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MONEY BOX

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TRANSMISSION: 23rd JANUARY 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, a leaked email from the Department for Work and Pensions.

STATEMENT: These companies appear to be targeting customers in some of our poorer areas. The customer does not appear to be aware of the level of charges being made for use of the card.

LEWIS: A year after we said Standard Life's pension fund material would mislead customers, the company's fined nearly two and a half million pounds by the regulator. Weatherman John Kettley forecasts a mixed picture for the economy.

KETTLEY: A big jump in inflation in December could be a sign that things are heating up sooner than we thought.

LEWIS: A building society raises the cost of some mortgages by 40%. And what is NEST?

WOMAN: NEST? I don't know, is it something to do with the environment?

LEWIS: Wrong. Find out later.

But, first, a leaked email from the Department for Work and Pensions, which has been passed to Money Box, shows that people in some of the poorest parts of the country are having their benefits paid directly onto pre-paid Mastercards, not realising this is costing them money. The way these cards work mean the customer can be charged when the money is paid in and when they take the cash out, and there's usually a regular fee as well. Ruth Alexander's been investigating.

ALEXANDER: Yes, Money Box has obtained an internal email from a benefits delivery centre in Scotland. It says they've received almost a hundred forms from pre-paid card companies signed by benefit claimants. Now these forms grant permission for their benefits to be paid directly onto the card instead of into a bank or building society account.

LEWIS: And how much more will this be costing them?

ALEXANDER: Well if you've got a card from one of the companies mentioned in the email, Go Money Solutions, it'll normally cost you £1.25 to have your benefit loaded onto the card each week; but, depending on how much benefit you get, it can cost more. And when you use the card to take cash from a machine, that can cost up to almost £1.50. And that's after you've paid £10 to buy the GO: Card in the first place, and you'll have to pay an annual management fee of £7.50.

LEWIS: Now not all cards make the same charges, but clearly these costs, any costs can amount to a big chunk, can't they? An unemployed person under 25 gets, what, £50.95 a week. Two withdrawals in a week, they'll have lost nearly 5% of their income.

ALEXANDER: Yes. And the email which I've got here says that 'disadvantaged customers may find themselves in further financial difficulties through having their benefits paid in this way.' It says 'staff have contacted clients to ask if they're aware of the charges and found the majority were not.'

LEWIS: And so how have people got into this situation?

ALEXANDER: Well the cards are often sold to people when they're out shopping or sales representatives visit people in their homes. The Department of Work and Pensions said it's raised concerns with Go Money Solutions and the card issuers, Newcastle Building Society, and that it's been told sales techniques have been revised. In a statement to Money Box, Work and Pensions Minister Helen Goodman said:

GOODMAN: Considering the charges that are associated with these cards, it is very unlikely that they are suitable for our customers. There are much better options available for having your benefit or pension paid, such as the Post Office Card Account, a basic bank account or current account.

LEWIS: And what does Go Money Solutions say?

ALEXANDER: Well it admits a lot of its customers have benefits paid onto a GO: Card - up to almost 40% - 'but', it says, 'all customers are provided with a copy of the terms and conditions when they apply.' 'In future', it says, 'the terms and conditions will also be sent to the customer when their card is delivered. And it points out that it doesn't take money from the customer at the application stage, only after a card has been activated. It gave us this statement.

GO MONEY SOLUTIONS STATEMENT: GO: Card provides a strict training and compliance schedule for all of its staff and agents. Part of that training schedule is an awareness of our responsibilities with regard to vulnerable customers. Our policy on this is very clear and we will deal severely with any infringements to this policy.

LEWIS: Well thanks Ruth for that. And let's talk now to Mike Dailly. He's a consumer campaigner in Glasgow from the Govan Law Centre. Mike, why might someone on benefits use a card like this?

DAILLY: Well I think a lot of these cards are kind of marketed as if they are like credit cards, and I think there's obviously an attraction there for people. But certainly in my view, I think these cards are wholly unsuitable for anyone to pay their benefits into and really they are a scourge on the poor. And it is quite disturbing to learn that some companies are actually targeting benefit claimants.

LEWIS: Yes, you say it's a scourge on the poor and certainly there are charges involved with all of them (though they do vary from company to company), but they are convenient, aren't they? And the point that GO: Card makes to us is well this is a bit of financial inclusion: it's like having a credit card in your pocket even though it's not.

DAILLY: *(laughs)* Well I've been looking at the various charges from some of these cards, and I can see that if let's say you're living on £60 a week benefit and you've got a dozen transactions a month, you could easily lose 10 to 15% of your benefits in fees and charges. Now let's remember that benefits were set on the basket of goods test, so the idea was that you get enough money basically just to live, you know it's like a breadline income, so the prospect of having 10 to 15% of your income taken by one of these financial institutions is completely and utterly morally wrong. So …

LEWIS: Yes, I mean you mention some charges could be that much, but of course you know we have had emails from some card companies that say well we charge very little. We don't charge for using them in a shop, we don't charge for the benefit to be paid on. We charge 99p when you take your money out.

DAILLY: But it's equally important I think to realise that people on very low incomes, the best advice for them is to get a basic bank account or a Post Office Card Account because there are plenty of basic bank accounts around where you can get a debit card, whether it's Solo, Electron, Maestro or Visa, and there are no charges for taking out money from ATM machines.

LEWIS: Yes and that's the point that the minister Helen Goodman made. But, again, we've had an email from someone just this morning who says he wants a basic bank account, but because of his poor credit history he's been refused.

DAILLY: I mean that should not happen, Paul. And where things like that happen, the customer should complain to the bank and ultimately, if need be, take it to the Financial Ombudsman. But I would absolutely accept we do have a problem with basic bank accounts not being available enough and not being promoted enough for people on low incomes.

LEWIS: And briefly Mike, in a word, given your views on these would you like the department to stop paying benefits onto pre-paid cards?

DAILLY: I would. I don’t think these cards are appropriate at all. I think people need to have 100% of the benefits in their own pocket.

LEWIS: Mike Dailly, thanks very much for talking to us.

Standard Life has been fined nearly two and a half million pounds for misleading its customers. It marketed a pension fund as being “safe” and “in cash”, when in fact much of the money was at risk, invested in the kind of assets which caused the banking crisis. A year ago, Standard Life robustly defended its fund and how it was sold. Here is its Marketing Managing Director of Customer Services, John Gill, on Money Box in January last year.

GILL: We do not believe that there is a case for compensation. If customers have any particular complaints, we will of course consider those fully.

LEWIS: Well there were nearly 100,000 customers in this fund when Standard Life moved nearly half the money out of cash and into risky investments, which did go down in value. After that broadcast and many complaints, Standard Life restored the losses and eventually decided to compensate its customers to varying degrees. Adam Samuel is a lawyer and compliance specialist. He came on Money Box a year ago and supported our suspicions that the marketing material was misleading. I asked him this week how had Standard Life responded once the problem was recognised.

SAMUEL: Actually compared with the rest of the industry’s normal response to this type of problem, they did rather better than average. They put over £100 million into this fund. They also wrote to investors explaining, with varying degrees of accuracy but at least making an effort, to explain what the problem was, so people were aware of what was happening to their funds. So compared with I can think of at least one company, they've done distinctly better than average.

LEWIS: But they still weren't compensating absolutely everybody. Somebody went to court just before Christmas to get money from them. Have they now put it completely right now the FSA has looked into it?

SAMUEL: It looks as though they have agreed to put it right and presumably will do so.

LEWIS: The final notice against them by the FSA is pretty strong stuff, isn't it, and the fine is very big - nearly two and a half million pounds? What message does that send out?

SAMUEL: It is intended to send a message to firms of the size of Standard Life that they ought to check their fund material - that is to say the descriptions of their funds - and to make sure that the risks that are implicit in the assets in which those funds are invested are properly explained in the material that they send out not just to customers that they themselves advise, but also the adviser community.

LEWIS: But it is sometimes difficult, isn't it, if you want to look up what's in a particular fund - first of all to *find* the information and, secondly, to *understand* it? Expressions like 'floating rate notes' and 'mortgage backed securities' don't mean much to most of us.

SAMUEL: Absolutely right. I think what one needs to do or what the fund industry needs to do is to describe its funds in terms of exactly what's in them, not in terms of industry classifications like floating rate notes. What we need to see is we have invested this amount in stocks and shares of UK companies or in corporate bonds - that's debt that has been issued by companies - so that we get some idea of what's there.

LEWIS: And are there other funds out there that haven't been discovered yet with marketing material that you think would fail the clear, fair and not misleading test?

SAMUEL: I'm quite sure that there are funds that are being miss-described and also the structured products market is littered with old advertising, which is fantastically misleading at times. The tricky bit is that until a disaster happens, it's actually quite difficult to identify specific funds that could have a problem.

LEWIS: Do you think there's a case for the FSA being more proactive and saying we're not very happy about this advert and now we're looking into it?

SAMUEL: There are problems for the Financial Services Authority in this area and they're mainly legal, and they could get themselves into serious trouble if they very publicly said something about a fund that turned out not to be true.

LEWIS: So from what you're saying, there could be some funds that are being actively marketed where the FSA is actually investigating them but won't tell us?

SAMUEL: Absolutely.

LEWIS: Lawyer Adam Samuel. We invited Standard Life to come on Money Box, but it refused. In a statement, it said: 'we have learned important lessons from this mistake and have made significant improvements to our marketing literature processes to prevent the same thing happening again.'

And now the economics forecast.

KETTLEY: We're still feeling the icy winds of the banking crisis with gusts starting in the City of London and blowing North and West over the rest of the country, although they are forecast to die down through the year. But that may be replaced by ill winds coming up from Greece, Portugal and Spain - so no sign of global warming there then. A big jump in inflation in December could be a sign that things are heating up sooner than we thought with rising pressure on prices, but the Bank of England is still betting on a moderate to cool climate by the end of the year. Growth is expected to move in gradually from the European continent and from across the Atlantic where most countries are already out of recession.

LEWIS: That was weather forecaster John Kettley showing how much more interesting economic forecasts might be. Well just like the Met Office's forecast of a barbecue summer and a mild winter, economists get their predictions wrong. This week's inflation figures show a large and generally unpredicted leap in the rate of inflation. A month ago, the Consumer Prices Index showed inflation at 1.9%. A month later, that had grown to 2.9% - the biggest rise in inflation since the index began. Now inflation is what the Bank of England tries to adjust to keep the economy under control, but it's now way above its target of 2%. Yesterday, I spoke to former member of the banks' Monetary Policy Committee economist Sir Alan Budd. Why had the inflation rate risen so sharply?

BUDD: What happened a year ago was that prices fell - partly because VAT was cut; more importantly because fuel prices fell very, very sharply, and that was keeping the 12 month inflation rate low. We get a new number which takes that month out and put a new month in which there haven't been price falls in, and so the inflation rate jumps. To a large extent, it's a question of arithmetic. Something happened a year ago, which didn't happen the December we've just passed through.

LEWIS: Isn't the real reason inflation is rising quantitative easing? You can't pump £200 billion into the economy, print £200 billion of money if you like without raising inflation.

BUDD: I don't agree with you on that. I think quantitative easing is preventing us having a deeper recession than we've actually experienced, and I don't think it is yet having any effect on inflation.

LEWIS: You're saying to us it's nothing to do with quantitative easing. I thought that was inevitably inflationary.

BUDD: No, it's not inevitably inflationary. The view I take of inflation - it also happens to be the view the Bank of England takes of inflation - is that this mainly reflects the pressure of demand on the economy. We're just coming through the trough of the deepest recession since the war and that sort of experience pushes inflation down.

LEWIS: What do you think it will do over the next 12 months then?

BUDD: Well what the Bank of England concentrates on is where will inflation be in 2 years time because that's how long it takes for its policy changes to happen.

LEWIS: *(over)* But it'll be 2% in 2 years time because that's their target.

BUDD: It is their target, but they also think they're taking the correct actions to achieve that. Now they have a very important meeting in February when they'll consider the possibility of a policy change.

LEWIS: And will they also be asking whether they should raise interest rates?

BUDD: I don't think they'll be asking that question yet. I think what will happen is that they will say we shall end quantitative easing at least for now. And then later in the year, it's quite possible that they will start to raise interest rates.

LEWIS: Now you've been on the Monetary Policy Committee. When the committee is thinking about what to do with inflation rates, does it think perhaps savers are having a very bad time, so we'll raise rates; or when rates are high borrowers are having a difficult time, so we'll cut them?

BUDD: I'm perfectly aware that if you cut interest rates, that's very hard on savers and it’s rather nice for borrowers. But that’s not why we’re doing it. We’re doing it to try to keep inflation close to 2%.

LEWIS: Now when amateurs like me look at the graph of inflation and see it rocketing up in a very steep, record breaking curve, we tend to think that’s going to carry on. Do you think there’s any danger of high inflation being achieved as it was in the past of maybe even double figure inflation, 10% or more?

BUDD: Not as long as we have the same arrangements and have the Monetary Policy Committee with a target of 2%. I think there’s no risk of double figure inflation.

LEWIS: Where might it reach?

BUDD: It could go 3, 3.5%, but that should be temporary and then we should see it falling back towards 2%. Short-term forecasting is difficult, but it’s perfectly reasonable to think that inflation will be back to 2% by the end of the year.

LEWIS: Now saying short-term forecasts are difficult and long-term ones are easier, you are sounding a bit like a weather forecaster; and, as you know, we had a weather forecast take on the economy earlier. Would you like perhaps to predict the weather this summer?

BUDD: Well I’m not sure whether I’d rather predict the weather or predict the economy. Both tasks are in principle impossible. So I think it’ll be warmer in the summer than in the winter. That is my firm prediction.

LEWIS: *(laughs)* Sir Alan Budd. I’m sure he’ll be right.

Nearly 30,000 people with a mortgage from Skipton Building Society could see their repayments rise by 40% from 1st March. Skipton is changing its policy that its standard variable rate of mortgage interest would never be more than 3% above bank rate. But with the bank rate stuck at a record low of half a percent, the society says it can no longer afford to charge only 3.5% on its mortgages. From 1st March, the rate will rise to 4.95% and that could mean a monthly increase of £121 for someone with a £100,000 loan. Skipton's Chief Executive David Cutter told me why the rate would rise.

CUTTER: It's really in response to what's currently happening in the UK savings market where the banks are continuing to try and reduce their over reliance on the wholesale markets - which was one of the causes of the credit crunch - so they are attacking the retail savings market, which is the traditional ground for building societies who need to remain competitive as well. And this is really all being driven by extraordinary circumstances which the UK economy is operating in.

LEWIS: Well I can understand that they are extraordinary, they're certainly different from the past, but an individual who's got a mortgage with you doesn't really care about that. They're currently paying one amount, and if they've got a £100,000 mortgage their repayments will go up by £121 a month. That's a big amount to find.

CUTTER: I acknowledge that and we are committing to reintroduce the 3% ceiling when exceptional circumstances no longer prevail.

LEWIS: What you mean when bank rate goes up. It'll still be higher than it is now.

CUTTER: Well we don't know when bank base rate will go up or by how much. We're forecasting that it will increase before the end of the year. This response is really being done in terms of bank base rate being held so low for so long.

LEWIS: What will you say to your savers? Will you be putting up their savings rates by 1.45%?

CUTTER: We don't have any immediate plans to amend the savers range. We'll keep our products under review, as we always do.

LEWIS: But if you're acting in the interests of all your members, that's a bit hard to fathom, isn't it, because you're putting up the cost to your borrowers but you say you've no plans to put up the rewards for your savers.

CUTTER: We would argue that the rates we currently pay our savers are at a decent level compared to the bank base rate of 0.5%; that we're doing this change as a pragmatic solution to make sure that the business does remain profitable. It's not a sin to make a profit.

LEWIS: Indeed, but you're supposed to share that with your members. Surely the savers should get something out of this?

CUTTER: It's a fine balancing act between making sure we have the right levels of capital required by our regulator, the profits we make during the year and what we actually return to our savers during the year.

LEWIS: David Cutter of Skipton Building Society.

And just before the next item, let me apologise. I didn't tell you you could have your say on pre-paid cards and benefits. So you can have your say on pre-paid cards and benefits on our website: bbc.co.uk/moneybox. We'd love to hear from you.

Now have you heard of NEST - the National Employment Savings Trust? When we asked, no-one had.

MAN: I don't know what it is.

WOMAN: NEST? I don't know. Is it something to do with the environment or …? No, I'm not sure.

WOMAN 2: The National Employment Saving Trust? No, I haven't. Sorry.

MAN 2: No, I haven't heard of it As a financial planner, I'm not aware of this at all, which is a bit disturbing.

LEWIS: Well the National Employment Savings Trust (NEST) is the new name for the Workplace Pension Scheme, which will start in a couple of years. Eventually everyone in work will have to be enrolled in a pension scheme at work - either an existing one or into NEST. The first automatic enrolments begin in October 2012 for big companies; but people working for small businesses may not be auto-enrolled until February 2016, and it'll be October 2017 before the contributions to NEST reach their target of 8% of your pay shared between employee and employer. And that delay might be expensive. Live now to talk to David Cule, an actuary with Punter Southall. David Cule, this NEST scheme is aimed at people on average or below average pay. What will this delay cost them?

CULE: Well it could be a considerable amount really, Paul. For example, if they could start today on their 8% rather than wait until 2017 to get to the full rate, we're looking for a 25 year old losing something like 25,000 pounds worth of value in today's terms.

LEWIS: So that's over their whole working life, so their pension scheme would be that much lower.

CULE: That's right.

LEWIS: And what about older people because everybody has to join if they're in work right up practically to retirement age. How is it going to affect them?

CULE: Well they lose sort of the same amount of money over this delayed introduction, but of course theirs is invested for a slightly longer time because they're nearer retirement - so it might be say half that amount for someone of 45.

LEWIS: Now we've seen this system. It used to be called personal accounts. They were originally going to start I think in 2010. It's now been put off. It'll finally begin in October 2012 and then be phased in over, what, 5 years. Do you think it really will happen?

CULE: I think it will probably in some shape or form because there's nowhere else for the government to take the non-pensioned people.

LEWIS: Right, so any gov… I mean the Conservatives, the Liberal Democrats - either might be in power or hold the balance of power. Will they change it if Labour doesn't win the election?

CULE: I don't think they'll change the big principle, but we have had the Tories say they want to come in and do a "quick and dirty review" because, as always, they think the other side have got it not quite right.

LEWIS: What, another pensions review? That's just what we need.

CULE: Absolutely. You can't see it bringing in sooner, although that's the implication of what they say.

LEWIS: Now whenever it starts, even if it started tomorrow, the final level of contributions is not that great, is it - 3 and 5%, a total of 8, from a band of earnings? It's not going to buy someone in low pay a really big pension, is it?

CULE: No it's not, Paul. Indeed I think that's what many of us fear it will do. It will dumb down or bring down the standard of pension expectation in the marketplace.

LEWIS: And will that mean companies pay in less? We've certainly heard some estimates that many companies will start paying in less to their own scheme that's better than this.

CULE: I think that's a real risk, Paul, because for example you might have say half your workforce in a pension scheme and half not, and you decide well I'm only going to spread the same amount of money across the whole workforce.

LEWIS: So they might be dumbing down, as they say?

CULE: Yes.

LEWIS: David Cule from Punter Southall, thanks very much for talking to us.

And, Ruth, a big deadline coming up next weekend for millions of people.

ALEXANDER: Yes, if you're filing your self-assessment tax return online, it has to be done by Sunday 31st January. If you miss the deadline, you'll be charged an automatic £100 penalty, although that is reduced if you owe less than £100 in tax. And the money also has to be paid to the revenue by 31st January, so you'll probably have to make an online payment by Wednesday to get it there by Friday, which is the last banking day before Sunday 31st.

LEWIS: Thanks for checking the calendar for us, Ruth. A correction though to what we said on Wednesday's Money Box Live on this subject. We said then that filing a partnership tax return after 31st January *wouldn't* incur a fine *if* the right amount of tax had already been paid, like all other returns. But the Revenue has now told Money Box that the penalty for late partnership returns is £100 for each partner who's late, even if the tax has been paid in full. So if you're in business with a business partner, don't miss that deadline for the form even if you don't owe tax. Tax needn't be taxing, but my goodness it usually is. That's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. All sorts of exciting things to do there: watch videos, sign up to my weekly newsletter, download the programme, listen again, and of course have your say on prepaid cards for people on benefits, as quite a few of you already are. Vincent Duggleby's here on Wednesday with Money Box Live, taking questions on home income plans - equity release. I'm back with Money Box next weekend. Today the reporter was Ruth Alexander, the producer Karen Kiernan, and I'm Paul Lewis.