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MONEY BOX

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LEWIS: Hello. In today's programme, the fees charged on your pension fund can reduce the pension you get by 40% over a lifetime. We explain the maths and get a comment from Britain's biggest pension provider. New limits for tax free savings in ISAs start on October 6th, but not all banks and building societies seem ready.

PAM: I went into the Bradford & Bingley that I'd taken out an ISA with and said I wanted to add to it, and I was told I couldn't.

LEWIS: Have you been phished recently? Emails claiming to offer tax refunds are a fraud. We find out where they come from and what to do. As the pound plunges, where can you get the most for your sterling? And how to get £250 free.

But first, pensions. Almost 40% of your personal pension pot can disappear because of fees. That's the striking conclusion of a report from the Royal Society of Arts this week by a city investment expert. The figure has surprised many people and our reporter, Ruth Alexander, has been poring over spreadsheets to discover how a charge of 1.5% a year can cause 40% of our pension to vanish. Ruth?

ALEXANDER: Oh yes, the magic of numbers, Paul. It's because the money taken by the small fee adds up. For a start, it's an annual fee; it's charged every year. And it's a percentage fee applied to your whole pension pot. So as that pot increases with more contributions from you and hopefully stock market growth, so the amount of money taken by the fee grows. The author of this week’s report, David Pitt-Watson has worked out an example. Take a person who starts saving for their pension at the age of 25. They put in £1,000 every year for 40 years, raising the amount every year with inflation. They’ll retire at 65 and draw on that pension for 20 years after that. David assumes investment growth on that pension of 6% a year. Now, first of all, he calculates what happens to this pension pot in a parallel universe where there are no fees or charges.

PITT-WATSON: So in the first year they’ve built up £1,000. They get a return of 6% and that’s £1,060. By the time that they’re 64, they’ll actually have put together a pot at the end of that year which is worth nearly quarter of a million pounds, £248,000. And that then would give them a pension, which again would go up by 3% every year, of about £16,000.

LEWIS: Okay, Ruth, so that’s fantasyland. What happens to that pension pot in this world where pension companies certainly *do* charge for their services?

ALEXANDER: Well David Pitt-Watson imagines a 1.5% fee being applied and that is the kind of fee you often see on stakeholder pensions, for example. So in year one, the fee on the £1,000 you put in would be just £15. In year two, it’s about £30 because you’ve now got around £2,000 in the pot. By year 10, it would be more than £200. By year 40, because your pension pot has grown considerably, the fee would be more than £2,500. And so it keeps on getting bigger. And each of your contributions is hit time and time again by the fee. Your first £1,000 is hit by it forty times. And in fact after 40 years, a quarter of your contributions have been taken in fees.

LEWIS: And I suppose it’s worse than that because you also have to factor in the potential investment growth that you’ve lost on the money taken out by fees?

ALEXANDER: Yes, if the thousands of pounds that have gone in fees had stayed in the pot, that money would have grown by 6% a year. So compared to the pension pot in the mythical no fees world, the pension in this world is greatly reduced by both the fees charged by the pension company and the potential growth you could have got if you hadn’t paid those fees.

David Pitt-Watson explains the total effect.

PITT-WATSON: That pension reduces from £16,000 to about £9,900, so that's a reduction of 40% that's simply come about as a result of the fact that we've added 1.5% charge per year to the pension from the age of 25 through to the age of 85.

ALEXANDER: Now this is just one scenario. How much of your pension vanishes in fees largely depends on how long you save for it.

LEWIS: And of course on the annual fee charged, which does vary from provider to provider.

ALEXANDER: Yes and that can be hard to work out. The Financial Services Authority has a website where you can see how pension companies compare on charges. The Co-op is bottom - 46th out of 46 - but not every company submits this information to the FSA. Skandia, a big provider, doesn't. I've seen the list of annual charges it gives financial advisers though, and they range from 0.5% to almost 3%. But that doesn't include various other charges you may have to pay such as initial charges and exit fees. Des Hamilton from the Pensions Advisory Service says even professional advisers have problems working out the true total charges on pension products.

HAMILTON: There are disclosure rules which require providers to actually make sure that this information is provided in this literature. The problem is it's often buried in the literature, so you may typically find you've got information saying the total investment charge but then the small print says 'this excludes initial charges and administration charges', which are disclosed somewhere else. So it is a requirement to disclose these, but isn't necessarily a requirement to disclose them in a way that you would understand them.

LEWIS: Well thanks, Ruth, for helping *us* to understand them. Why are though the costs of personal pension so high? That's a question I asked John Lawson, Head of Pensions Policy at one of our biggest pension providers Standard Life.

LAWSON: The cost of personal pensions, particularly group pensions in the UK, are not high. I think this report paints a misconception about charges. Typically our charges at Standard Life average around just 0.55%.

LEWIS: Well that's not what your information on your website says. I mean you start at a management charge of 1% and then you have additional charges. For example, your UK equity manager of managers is 1.62%.

LAWSON: It depends on which fund you choose. I mean …

LEWIS: Well I couldn't one at 0.55, I have to tell you.

LAWSON: Group schemes are individually priced, so you wouldn't find these charges. What you see on the website is charges for retail individual pensions.

LEWIS: But that's what we're talking about. Doesn't this just exemplify the whole problem? Charges are incredibly complicated. I had to go through three separate documents on your website even to find a list of them and then it was just a bewildering array. I would have come away from that not having a *clue* how much you would have taken off my pension.

LAWSON: I think you're right. I mean if you found it confusing to go onto a website and not find the correct level of charge, then it's something that we ought to improve.

LEWIS: Well on your Frequently Asked Questions, there was nothing about charges. That referred you to another document, which was a very big PDF that you had to download, and there were hundreds of funds on there. They range right up to more than 2%, the charges.

LAWSON: That's right. I mean you can invest both in Standard Life funds and funds managed by other fund managers, and in some cases, those charges will go up to 2%. In addition to reading that fund sheet, you've got to read it in conjunction with another sheet about the charges for personal pensions or stakeholders as well. We expect financial advisers to know about both these documents and therefore they'll be able to explain to the customer exactly what they're going to be charged.

LEWIS: And when it comes to that question of exactly what you're going to be charged, there are a number of different charges, aren't there? There's the annual management charge, but there are also additional charges which don't come into the annual management charge.

LAWSON: These days most pensions are single annual management charges and all of our individual pensions and group pensions are single annual management charge. So there are no other charges unless you have something quite sophisticated like a Self Invested Personal Pension and you're investing in other assets - for instance directly in shares - where you will pay fixed annual administration fees as well.

LEWIS: But on the FSA tables (the Financial Services Authority do their comparative tables) on those tables Standard Life out of 46 funds is 37th. Over the lifetime of a 40 year investment into a pension, you would have taken £77,800. What on earth's that for?

LAWSON: I mean that's obviously just an illustration. Our typical pension scheme at 0.7, you would lose around 14% of your fund over a 40 year period, which is a lot lower than the 40% quoted in this report from the Royal Society of Arts.

LEWIS: Yes, well that's if we accept that it's .7%. But these are based on figures you have given the Financial Services Authority, and putting £100 a month into a pension over 40 years, you actually put in only £48,000. Then you have the investment growth. Out of that, you would take £77,800. What do you do with that money? What's it for?

LAWSON: The charges are to cover the administration and the fund management mainly.

LEWIS: And why isn't it a fixed fee? Because it doesn't really matter if a fund is £50,000 or £500,000. Administering it costs the same amount, doesn't it?

LAWSON: Roughly the same amount. You're absolutely right, yeah.

LEWIS: So why do you charge a percentage?

LAWSON: We charge a percentage because that's what is preferred, I guess, by the consumers organisations, by the consumers themselves.

LEWIS: So consumers would rather pay you a percentage, which you've just admitted is more than it actually costs, rather than a flat fee, which is what it actually costs? What consumer would prefer that?

LAWSON: I think it might be, for instance, someone with a large contribution or a large fund might get lower charges if they were charged a fixed fee. But certainly customers who are only paying in £40 or £50 a month are probably better off having a single annual management charge.

LEWIS: John Lawson of Standard Life. So let us know your views. Have your say on personal pensions and the charges on our website, bbc.co.uk/moneybox.

Millions of older savers will be able to boost their tax free ISA accounts next month. The overall limit for the annual contribution to an ISA goes up from 6th October for those born before 6th April 2010. People who've already put the maximum into a cash ISA of £3,600 can add another £1,500. Well in theory. Now that's not always been the message given to customers at their local branch. Money Box listener Pam from Barnet spoke to us this week.

PAM: I went into the Bradford & Bingley in Barnet that I'd taken out an ISA with in April and said I wanted to add the £1500 to it, and I was told I couldn't because I'd got a fixed rate cash ISA which I'd taken out in April and I couldn't add to this. Now I also discovered I couldn't take out another cash ISA because you're only allowed to take out one in a year, and my question is really where can I invest this £1500 that Mr Darling has so kindly allowed me to invest tax free?

LEWIS: Well one disgruntled listener. Rachel Thrussell is from the financial information group Moneyfacts and tracks cash ISAs and products. I asked her yesterday if Pam's experience was typical.

THRUSSELL: With fixed rates, it is a bit of a grey area. Many institutions have said no, you can't top up. Some will allow you to open an additional fixed ISA to run alongside, but I do know the Santander Group, while they've said that you can't actually top up your existing fixed rate ISA, they are looking at ways to accommodate the customer. So hopefully there'll be an announcement sort of in the run up to 6th October where they will be able to offer customers of Bradford & Bingley, Alliance & Leicester and Abbey the option to invest the additional allowance.

LEWIS: The trouble is though, you say by 6th October. People want to sort it out now, don't they, so that they're in at the start, ready for the day this new allowance begins?

THRUSSELL: It is frustrating, but obviously it's difficult for the providers. They've got to try and administer this split ISA limit. Some of them may not have systems in place to cope with this. So while on the surface the government are giving people over 50 this extra £1500 allowance, in reality it's not quite that straightforward because obviously terms and conditions on ISAs, particularly the fixed ones, are quite complex.

LEWIS: And Santander and Halifax have both admitted that staff training is ongoing, so there's clearly some problem at their end as well. Not only are we confused about … or at least I'm confused about the rules, but their staff are as well.

THRUSSELL: Changes don't always filter down to the branches. I mean we have examples of many institutions where you go into the local branch and the staff are just as confused as the customers because although they've heard that the government will allow you to pay this extra allowance in, they haven't actually been informed by their head offices or training centres exactly how they're going to be able to do this. So they're in some cases giving incorrect or misleading information to the customer.

LEWIS: So give us the correct information, Rachel. When people go into their branch, what should they be insisting they can do?

THRUSSELL: They should be insisting that if they are 50 either now or by 5th April 2010, they can top up with £1500. If they've got a variable rate ISA, they should be able to pay it in straightaway. And the research that we've done, every provider except for Egg, the Internet bank, will allow you to top up your variable ISA. The fixed is a bit more difficult. Most of them will allow you to top up or open another one to run alongside.

LEWIS: So it sounds as if insist on your rights and possibly the closer to 6th October you do it, the more likely it is the staff will know the rules?

THRUSSELL: And I think there probably will be a few teething problems, particularly if on 6th October everyone rushes in to pay their £1500 in. Branches may not be fully prepared, systems may not be in place. Just a case of be patient and hopefully it will sort itself out.

LEWIS: Rachel Thrussell from Moneyfacts. Now the Revenue's told us that if you open a second cash ISA in the tax year, it is technically invalid. But as long as you don't exceed your overall limit, which will be £5,100 in a cash ISA, £10,200 altogether if you're over 50, then it's what they call 'repairable' and they won't penalise you. Oh and by the way, it is 50 by 5th April 2010, not your 50th birthday - as some listeners have been told by their local branch. You can let us know your ISA experiences too on have your say on our website, bbc.co.uk/moneybox.

Now what would you think if you got this email saying it was from HM Revenue & Customs?

I am writing to confirm that after the last annual calculation of your fiscal activity, we have determined that you are eligible to receive a tax refund of £327.54. We have attached a tax return form with a tax refund ID number. Complete the form and submit by clicking 'submit'.

LEWIS: Well that and similar emails have been appearing in millions of inboxes, but they're fakes, bogus emails from scammers hoping to find out bank account details and rob people - a fraud known as 'phishing', spelt with a 'ph'. So where have they come from and what would happen if you tried to claim your refund? Fraser Howard works at SofosLabs in Oxfordshire where he studies these fake emails. We asked him to show us how they worked.

HOWARD: If you look at the form address, it's come from HM Revenue & Customs, but in actual fact that's spoofed. It's very easy to change the email address from which the messages are supposed to have come from. In this case, the IP address corresponds to a machine, which looks to be hosted in Russia, in St Petersburg. As you can see, within the message body itself there's a link and it says 'click here to submit your tax refund request'. If I click on the link, I get taken to a web page and it's providing a whole load of different bank logos - Lloyds TSB, Halifax, Abbey, Barclays. And the biggest clue is if you look at the top of your browser where it gives the URL, the site you're looking at doesn't look what you might expect for HM Revenue & Customs. I'm looking at a site that looks like it's something to do with mountain biking. I'll choose Lloyds TSB and I get taken to another web page. And now this web page again looks very much like the Lloyds TSB log-in page and it's prompting me for my user ID, my password. For a user that's been fully tricked by this tack, the log on credentials of that user will be collected by the phisher. They're typically sold on via the black market.

LEWIS: Fraser Howard. This fraud is so widespread, it's been picked up by international monitoring groups. David Chivas is Chair of the Anti Phishing Working Group in California.

CHIVAS: We have definitely seen a rise of Inland Revenue phishing type emails. The domain name, the name you see where you type it in, they make that look very close to the real thing. And you take a quick look at it and you think, yes, it's Inland Revenue.gov.uk, looks good, but you may not notice that there's a bunch of other stuff beyond it that actually indicates that it's fake.

LEWIS: Well live now to Peterborough to talk to someone who I believe to be Clare Merrills of HM Revenue & Customs. I suppose, Clare, I should ask you for your mother's maiden name and bank account number.

MERRILLS: Yes, but you wouldn't get them. *(laughter)*

LEWIS: How big a problem is this?

MERRILLS: Well we're not exactly sure exactly how many people are being fooled by it because we’re only hearing from the people who actually think ah, this looks a bit dodgy, so we will just contact Revenue & Customs and find out whether it is real or not. But we’ve seen a real increase in those over the past few months and they seem to peak about the same time as something’s happening in the tax calendar.

LEWIS: Yes and because there are so many, we can imagine they must achieve something or they wouldn’t carry on.

MERRILLS: Indeed.

LEWIS: Why do you think HMRC, Revenue & Customs, is being used in this way?

MERRILLS: I suppose the thing is because we’re a government department and we deal with money and it is possible that you could be getting a refund from us because we do give refunds as well as ask you for money, as you know …

LEWIS: Not everyone believes it, of course.

MERRILLS: *(laughs)* Well it’s true. But the thing is what we tend to do is send you a cheque when you’re actually due to a refund; or you’ve already given us your bank account details, so we pay the money straight into your back account.

LEWIS: But do you ever send people emails?

MERRILLS: No, not like this.

LEWIS: Not like that. Nothing with a clickable link in it?

MERRILLS: No, we certainly don’t. I mean, as the previous two guests have said there, they really do look very, very convincing these emails that come to you because what they’ve done is they’ve copied our home page and so it looks like it is the real thing. But we would never ever send you an email saying you’re due to a refund and to get your refund what you need to do is to give us your bank account details. We just don’t do it.

LEWIS: No. But you do send people emails, don’t you?

MERRILLS: We do send people emails about various things, but mostly when they’ve actually contacted us. But mostly what we tend to do is to contact people by the telephone or by letter.

LEWIS: So I suppose it’s safest really even if you do get an email to look at a paper document that’s arrived from the Revenue and then ring a number on that rather than respond to an email because you simply … it is hard to tell. These are actually not bad, these emails.

MERRILLS: They’re very, very good and it’s for a realistic amount of money. I mean you mentioned earlier on 350 some odd pounds. It’s the sort of thing that if you weren’t expecting it, you’d think oh actually maybe I do, you know maybe I am due that amount.

LEWIS: Not like the Lottery’s promising you millions.

MERRILLS: Exactly.

LEWIS: What should people do who get one of these, finally Clare?

MERRILLS: What people need to do is to contact us. Don’t click on any links within it because then you’re opening up your computer to all sorts of possible nastiness. Contact us, email us. There’s a link on our homepage which gives you all the details and it also lists the most up to date scams that we’re aware of, so it gives you some sort of idea whether you’ve got a scam or not.

LEWIS: Clare Merrills from the Revenue, thanks very much for talking to us.

Now the pound has fallen this week, reaching its lowest point since April, and fallen particularly badly against the euro - down by about a sixth on this time last year. Today it’ll cost you 92p to buy just one euro coin compared with the average 70p since the euro notes and coins were issued; and it was about 79p for a euro a year ago. So anyone planning a holiday in Ireland or continental Europe will find it much more expensive this year. And there are hundreds of thousands of Britons working or retired abroad with an income in sterling and there are more than 100,000 of us with a euro mortgage on property abroad. They'll all be feeling the pinch of the weak pound. Let's go live now to Manchester to talk to Bob Atkinson. He's a travel specialist at Moneysupermarket.com. Bob, the official rate - 92p for a euro or you get about one euro and nine cents for a pound - we're not going to get that as tourists, are we? Where's the best euro rate?

ATKINSON: No, you're highly unlikely to get a rate as good as that. Although I've actually been out and about today not only on the high street but also on the Internet trying to see what the reality is. The best I could actually get today was an online offer for cash with Crown Currency Exchange. 92.6 - so 1,000 euros would cost you today £926 and a penny with them. The absolute worst was when I contacted Manchester Airport and got put through to a foreign exchange desk there, airside, and when they told me that I would get one euro for one pound, meaning that 1,000 euros was a £1010.90p, it shows you know the difference on 1,000 euros. 9.1% between the best and the worst. That's £85 difference.

LEWIS: There's a big penalty for not getting your currency till the last minute when you're just about to board that jet, isn't it?

ATKINSON: It is, indeed. However a little tip though was the guy, when I expressed my horror to him, actually told me that if I had time and was flying later today, I could actually go onto their online website - and this was Thomas Cook - put the same order through, go and collect it at the airport. And by doing that, for 1,000 euros I'd actually only pay £947.87 and save myself £63.

LEWIS: Right, so online is good. And of course you can pick up online at the airport, but you can also get it delivered, can't you, within the price, which seems extraordinary - although of course you have to be in.

ATKINSON: Yes. Most currency that you can buy online, you can have it either delivered to you free of charge generally if the transaction is over £500, but you have to be at home because it has to go to the address that your bank details are registered to. Alternatively some of these services - people like Travelex, Thomas Cook, etcetera and some branches of ICE - you can collect them at airports or stations.

LEWIS: Yes because of course not everyone wants to go tramping the streets for half a day as you've very kindly done for us. So online is probably about the best and pick it up at the airport or get it delivered if you're in?

ATKINSON: Generally speaking. However if you're on the high street, be careful. A lot of the high street agents now are getting very savvy at selling to you, so be very careful to check the total price of both your currency and any commissions they may be charging before you commit.

LEWIS: Yes and also say, "Ooh really, that price, I can get it a bit cheaper down the road". Where do you think the euro is headed, Bob?

ATKINSON: Well this is quite difficult. Reading the kind of expert columns in the papers today, you know the Bank of England are basically creating uncertainty in the market at the moment and people aren't really sure what's going to happen with the effects of quantitative easing, are the bank going to encourage more lending, etcetera, and all this has an impact potentially on where currency rates will go. It seems to be predicted to be kind of it'll maybe drop a little bit further, settle roughly maybe around the 1.09, 1.10 rate. But who really knows because we were saying 1.3 at the beginning of the year.

LEWIS: Indeed. If we knew, we'd be rich men, wouldn't we Bob? Thanks very much, Bob Atkinson from Moneysupermarket.

Now if there were 60 candles on your birthday cake this weekend, you could be entitled to a £250 gift from the government. Ruth Alexander has the details.

ALEXANDER: Yes, if you're 60 or over this Sunday, you're entitled to the winter fuel payment this year. Many people like this don't complain the pension and are therefore unknown to the Department for Work and Pensions. So unless you claim this money, you won't get it. It's a £250 payment and it's not means tested. It's tax free and paid simply on the grounds of age.

LEWIS: Thanks very much, Ruth. Of course if you share your home, you'll only get half of that. Full details of how to do that, how to make the claim are with the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can do all sorts of exciting things - sign up to my weekly newsletter, download a podcast, listen again and of course have your say. Choice of two this week - pension charges and topping up those cash ISAs - and I must say comments are coming in. No time to read them out. Tell us what you want us to look into. Also Vincent Duggleby's here no Wednesday with Money Box Live, this week taking your questions on banking. I'm back with Money Box next weekend. Today the reporter was Ruth Alexander, the producer Bob Howard, and I'm Paul Lewis.