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MONEY BOX

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LEWIS: Hello. In today's programme, the government hopes to attract 10 million people to save in a new pension scheme from 2012, so why has it cut the maximum they can put in? A top industry figure says financial advisers should stop getting commission when they sell us products. Chris A'Court's with me today with some *good* news.

A'COURT: Yes, Paul. Money Box can reveal details of a rescue scheme for people unable to move home after taking out a controversial type of mortgage in the late 90s.

LEWIS: Changes by two credit card providers could mean we pay more interest over a longer time. And Tory plans to cut the tax on small businesses.

But first, the government has given more detail this week of the new pensions it will introduce in 5 years time. Everyone in work who doesn't pay into a better scheme will automatically be enrolled in these new personal accounts. Employers will pay in 3% of salary; workers will pay in 5% - both phased in over 3 years. The government hopes up to 10 million people will join. But this week it announced a reduction in the maximum amount people can pay in. It's reduced the planned limit from £5,000 a year to just £3,600. I asked Pensions Minister James Purnell why he had cut it.

PURNELL: The idea of a contribution cap was initially suggested by the Pensions Commission because what we want to do with this Personal Accounts policy is to help people who don't currently have access to company schemes to save. But neither we nor

the Commission wanted to undermine good company schemes that exist already and that's why they wanted to have this contribution cap. We have proposed going from what they suggested, which was £3,000 to £5,000. We looked at the evidence. That suggested it would have too much of an impact on the company pension schemes of people who are saving already, so we've brought it down back to £3,600 but that's more generous than what the Commission was suggesting before. We think it strikes the right balance between helping people to save but also supporting existing provision.

LEWIS: It could be seen as protectionism of the existing pension system, couldn't it, because the new scheme will be a lot cheaper? What's wrong with letting people save in that and if the pensions industry wants to compete, they can compete?

PURNELL: The reason that we don't want to do that is not actually about protectionism at all. It's because the people who are getting good company pensions at the moment get a good pension out of it; and if employers just said okay I'm going to close my company pension and put into Personal Accounts, that could mean people ending up with less good pensions at the end of it. So that's why we've done it. And I think it is just worth remembering the big picture here, which is this is a completely new way of saving; and what the responses show is quite a good level of consensus around where we've got to.

LEWIS: You have said though there'll be no taxpayer subsidy to it, so it will have to compete. What *will* it charge because you had set a target charge of 0.3% a year. That seems to have disappeared now.

PURNELL: No, that's not right. We're sticking exactly to what we've always said, which is we think in the short-term we can get down to 0.5%. The 0.3% which the Turner Commission spoke about, that was in the steady state of running it after many years.

LEWIS: That was in the long-term. Yes, I understand that.

PURNELL: In the short-term, you have to obviously have some set up costs. But let's be absolutely clear about this. Personal Accounts will be run not for profit. It will be run at arm's length from government. It will be run by professionals. But most of all it will be run by trustees who are acting in the interests of the members.

LEWIS: What sort of pension will people get at the end of it if they remain opted into this scheme?

PURNELL: Well it's very hard to say, of course, because it depends on the stock market and how much people earn. But at the moment the pension credit means tested level is about £119 a week. Because of our reforms from the state pension side, people would get about £145 a week. And then on top of that, they could save £50 or £100 a week extra because of Personal Accounts. And compared to the current system, what that will mean is the same person putting in the same amount of money will be £50 a week better off if they save compared to the current system. That's a very big difference.

LEWIS: A lot of people are still concerned though, aren't they, that what people will do if they're on low incomes is save into these scheme automatically and eventually end up little better off?

PURNELL: Well actually even people on very low incomes, if they contribute throughout their working life either by working or indeed by caring for their family, they would be on £145 a week - well above the level of the means tested safety net of £119 a week. So actually pension credit becomes ... Rather than being a sort of income top-up for everyone, it becomes something which is there for people to fall back on if they're *not* able to contribute in that way. And what this system does is say to people if when you're young, you decide to really commit to your personal responsibility to save and to contribute, you'll be lifted well above the level of pension credit and you will get very good returns on your saving.

LEWIS: Pensions Minister James Purnell. Well live now to Caroline Slocock who's Chief Executive of the Equal Opportunities Commission. Caroline, James Purnell is saying that just about everyone would be better off paying into these new personal

accounts. You've done some research on this. Is he right?

SLOCOCK: Well first of all I think Personal Accounts are great news for women in general. They should lead to more women saving and getting more in retirement. But we've done research which suggests that there are some at risk groups for whom it won't necessarily pay to save, and that includes probably a lot of women because it's people who are likely to end up with a low level of savings at the end of the day; and there may be other factors too such as if they're renting, they may lose out on benefits there.

LEWIS: So what can the government do to make sure everyone really *will* be better off?

SLOCOCK: Well I think they need to in order to make sure that people can really be confident about that, there are some changes that they could make to means testing rules and to the amount of money that they can take as a lump sum at the end not as an annuity. If they looked at those rules, they would actually make it possible for pretty much everyone to benefit from saving into personal accounts.

LEWIS: Because the danger is, I suppose, that people will save up. Some of them will have a fairly small amount in this pension pot. They will be able to take it as a lump sum, but under the current rules that would deny them any of the means tested help, so it sort of takes away the money they could gain.

SLOCOCK: Yes and actually they can't ... If it's above £15,000, they can't take it as a lump sum. They can only take up to £15,000 as a lump sum. If they put it into an annuity, they may lose out because their income's higher and they may not get pensions credit and they may not get other means tested benefits as well. So adjusting a few of those rules could make all the difference to making this really work for everyone and particularly for low income women.

LEWIS: Yes, so you really want them to disregard, as they say, to ignore the income from these pensions as far as working out the means tested benefits because then they'd get those and they'd obviously be better off?

SLOCOCK: That's right. Raise the limits so that people have only got a small pot at the end of the day, can actually benefit from that pot and so it will pay to save.

LEWIS: Now the government plans to have everyone automatically enrolled in this who's aged 22 to pension age and earning more than about £5,000. Do you think that they should be automatically enrolled? Do you support that side of it?

SLOCOCK: Absolutely! I think that's definitely the way to go. It's important that everybody really does get the opportunity to save and overcomes the inertia that does exist at the moment. The answer is not to stop auto-enrolment; the answer is to change the rules. At the end, if they've got a small pot, make sure they can benefit.

LEWIS: Caroline Slocock of the Equal Opportunities Commission, thanks.

A rescue package has been announced today for thousands of elderly people who've been trapped in their homes because of a controversial loan they took out in the late 90s. Barclays Bank has confirmed it will now provide financial help for up to 2,500 customers who entered into one of these Shared Appreciation Mortgages or SAM's. Money Box's Chris A'Court's been following this. Chris?

A'COURT: Yes, Paul. This was a form of equity release. Customers who signed up got an interest free loan of 25% of the value of their home back then, but only for agreeing to pay the bank 75% of any growth in the value of the property when they came to sell. It was the sort of deal that given soaring house prices since the late 90s now seems plain daft for any customer to have entered into, but back then when prices were hardly moving it looked different. Now we started reporting in 2002 on the disaster that these deals turned out to be. As people with the loans grew older and looked to move to smaller, more suitable properties, it proved impossible. Just last month, we featured a couple from Birmingham. They got a loan of £40,000

9 years ago, but to move now they'd first need to pay the bank over £200,000 and simply wouldn't have enough left after that to buy another home. All such people could do was stay in their existing homes and struggle to make ends meet. Now, finally, Barclays Director

Catherine French says the bank is taking their plight seriously and doing something to help.

FRENCH: We've been listening to the issues raised by consumer action groups like SAFE and by programmes like Money Box. There are some customers who are in a position of hardship as a result of their SAM and what we want to do is help them to move to a more appropriate house for them. One might be an elderly customer who's perhaps unable to manage in their home any more or they need to move closer to their family. But equally we do understand that there are some customers who don't actually want to move house, so in those cases where there is hardship, we'll be offering them a non-repayable grant, so an obvious example might be to install a stair lift or perhaps a downstairs bathroom.

A'COURT: To explain a little more then, Barclays is offering anyone suffering what's loosely termed 'hardship' from one of these mortgages an interest-free and payment-free alternative loan, allowing them to settle up all that's owing on their SAM and enabling them to move on and buy a more suitable property elsewhere. Only when that alternative property is sold or the customer dies must the new loan be repaid to the bank, and the loan debt won't be growing with house prices in the way that it is now on the Shared Appreciation Mortgage. Customers can finally be shot of their SAM without suffering and Elaine Williams of SAFE, the organisation campaigning on their behalf, says that's very welcome news.

WILLIAMS: We worked with Barclays to get this package together, so we're obviously delighted and it will enable people to be able to move. They won't be trapped any more because there's now a way out. Where they're in a two-storey house and they now need single storey, they can move. And that's the beauty of this. This enables people to be able to get on with their lives.

A'COURT: But, as Barclays acknowledged, there are those who don't want to move and are still suffering hardship, so Barclays is offering them a grant - a one-off sum which they can apply for in order to make home improvements that match their changing needs. The grant money will never have to be repaid if they stay in the same home. But in these cases, the SAM mortgage keeps going and *growing* with any further increase in house prices and will eventually be repaid to the bank when the customer dies. Customers don't have to make decisions immediately, Paul. Barclays has promised us that this rescue package

will always be available to anyone with a SAM mortgage until the very last one is paid off.

LEWIS: Well excellent news for Barclays customers, Chris, with these mortgages. But there are thousands more, aren't there, who bought them not through Barclays but through Bank of Scotland and presumably they're not covered?

A'COURT: They're absolutely not covered by this, Paul. Although around 2,500 people bought from Barclays, around three times as many people have SAM's from Bank of Scotland, the only other bank to have sold them. Now we've now asked Bank of Scotland if it will offer a similar rescue package to its SAM customers. It isn't giving any such pledge at the moment, but it did tell me this morning that it was studying Barclays' announcement "closely and with interest."

LEWIS: Thanks, Chris. And there's a helpline for Barclays customers that opens on Monday, but the number is with our helpline now and you can read more on the Moneybox website. Details later.

Financial advisers should no longer be paid by commission. That was the key recommendation this week in a report by the Financial Services Consumer Panel. Its job is to represent consumer interests to the regulator, the FSA; and John Howard, the Consumer Panel's Chairman pulls no punches. He says commission was responsible for several mis-selling scandals and he believes ending it would restore consumer confidence.

HOWARD: Commission is perceived to be a bad thing because inevitably when commission varies by the different providers of financial products like insurance companies, investment firms - they all pay different rates of commission - there is always the temptation on the part of independent financial advisers to select for you the product which pays them the most commission but may not be the best for you. And this has created the perception in the customers minds that they can't necessarily trust the advice that they get from an independent financial adviser.

LEWIS: So what would replace it?

HOWARD: What we would like to see replacing commission is something which I think is a really neat solution to the problem that we've got. At the outset, when you go into an independent financial adviser's office you would agree with him how much you're going to pay for the advice you're going to get. And once you've agreed that, the adviser will then look at the marketplace and say right, I'm going to select now for you the best product for you. And they will do that and come back saying this is the product I want to purchase on your behalf. They will then go to the product provider - be it the building society or an insurance company - and say to them I have selected this product for the client, I've agreed the price that I'm going to charge him for the advice. I want you now to put that ... charge the advice onto the cost of the product. So it means that the customer isn't paying a fee upfront. They're going to pay for it over the life of the product.

LEWIS: Okay, well listening to that is Chris Cummings. He's the Director General of the Association of Independent Financial Advisers. Chris, could your members cope with an end to commission?

CUMMINGS: Well I think John has raised some very interesting points, but I think I'd advise him to go and visit an independent financial adviser because the first conversation he'd have with that IFA is exactly along the lines that he's just discussed. The first conversation that a client has with their IFA is how do they want to pay for the services. Now there are a vast number of IFA firms who operate entirely on a fee basis, who don't take commission at all.

LEWIS: But there's an awful lot who live on commission, aren't there, and would find it very difficult to move to fees because many of their customers would balk at paying £100 or £200 an hour for advice?

CUMMINGS: Well I think you've just raised the heart of the matter. It boils down to just who decides how you or I pay for something that we want. Financial advice is in demand. In the last two quarters of last year more than half a million people wanted to speak to an IFA. So I think this is the real issue - actually how do we make financial advice more

accessible?

LEWIS: But how do you solve that essential conflict of interest? If I need a pension or an investment, the best product for me to buy may not be the best product for the adviser to sell and I will never know if that's true, I'll never know if there's commission bias.

CUMMINGS: If that commission wasn't known, if a range of circumstances weren't presented, then I would agree with you. The way that IFA's operate today is that they have to disclose how much commission they're earning.

LEWIS: But that's changing, isn't it, from November, as we heard the other week on Money Box? Those initial documents are no longer going to be required.

CUMMINGS: Well unfortunately that is the case, though AIFA is calling on all of our members to not only retain the documents but we're also calling on the FSA to actually undergo a full review of disclosure - actually what is going to satisfy the concerns that John's raised about perception. And I think we have to do some considerable digging here and rethink the issue what's perception and what's reality?

LEWIS: John Howard, you've heard the other side. You've heard we don't need this, it's something that's happening already.

HOWARD: Well I know where Chris is coming from and I understand why he's saying what he's saying, but the Financial Services Consumer Panel started this debate a year or more ago now and there's been a very noticeable change of attitude on the part of the industry. There is a tide building now to get rid of commission or to change the way that financial products are sold. I think this is a real opportunity to grasp this and to make our independent financial adviser sector the consumer champions that all consumers really want.

LEWIS: John Howard of the Financial Services Consumer Panel and Chris Cummings from the Association of Independent Financial Advisers. You can let us know what you think about commission and financial advice on Have Your Say on our website,

bbc.co.uk/moneybox.

Two major credit card firms are cutting the minimum amount customers must pay off their bills each month. Marks & Spencer Money, now owned by HSBC Bank, is reducing the monthly minimum payment from 3% of the balance to 2½% from the end of July. That's on it's &More card held by 3 million people. And Barclaycard, which has nearly 10 million customers, is cutting ¼% or ½% off its minimum monthly demands from July 11th. Consumer groups have previously called such cuts "irresponsible" because they make debts last longer. I asked Barclaycard spokesman Ian Barber if this was a way of getting us to pay more interest.

BARBER: If you're paying interest on any borrowing product, if you choose to extend the time that you take to pay that off - then, yes, the cost of credit's going to be higher. But we do pride ourselves on the information we put in front of customers. We make sure that people understand that if you take a long time to pay off a credit card, if you really pay small amounts each month, then yes that's going to extend the period that it takes to pay off the card and you're going to end up paying more interest as a result.

LEWIS: But are you going to make it clear to people that this is going to take them, I mean on a £2,000 debt on your Platinum card, this change will cost £2,000 in interest and it's going to take 3 years longer to pay it off?

BARBER: That presumes that someone takes out a £2,000 loan, pays only the minimum interest and only ever does that.

LEWIS: Yes, that's right.

BARBER: That's simply not reflective of the way that people use their cards. I mean typically someone will take between 3 and 4 months to repay any given item that they buy on a credit card. We don't just do the standard thing. We have a special system whereby if we see someone repeatedly just paying the minimum payment for a period of months, we'll actually put a bespoke message on their statement reminding them that that's going to cost them more money in the long-term. We also have a product available for people that might

be concerned that they're maybe that way inclined and that actually encourages them to repay more each month by decreasing the APR they pay as a result. So we think we go above and beyond what's standard out there in the market.

LEWIS: Yes, but the other side of that is that the less people pay off, the higher the APR.

BARBER: Yes, it is, that's how incentives work. They have to go both ways.

LEWIS: Yes, so people who are more likely to get into debt by paying less, you charge them more interest so that's a good way of making money out of people who can't afford their debts, isn't it?

BARBER: You may say that. We clearly wouldn't agree. You know the starting interest rate is competitive in and of itself at 14.9%, but customers have the opportunity to reduce that to 9.9% - and you won't find many cards charging rates that low in the market - if they choose to repay more each month.

LEWIS: But don't you think with consumer groups and members of parliament concerned about people drifting into debt, you're making things worse?

BARBER: Well consumer groups and MPs are rightly concerned about a very small minority. That's what they're there to do, those are the groups that they're there to represent. We have to find a balance between that minority of customers that maybe are sort of bumping along and actually the 97%, 98% of customers that are repaying their credit cards in a much more sort of normal way if you like, and we think that getting that balance is about putting the right information in front of customers, helping them make a choice rather than being too prescriptive about it.

LEWIS: Looking at the way you've told your customers this, it's an example really, isn't it, straight from the taking money off customers without them noticing department because most people won't probably even read those changed terms and conditions? Most of them certainly won't realise it's a way for you to take more interest off

them for a longer period of time.

BARBER: I really don't agree. I think most people have the wit to realise that if you repay less each month on any interest bearing financial product, you're going to end up paying more in the long-run.

LEWIS: Will you be cutting it further? Many of your rivals only charge 2%.

BARBER: Well we believe this brings us roughly in line with the market.

LEWIS: Well the average is actually 2½%. I worked it out.

BARBER: Okay, well we have no plans at the moment to cut any further, no.

LEWIS: Ian Barber from Barclaycard.

The Conservatives have promised this week to cut the rate of tax paid by small businesses. They would pay for that by reversing other tax changes announced in the budget that would free some big purchases from tax. George Osborne is the man who would be Chancellor if the Conservatives were in power. I asked him why he wanted to reverse those changes.

OSBORNE: What we really want to do is make the tax system much simpler for people, much simpler for small businesses, and cut the business tax rates that people pay because we believe that government needs to do everything it can to help people who set up their own business and make such a huge contribution to our economy.

LEWIS: So all the changes the Chancellor announced in the budget - the £50,000 annual investment allowance, the increase, the slow increase in small business corporation tax, the writing down allowances cut - you'd get rid of all of those?

OSBORNE: Well no, hold on. You've got to separate out two things there. The small companies rate, I think the Chancellor headed in completely the wrong direction. He made the tax system more complicated and he raised the tax rates on small businesses. That's exactly the wrong thing to be doing for our small businesses.

LEWIS: But of course even at 22% by 2009, that's still less than it was for the entire period of the last Conservative government, isn't it?

OSBORNE: Well the last Conservative government made very big strides in reducing tax from the very crippling levels of the 1970s. But I think if you asked yourself over the last ten years of this Labour government, is it easier now at the end of that period to start up a small business - no; is the red tape burden less - no, it's not; is the overall tax burden in the economy, including that levied on businesses higher - the answer sadly is yes as well.

LEWIS: Now you say you'd pay for this tax in the small business corporation tax rate by getting rid of this annual investment allowance. Isn't that a good thing for small businesses though? It means they can spend £50,000 without worrying about it. That will come straight off their taxable profits.

OSBORNE: Well I think it's a choice between you know a complicated investment allowance, which the government is generously allowing businesses to apply for, or actually just cutting the rate and saying you decide how you spend your money, you decide what to invest in, you decide whether you'd rather spend the money hiring an additional member of staff, for example. Of course my ambition as a Conservative is over time to reduce taxes, not just on businesses but also on individuals, and we've set out a way of doing that by slowing the growth of public expenditure so that it grows more slowly than the British economy. But in short order - i.e. coming into power, having a budget a few weeks after a general election - what I want to be able to do is simplify the business tax system and reduce the business tax rates; use the money that is currently spent on all sorts of complicated allowances, reliefs and so on, which are extremely expensive to apply for - use that money to cut rates. And, as I said earlier on in this interview, let businesses decide how they spend their money, what decisions they make, whether they invest in capital or employ new people.

That shouldn't be the job of the Chancellor Exchequer; that should be the job of the person who has set up a business and is making a success of it.

LEWIS: Conservative Shadow Chancellor George Osborne. And you can hear a longer version of that interview, including his plans for tax credits, on our website: bbc.co.uk/moneybox. And, Chris, good news on paid holidays?

A'COURT: Yes, every full-time employee currently has the right to 20 days paid leave, but at the moment that can include bank holidays such as Christmas and Easter, leaving them just 12 other days off. Now this week it was announced that from October paid leave will rise to 24 days and then to 28 days from April 2009. The government says 6 million workers will benefit and get more time off.

LEWIS: Thanks, Chris. No time off for us. That's it for today. The BBC Action Line is on 0800 044 044. Our website, bbc.co.uk/moneybox, and there you can sign up for our weekly newsletter about what's coming up in the programme and of course have your say - this week on financial advisers. Don't forget our phone-in Money Box Live on Monday afternoon. This week with share prices at a near 7 year high, I'll be taking your calls on investing in shares. Back next weekend with Money Box. Today the reporter was Chris A'Court, the producer Lesley McAlpine, and I'm Paul Lewis.