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MONEY BOX

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LEWIS: Hello. In today's programme, more than 12 million state pensioners are being told part of their pension won't go up this year. Many of them are very cross, especially as even the official website got some details wrong. We'll identify the mystery voice in last week's programme. Ruth Alexander's been chasing a very small debt.

ALEXANDER: Yes, like the business which pursued a Money Box listener because she owed a grand total of nothing.

LEWIS: The Conservatives explain their plans to replace a failing tax computer with another tax computer. How to beat rising inflation as savings rates fall. And thousands of people are being wrongly charged for using their debit card in the UK. It's all to do with the money being taken from the wrong BIN.

But first, millions of pensioners are getting letters this month telling them how much their state pension will be from April 12th. That's when the annual increase in pensions and benefits normally begins. But many Money Box listeners have been in touch to say that although part of their pension will rise, other bits will be frozen at the same level as this year. Money Box listener Barbara from London says a third of her state pension won't be increased at all. One part that won't rise is the extra she got because she chose to put off claiming her pension. She says she feels cheated.

BARBARA: If you defer your pension, it means that the Chancellor doesn't have to find £100 a week every week, which he would have had to pay upfront if you took your pension. In return, you get an increment on your pension for every complete 5 weeks you defer, plus the promise - which is made in the literature - that when you take the pension, the deferred payment will be increased in line with the basic state pension. Now we've done the Chancellor a favour. Now we're paying it, "Oh thank you, I'm not going to pay you what I promised you." It's a con.

LEWIS: Well Money Box discovered this two track approach to the state pension uprating in the December Pre-Budget Report and we reported on it then, but the message doesn't seem to have got through to parts of the Department for Work and Pensions. Several listeners have pointed out that the pension information on the government website still says:

GOVERNMENT WEBSITE INFORMATION: Extra state pension is increased each April in line with increases to your state pension.

LEWIS: Which is wrong. Or at least it said that until last night. After we pointed out these errors, the Department for Work and Pensions told Money Box:

DWP STATEMENT: We are updating our leaflets and website to reflect the Pre-Budget Report, and apologise for any confusion caused.

LEWIS: Well in fact the website update consists of inserting the word 'normally' into the promise, which sort of means they don't have to do it every year. And an online leaflet which repeats the mistake appears to be unchanged. The spokesman did also point out though that, despite the exceptional economic circumstances, almost every pensioner would benefit from the 2.5% rise in the *basic* state pension. Well Sally West is Income Policy Adviser with Age Concern and Help the Aged. I asked her to explain these changes.

WEST: This year the inflation figure that is normally used to uprate state pensions was actually negative, so September 2009 there was deflation rather than inflation.

And because state pensions are generally linked to September's inflation figure, then there wasn't a requirement for the government to increase state pensions. However, they had already made a commitment to increase the basic pension by 2.5%. So that's going ahead, but the other elements of the state pension are being frozen.

LEWIS: And how much is this going to save the government?

WEST: The government's going to save about £500 million by not increasing all elements of the state pension.

LEWIS: Yes, that of course is across a large number of pensioners. How much is it going to be each?

WEST: Well it works out at a bit over probably about £40 a year. Which may not be a huge amount, but if you're on a low-ish income, that can make a difference.

LEWIS: So £40 a year or thereabouts on average. But of course people like Barbara, a third of her benefit is being frozen. And for some people who've got very big SERPS, the earnings related element, it could be a lot more than that.

WEST: Yes, that's right. I heard from somebody who said his SERPS, his additional pension is about the same as his state pension, so overall he's going to get less than 1.5% increase.

LEWIS: And what's the legal position on this because some people have said to us they think that this is actually illegal; if one bit of the pension goes up, it all has to go up?

WEST: Well the legislation actually commits the government to increase the state pension in line with increases in prices, so in a sense they haven't got a legal obligation really to increase any element of the state pension.

LEWIS: Last September was the very low point of inflation - minus 1.4%. The latest figures show that it was 3.7%. People are going to feel pretty aggrieved if part of their pension is frozen when inflation is 3%, maybe more.

WEST: This is one of the reasons that we're very concerned about elements of the state pension being frozen because, as you say, inflation is really starting to go up. So people will only get one element of their state pension increased and that will be 2.5%, and who knows what inflation will be by April? And of course at a time when people have had high fuel bills because of the cold weather. So I think it is going to be worrying for people that their pension is going to go up by such a small amount.

LEWIS: Is there anything people can do about this?

WEST: Well we're suggesting that if people feel strongly about this - and we know that many people do - that they should write to their MP. The actual legislation increasing benefits for this year hasn't yet been passed, and I think it's important that people raise these issues with their member of parliament where they are very concerned about it.

LEWIS: Sally West of Age Concern and Help the Aged. And you can let us know what you think through Have Your Say about those state pension rises. That's on our website, bbc.co.uk/moneybox, and lots of you already are.

Following a Money Box investigation last week, the Ministry of Justice has confirmed it is now investigating the company we looked at: Beneficial Claims. On the programme, we revealed that staff at the claims management company had been misleading customers. To respond to those claims, I interviewed Keith Chorlton as Chief Executive of the company, but did you spot the second voice that took over during the interview?

CHORLTON: You've been selective in what you've played this morning. As I said

...

LEWIS: Alright, let me ask you another question. How many clients who've come to you *have* had their debts written off?

VOICE 2: To date, our solicitors have had ... Well I can't give you the exact number, Paul. A number of our solicitors' clients have achieved that result in court.

LEWIS: So who was the person who came in after that long pause? Beneficial Claims has since confirmed that the voice belonged to Daniel Wilmott, one of the company's directors, who was sitting with Keith Chorlton in our Cardiff studio. But that's not the only point of confusion. Ruth Alexander has been finding out more.

ALEXANDER: Yes, you interviewed Keith Chorlton as Chief Executive of Beneficial Claims and that was the title the company's public relations man told us he had, and that was the title you used in your interview with him. But we've since discovered from Companies House records that he is not a named director of the company, so we've asked Beneficial Claims to clarify Keith Chorlton's role.

LEWIS: And what did it say?

ALEXANDER: Well the company's public relations consultant who told us Keith Chorlton was Chief Executive has now told us he isn't and has apologised for this error. He says Keith Chorlton has a consultancy agreement with Beneficial Claims, which allows him to claim occasional advice to the Board of Directors on specific topics such as marketing and business development.

LEWIS: And in fact, Ruth, it would have been difficult for him to be Chief Executive because he is in fact banned at the moment from being a company director.

ALEXANDER: Yes, he was disqualified in March 2000 after his online dating agency collapsed. An investigation concluded that he had transferred funds out of the failing business to himself when he knew the business was insolvent. The ban lasts 10 years and will expire next month. In 2008, he was granted an exemption to run other

companies, but Beneficial Claims was not one of them.

LEWIS: Thanks, Ruth.

Some shoppers have been hit with unexpected bank charges for using their debit cards. In many cases purchases made in this country and paid in sterling have been wrongly identified as overseas sales and triggered a foreign transaction fee of up to £1.50. The people affected have recently had their Maestro debit cards changed to Visa or Mastercard debit cards. Money Box listener Keith Taylor from Herefordshire spotted a mystery fee after he bought a £16 battery charger on eBay using his new Visa debit card.

TAYLOR: A couple of days later when I was looking at the statements online, the charge was about £17/£18. And I thought why was this, and I got onto PayPal and they said nothing to do with them; it was the card company. And I got onto the card company and they said well it was because charges on the card are seen as foreign exchange transactions. But neither PayPal nor the card company seem to know what to do about it.

LEWIS: Well we spoke to NatWest, which says it will refund customers in these circumstances. And PayPal says it wasn't aware of the debit card changeover, which is why the new cards weren't recognised and weren't processed properly. It told us yesterday that it has updated its system, which should mean no more unexpected charges. Well with me is Guy Anker from MoneySavingExpert.com who's been following this story. Guy, which cards are affected exactly?

ANKER: Well it's primarily the cards where, as you say, the Maestro symbol has gone, has been changed to either Visa debit or Mastercard, so this is mainly Royal Bank of Scotland, NatWest, Yorkshire Bank and Clydesdale Bank.

LEWIS: And what's caused these debit cards not to be recognised?

ANKER: Well it's a pretty elementary error, but the first six digits of your card are called the BIN number, the Bank Identification Number, and this tells the retailer what type of card it is. And quite simply it appears that many retailers haven't actually got this new BIN number input in their system.

LEWIS: So money from the wrong BIN. When is it an issue though? Our example was online - and I'm sure lots of people do pay through PayPal or use eBay, do other things, go to Amazon, places like that. Is it online mainly?

ANKER: Well from the examples we've seen, I mean on our forum we've had many complaints and it is primarily online where we've seen the complaints. I mean that said, I mean like you say Amazon, eBay and transactions through PayPal. But we have seen reports at cinemas, at hotels and at travel agents, so it's not exclusively online.

LEWIS: No. And when you go online sometimes you get a dropdown menu, don't you, where you have to say what sort of card you have before you put the number in. I've never understood it because the number actually tells them, but anyway. If your card isn't on that dropdown menu, then you're stuck really, are you?

ANKER: You could be stuck, but for example if you've got a Visa debit card - Visa have been around for a long time, but if the retailer does not have the word Visa debit there, try Visa delta. That's the old name. If it doesn't say Mastercard debit card, which is a very new card, try Maestro because again Maestro is the old name.

LEWIS: Yes because it is phasing out Maestro, which is causing all these problems. Now if someone has picked up one of these charges, what should they do? I was going to say that. The first thing of course is check if you've got one, I suppose?

ANKER: Well that's the key. The charges can be, as you say, very low - £1.50, £1.25 - so it might fall under the radar. The key is to check your statement to see if you've got the charges. If you have, contact your bank. RBS and Yorkshire Bank have both said that they will look at these and hopefully invest... excuse me, refund these

charges.

LEWIS: So it's the banks, not the retailer? So the retailer doesn't really get this money. It's the bank that gets it, so it's the bank you have to go to?

ANKER: You have to go to the bank. It's not a bank error though, but you go to the bank to get the refund.

LEWIS: Right. And they will give you the money back, as far as we know. *(laughs)*

ANKER: They say in most cases.

LEWIS: Have you had any examples from customers? Are they getting their money back?

ANKER: We have. We had one last week, a Clydesdale bank customer who got his money back - £6, four lots of £1.50. So he got them back.

LEWIS: So I suppose the sort of basic message is check your bank statements, even for small amounts like £1.25, and make sure they're right. Guy Anker of MoneySavingExpert.com, thanks very much indeed.

The Conservative Party says it has the answer to the problems with tax codes that we've been reporting on recently. Thousands of people, perhaps millions, have been sent out wrong tax codes by a new Revenue computer system that was supposed to improve things. Well now the Conservatives want to replace the whole antiquated PAYE system, which dates back more than 60 years to 1944. At the moment employers calculate and deduct tax and national insurance benefits, sorry national insurance payments before paying their staff, and the same is true for companies that pay us our pensions. In future though, they would pay wages gross and the tax and national insurance would be deducted automatically, sort of on the way to the employee's bank account. The idea gets some support from John Whiting at the

Chartered Institute of Taxation.

WHITING: There's clearly risks in devoting the whole of the country's PAYE (and for that matter national insurance to a large extent) to a single computer system, but the proposal here is really quite promising given that the PAYE system is creaking, it's struggling to cope, it's essentially a paper based system that has been computerised to a large extent. So in many ways, we do need to make a leap forward.

LEWIS: That was John Whiting. But the organisation representing people who currently run payroll operations isn't so sure. Karen Thompson is from the Institute of Payroll Professionals.

THOMPSON: I do have some reservations. For example, what is gross pay made up of? Things like payroll giving to charities, how would that be dealt with? Other deductions such as attachment of earnings orders - so the Child Support Agency, for example. Yes this might be workable, but a lot more exploration would need to be done.

LEWIS: Payroll professional Karen Thompson. Well with me is the Conservative Treasury Spokesman, David Gauke MP. David Gauke, how exactly would this work?

GAURK: Well as you say, Paul, essentially there would be a gross payment coming from the employer or the pension provider. And what we are looking at is an automated system so that in real time, as that payment is made, one source is diverted as it were to HMRC, which is calculated on the basis of the national insurance contributions or income tax, and one payment is made to the taxpayer, so that we don't have the cumbersome system that we have at the moment, which is hard work for HMRC and employers.

LEWIS: Yes, but I mean what you seem to be talking about is a sort of magic box that would get it all right all the time. Now we all know those don't quite exist, do they? The idea is it would be done through the ordinary system where money's transferred, and somehow, between the employer sending the money and me

receiving it, the right tax would be deducted. That sounds like a big job.

GAUKE: Well the payment, the salary payment would be identified to the individual taxpayer through use of the national insurance number. And essentially each taxpayer would have a personal account, so that as the sums were being paid, we could deduct it automatically. But I would stress that this is not starting with a blank piece of paper. This would be a bolt-on on the existing back system.

LEWIS: This is the money transfer system that our pay and pensions comes through?

GAUKE: Exactly. It deals with 96% of salary payments, 98% of benefit payments, 74% of utility bill payments. And it is a very resilient system that has coped with a lot and dealt with faster payments and so on. So we are not talking about starting with a blank sheet. This is building on something that's already very successful.

LEWIS: So it's not some bright idea from one of your researchers? It's actually something that is in the real world. Now I can see it working for straightforward things, which PAYE does - like someone in regular work, they move jobs. What about the things that Karen Thompson raised - payroll giving, child support payments, maybe somebody gets a company car allowance? Now those all affect what we now call your tax code. You'd need something like that because you can't just assume everybody gets the same tax allowance.

GAUKE: No clearly with implementation, we would want to move carefully. And you're absolutely right, the easiest area is to start with simple PAYE payments. As far as the more complicated areas, there are two options. I think in the long-term we've got to look at seeing how that can be done again in real time and particular methods by which employers could notify the tax authorities in making the payments. But even in an interim stage, we could for example for those doing self-assessment have pre-populated forms and just ...

LEWIS: You mean half filled out forms?

GAUKE: Exactly, half filled out. Probably more than half filled out, to be honest. And then the more difficult bits, the benefits in kind could be dealt with on those forms.

LEWIS: I'm sure people are sitting at home thinking though the current problems we've reported on Money Box in the last few weeks are due to moving everything to a brand, spanking new computer system that will solve everything. Six months ago the Revenue would have said exactly what you're saying - this will solve all our problems. Isn't there a danger that another huge computer change, not long after the first, will get it all wrong again?

GAUKE: Well the point is with this system is essentially it's a simplification. One of the problems that we've seen in recent weeks is because there is a great stress placed on the system because in the period of January, February, March all the tax codes are going out and then they need to be with the employers at the beginning of the new tax year, there is a big peak at that point and that places strains upon the system. This avoids doing it because this is done as we go along. There aren't the peaks and troughs the current system involves.

LEWIS: And briefly, there's an election coming up fairly soon. Obviously your party hopes to be in power after it. Is this an idea or is it a commitment of a future Conservative government?

GAUKE: Well what it is, we think the idea is very, very interesting. There are potentially huge savings for small businesses that have to administer the system currently. We are very keen to work with HMRC on this and put out some pilot schemes to see how it works. There are fair questions to be asked about it, but we think we can proceed and work along those lines.

LEWIS: David Gauke, thank you very much indeed.

Prices are 3.5% higher now than they were a year ago. Inflation hit 3.5% this week, measured by the Consumer Prices Index; 3.7% if you believe the Retail Prices Index.

Either way, any money you've saved up will be worth a lot less today than it was a year ago. And with interest rates at historically low levels, it's almost impossible to earn enough even to keep the value of savings up with inflation without even taking any income out of it. With me is David Black from the finance research organisation Defaqto. David, you need to earn 3.5% or more just to keep up with inflation, and of course that's taxable. What do you actually need to earn?

BLACK: Based on a lower CPI figure of 3.5 inflation, a basic rate taxpayer would need to earn a rate of at least 4.38 merely to keep pace; higher rate, 5.83.

LEWIS: And is there anything like that available?

BLACK: National Savings and Investments have a 3 and a 5 year index linked certificate. They're both tax free and they pay Retail Price Index plus 1% over the term.

LEWIS: Yes, that's for a long term investment though, isn't it? What about instant access or ISAs, anything like that that you can take money in and out of?

BLACK: Instant access, there is nothing available that will even pay a real rate of return to a non-taxpayer, let alone someone who sadly has to pay tax.

LEWIS: It's not even 3.5%?

BLACK: No, 3.15 is the best you can get from the Coventry on that side.

LEWIS: Now we do see adverts though, don't we? I mean HSBC is offering 8% it says on a monthly savings account. Is that as good as it seems?

BLACK: Well firstly you can only have it if you have one of their packaged current accounts, which is something you have to pay a monthly fee for. So when I see that sort of deal, I would recommend that people think do I want the underlying account

first, which is a packaged account? If the answer to that is yes, then think about the 8%. I wouldn't do it the other way round.

LEWIS: And apart from National Savings and Investments, which you've mentioned over 3 or 5 years, are there any other top rates - I mean even as close as we can get to 3.5% - that you'd like to mention?

BLACK: Okay, well cash ISAs, there are about 40 of them - clearly you don't pay tax on - there are about 40 that pay more than 3.5%, more than 3.7 actually. The ones that stand out there - Leeds Building Society. I'm afraid it's another long-term one - 5 years at 4.6. Three and 4 years, you can also get 4% or more. And there are a handful of fairly long-term fixed rate bonds that aren't ISAs - so State Bank of India are offering 5.25 on a 5 year, AA 5.1 for a 5 year, and Birmingham Midshires 4 year fixed at 4.5.

LEWIS: They're all tying our money up, of course ...

BLACK: Indeed.

LEWIS: ... for a long period of time into the future when who knows what inflation will be. And talking of that, in America they did have a slight rise in inflation this week from half to three quarters of a percent. The Governor of the Bank of England, Mervyn King, says the rate of inflation will fall back as the year progresses. He obviously says it will be 2%, at its target in a couple of years. Is it going to get better? Are we going to see the seesaw moving the other way?

BLACK: In time the base rate will have to move, but, as you'll know with experts, they change their sentiments very, very quickly. The base rate can't really fall anymore. It's a question of *when* it goes up, by how much, and it's just impossible to judge at this stage.

LEWIS: Okay, thanks very much David Black of Defaqto.

Now reminder letters, default charges, final warnings and a threat of court action - all for failing to pay a bill of no pounds and no pence. Yes, although nothing was owed, if it wasn't paid back, the consequences would be dire. Ruth Alexander can explain.

ALEXANDER: Well it might sound like a joke, but Money Box listener Michelle Roberts wasn't laughing when letters started arriving from an online department store called Very. She lives in Australia and bought a Christmas present from Very for her dad in 2008, but the gift never arrived. The company refunded her the money and the matter was settled. Or so she thought. A few weeks ago, she was surprised to receive a final demand letter from Very for an outstanding debt of no pounds and no pence.

ROBERTS: At first, it was just really confusing. The first letter came out almost a year after I first ordered the gift. Had to go back and check statements, wondering where it was all coming from. And there were just endless letters demanding money for a zero amount. I would guess no-one from Very was actually reading them.

ALEXANDER: Michelle didn't think she needed to worry about owing Very nothing, but more letters followed. The company wrote again to say they were charging her a £12 fee for the first letter, and then a debt collection agency wrote to warn Michelle that court proceedings would be issued and a default marked on her credit record.

LEWIS: So you owe nothing, and if you don't pay it you'll be in big trouble. What does Very say?

ALEXANDER: Well it told us it has taken the necessary steps to stop this error happening again, but admitted that:

VERY SPOKESPERSON: Unfortunately as we send out thousands of letters a day, it is impossible to read each individual one.

ALEXANDER: So since companies probably aren't reading the letters they send you

- if a firm agrees to refund you money, make sure you check they're not still chasing you for nothing.

LEWIS: Indeed. I'm a bit worried though, Ruth. I went to the website this morning and it said I had a basket with 0 items and I did owe them 0 pounds, 0 pence.

ALEXANDER: Oh dear.

LEWIS: So maybe I'll be getting a letter soon. I think I'll send them a cheque for 0 pounds and 0 pence and see what happens.

Well that's almost enough impossible things for one day. But I mentioned Have Your Say on those frozen bits of the state pension and, goodness, you have been writing in. Just time for a couple of them. Mike says, 'Your programme overlooked the fact that last April pensions rose by the September RPI, which was much higher than the annual inflation rate.' He thinks it's swings and roundabouts. Peter, on the other hand, says that he was always told 'SERPS would be treated the same way as my basic pension and it's not.' And Brian makes the point many of you make: 'pensioners are suffering while bankers seem to get everything they want. Anyway, you can find out more from the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. All sorts of things to do there and let us know about state pensions. I'm back on Wednesday with Money Box Live, this week taking your questions on maternity and paternity rights. Back next weekend with Money Box. And today the reporter was Ruth Alexander, the producer Karen Kiernan, and I'm Paul Lewis.