under review till we see what rates we're offering and what offers we'll have out there.

LEWIS: So what's your message to people next time you do issue one?

HARKINS: I mean a key message to say is we do have a service on our website where if customers are interested in these offers, they can sign up, register their email. And then as soon as one of these offers is available they'll be emailed with all of the details, so they'll be one of the first people to hear about it.

LEWIS: So they can ring up and jam your phone lines very quickly?

HARKINS: Alternatively they can apply online. Everybody got through smoothly on our Internet even though the capacity was hugely increased.

LEWIS: Dax Harkins of National Savings.

Well people who thought their pension funds were invested in risk free cash funds are still losing money. Following complaints earlier this year that many so-called cash funds were in fact invested in risky assets and had fallen in value sharply, the insurance industry created a new fund category called Deposit and Treasury. It's described as a no risk sector, but several funds are now making so little money on their cash and other deposits that the charges for managing them are bigger than the returns. Standard Life's managed cash plan made .6%, but after charges of 1% has in fact fallen by 0.4% since it opened in February. It has written to 20,000 customers warning them that their pension fund is losing money. And there are similar losses on other funds. Live now to Glasgow to talk to John Douglas who's Senior Consultant at the IFA's Finesco. John, I mentioned a fund there. There are many cash only pension funds. Are many of them charging more to manage the money than they're making?

DOUGLAS: I think it's a reflection of where we are currently in the market, Paul, because if you take account first of all of the two other features that we had on the programme today - firstly the National Savings fixed bonds being withdrawn, we've just heard about that, and also indeed from the Pensions Minister talking about RPI negative - then it's consistent, is it not, with the fact that money and cash is actually not a good place to be.

LEWIS: Well I can see that, but if you look at best buy tables on the computer, it's easy to find homes for your money that do make 3% a year easily. Why do these highly paid managers fail to do as well as an amateur sitting in front of the Internet can do?

DOUGLAS: I think the focus of money funds tends to be when they're held within Self Invested Personal Pension Plans within a pension environment, which of course is a tax privileged investment, and the argument will come back from the pension providers that well you may be paying a 1% fee, but you're actually getting 20% income tax relief or 40% income tax relief on the way in. And also I'd like to think about the practical and the tactical issue, which is practically you need to have some cash in your pension fund, particularly if you're closer to retirement, to pay out your benefits - both your lump sum and your income. But also the tactical side, Paul. It's a good thing to hold cash pending investment.

LEWIS: Yes and also as you approach retirement. But I mean the tax relief you get isn't designed to be taken out by fund managers who are not achieving as much, as I said, as someone can achieve sitting in front of the Internet.

DOUGLAS: When you place money in a retail situation to a bank, a building society, there are charges attached to that, but they're not explicit. You don't know what they are. They're reflected in the difference between the rate at which the deposit taker receives your money, pays you interest and lends those monies back out to businesses and customers throughout their business book. So, therefore, the spread on a retail situation, if you actually conduct some arithmetical exercise, is around 3 to 4% per annum. It's simply that a cash fund by its very definition is a managed situation and that management comes with a fee. It's a short-term hold.

LEWIS: *(over)*Yes, but the management is achieving less than people see on their own savings and that's what I think puzzles people; that Standard Life makes 0.6%; whereas I could put money on deposit, whether it's with National Savings Investments or elsewhere, and get 3%. It just seems that we're being conned out of our money by people who are charging a great deal to do it very badly.

DOUGLAS: But I don't think a cash fund should be regarded by the listeners as a place to invest because if your money is in Standard Life or any of the providers, it's generally there for a more strategic approach. It's perhaps been parked there as an exercise in holding the cash pending investment, but it's not part of the reason why you have the money in a pension fund.

LEWIS: And briefly, Standard Life has warned its customers. Do others have to do that too, or are people in for a nasty surprise?

DOUGLAS: I think as a matter of best practice most providers should, but there is not a legal requirement so to do.

LEWIS: John Douglas of Finesco, thanks very much indeed. Well that's it for today - from us anyway - but you're certainly having your say on various things on the website. Somebody says HBOS has also done similar things with its Flexible Mortgage, and we've had a complaint from Peter who says freezing SERPS is scandalous. And once again, says Bob, the over-65s are the butt of this government's attempt to stay in power. You can find out more from the BBC Action Line and read more Have your Says on our website: bbc.co.uk/moneybox. The Action Line - 0800 044 044. I'm back on Wednesday with Money Box Live, this week taking your questions on credit cards and loans. Back next weekend with Money Box. Today the producer was Karen Kiernan, and I'm Paul Lewis.