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MONEY BOX

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LEWIS: Hello. In today's programme, the Dilnot debate: who should pay for our care in old age - taxpayers or our valuable homes? A top fund manager criticises the Bank of England: it's not only failed to control inflation; its forecasting of future price rises is poor. If you're 55 and need money, is it sensible or indeed possible to take it out of your pension pot? And we hear from a magistrate that banks may be mis-selling paid for current accounts.

But first, who should pay for our care when we reach very old age? Economist Andrew Dilnot published his recommendations this week in a report commissioned by the government. At the moment most people either get their care free or have to pay all of it or almost all of it themselves, often using the value locked up in their home. Andrew Dilnot proposed a limit on how much an individual should pay for their care and he also suggested there should be a limit on how much of their savings was ignored.

DILNOT: What we're proposing is that we set a cap of £35,000. If your costs are more than £35,000, the state will kick in. But as well as that, to make sure that those who are most vulnerable are protected, we're suggesting a change to the means test. At the moment if you have assets of more than £23,250, including your house, you're entirely on your own. We're suggesting that £23,000 be increased to £100,000. So a combination of extra support for those on low levels of income and wealth and a cap for all of us.

LEWIS: Those changes would cost around £2 billion a year, say half a penny on income tax or a half percentage point rise on the rate of VAT. So should we all pay more tax to let care be cheaper for those who currently pay it all themselves? With me is the Reverend Geoffrey Lang, now retired. Geoffrey Lang, what's your view on who should pay for our care?

LANG: Our care, it seems to me, should be borne by those who are able to meet it before they ask the state to take over from them. There's a great deal of emotional language surrounding the business of paying for care. People talk about lifetime savings when very often what they mean is assets accumulated through the extraordinary inflation of property value. Sometimes they talk about it being a burden to use your own money to pay for your own care. There's a kind of inconsistency. But the real problem, as far as I'm concerned with the Dilnot Report, lies in a radical way in its terms of reference which have somehow imprisoned the commissioners, whose integrity I don't impugn when I say that they have had to work within an extraordinarily tendentious framework, so that they, for instance, have been told to advise a system which allows people to protect their assets. Why?

LEWIS: And I mean you say people shouldn't have to. So you're saying if you've got a valuable home or indeed you've got money in the bank, you should use what all of that to pay for your care if necessary?

LANG: Why not?

LEWIS: Okay, let's get the other point of view because listening to that in Southampton is Neil Duncan-Jordan from the National Pensioners Convention. Neil Duncan-Jordan, do you agree with that?

DUNCAN-JORDAN: No, I mean Andrew Dilnot's commission spent a year and haven't moved us forward very much at all. It's fairer to share the costs of care across society as a whole. Social care in Britain is one of the very few elements of our welfare state that society as a whole doesn't pay for through general taxation. No-one is suggesting that education is only paid by people who have children. No-one is suggesting that the fire brigade and the police service are only paid for by those who will call on them. So why is it that social care falls into that category? It's extremely unfair.

LEWIS: So are you saying that everybody, from the poorest to multi-millionaires with million pound homes or more, they should get their care free even though they have that wealth and really just want to leave it to their children?

DUNCAN-JORDAN: What we should be doing is using the taxation system in this country so not the poor obviously but those that can afford to pay are paying a fair rate of tax. Our tax system in this country isn't fair; the poor pay proportionately much more. So let's use the taxation system across society as a whole. If you look at pensioners, 6 million pensioners don't have enough income to even pay income tax, so it would be the 4 million pensioners that have a higher income. Yes they would have to pay towards the cost of everybody's care, but so would everybody else.

LEWIS: Let me put those points to Geoffrey Lang. I mean Geoffrey Lang, you wrote to us because you were so angry about some of the debate on this. Why is it that almost uniquely of all the things we need in life - schools, hospitals, police - this is one that we're expected to pay for ourselves?

LANG: Well it seems to me that it is perfectly possible to propose a solution in which the total cost would be borne by the taxpayer. But, as Mr Duncan-Jordan has just pointed out, our tax system itself is inequitable and people with very limited means would then be subsidising those with very substantial means. In this respect it can't be said that the care of the elderly is analogous for example to education, the provision of defence, the provision of police and judicial services, which are of potential value to all of us. But there's a further inconsistency in all this and that is that we're so accustomed to talking about us and them that we forget that the us's will soon become them. Everybody is concerned with the care of the elderly, so that there is a perfectly good case for putting the burden on general taxation. Meanwhile, since the government doesn't want to increase taxation and is very determined not to, it is completely irrational not to take the assets of those who have them to pay for their own care. What is a rainy day if it's not being old?

LEWIS: Let me stop you there - what is a rainy day if not being old. I just want to point one very brief point back to Neil Duncan-Jordan that people have been tweeting me about, Neil. Should we meet the costs of Dilnot by means testing winter fuel payments? Very briefly.

DUNCAN-JORDAN: No, I mean Dilnot doesn't go anywhere near far enough. It doesn't end the means test, it doesn't stop people having to sell their homes to pay for their care, and it tries to put the burden on pensioners. Why are we singling out pensioners for this sort of pernicious attack? It should be shared across society as a whole. That's the fair way to do it.

LEWIS: Okay Neil Duncan-Jordan, thank you very much, and the Reverend Geoffrey Lang. Now one advantage of capping the total cost, as Andrew Dilnot proposed, is that financial companies might create products to allow everyone to ensure against paying even that amount because it will be a fixed cost and you can insure against that - a cap he suggested, it seems, of £35,000. Well let's use me as an example. Let's talk to Peter Gatenby, a senior actuary at Mazars. He's in Manchester. Peter Gatenby, I'm in my early sixties, healthy as far as I know. What would it cost me to insure against paying this £35,000?

GATENBY: If you were to pay by a monthly premium about £65 a month, or a one off payment of somewhere around £4,500.

LEWIS: That sounds very cheap. I mean Dilnot was suggesting that that £35,000 would go up with earnings each year. Does your quote include inflation proofing?

GATENBY: It does on the monthly basis because that monthly premium would also go up with inflation each year. For the single premium, it would probably be a single premium of more like £8,000 to provide an inflation proof benefit.

LEWIS: And are those amounts guaranteed because one of the problems with the products we've had in the past is that the insurers have come back to people as they reached their eighties and still didn't need care and said oh we're going to put the premiums up now and they've not been able to afford it?

GATENBY: I worked out those rates on a reviewable basis – so not guaranteed. So you'd probably need to add another 25% to those rates to make them guaranteed as well.

LEWIS: Right, so that's a reasonable amount. It just strikes me that what's the point because we only have a one in what four chance of going into care? The gamble is I'll either pay £35,000 if I do or I'll pay you £8,000 or £10,000 now but I may never need to use it.

GATENBY: Well the other thing that always used to be the case when we had these products in the 1990s is that for single premiums we also added in a capital protection element - so that even if you never needed care and you died, obviously died without needing care, then your estate would get the money back.

LEWIS: Right and that's included in your prices?

GATENBY: No it's not included in that price. It would be a little bit extra.

LEWIS: So that would be a bit more still?

GATENBY: Yeah.

LEWIS: Well thanks very much for that Peter Gatenby of Mazars and we'll have to see what happens to those proposals.

There was another warning about inflation this week. The British Retail Consortium said food prices had gone up nearly 6% in the last year, and of course we heard from

British Gas that it was putting up gas and electricity prices by 16% to 18% on average from next month. That announcement late this week. The Bank of England thinks that inflation will soon start falling, but one of Britain's top fund managers has told this programme he doesn't agree. Bill McQuaker manages around £5 billion for Henderson Global Investors. I asked him where he expected inflation to go?

McQUAKER: My own view is that whilst there is a lot of uncertainty surrounding the UK and the global economy, the risk I think with regard to inflation is more to the upside than to the down. And so I wouldn't be surprised if the inflation rates that we've seen in the last couple of years, which have been of the order of 3%, 4% or even 5%, if that persists for longer than the Bank of England and longer than many people in the markets think it will.

LEWIS: Yes because the Bank of England says it will rise in the very short-term possibly to around 5%, but then it will fall back to 2% by 2013 some time.

McQUAKER: That's right. The bank has been forecasting for the last 2 or 3 years that inflation will fall back to their target of 2% or thereabouts over the forecasting horizon. Unfortunately for the bank, that forecast has gone awry in as much as they've been consistently surprised by a higher rate of inflation. But there's no doubt that as an exercise in forecasting an important feature of the economy, the bank has done a poor job in the last couple of years.

LEWIS: Yes, I mean they've been very seriously wrong, haven't they? A year ago, in May 2010, they were saying that today it would be 1.4%. In fact it's 4.5%, more than three times as big, so why is it getting its inflation forecasts so wrong quarter after quarter after quarter?

McQUAKER: In their view they would point to some temporary factors like the VAT increase, like the increase in oil price, like the decline in sterling as factors that have caused inflation to be higher than expected. I also wonder if the Bank of England looks at inflation in a domestic context to a greater extent than they might and therefore there's a tendency for them to downplay the impact of higher rates of inflation in other parts of the world. There's been an assumption that that won't find its way into the UK economy and the reality has been that that higher inflation in other parts of the world, higher global inflation rates has found its way into the UK economy.

LEWIS: So is the bank capable of bringing down inflation by putting up interest rates? Would that still work given these global factors?

McQUAKER: If they raised interest rates such that prices that are set domestically - a simple example might be the price you pay to get your hair cut, you don't go overseas to get a haircut, you always get it done locally - if those prices were to respond to higher interest rates and start to fall, then that would be an offset against imported inflation. So that mechanism is available, but the risk in going down that path is that you send the domestic economy back into recession and there's not much appetite for taking that risk in today's world.

LEWIS: You say the bank's got a difficult job and there's international things to look at and there's obviously internal taxation policy which affects inflation, but do you think given that the Monetary Policy Committee has one job, which is to keep inflation around 2%, that it has failed in its remit?

McQUAKER: If you take its remit at face value, that its sole purpose is to deliver an inflation rate of around 2%, then it's difficult to argue that they haven't failed in the last couple of years. That said, there is in this country a considerable debt burden both at the national level and amongst households, and in the medium term it could be that we endure a bit more inflation but things like the national debt to GDP ratio comes down thanks to the fact that we've had a bit more inflation in the economy. So there could be in a sense some method in this - that the bank is willing to accommodate more inflation to tackle that debt issue.

LEWIS: Bill McQuaker of Henderson Global Investors. And the next official inflation figure is due out on Tuesday. There's a story online with a graph of Bank of England predictions versus what actually happened. There's a link on our website, bbc.co.uk/moneybox, and go to today's programme page.

If you have a money in a pension fund and you reach 55, you're entitled by law to take a quarter of it in tax free cash. Normally you'd use the rest to buy an annuity, a pension for life. But what if you don't want to start taking a pension at 55? Well one option is to choose the unsecured pension route, which allows you to draw down income from your pension pot. It's more flexible - you can draw nothing if you like and just leave it to grow - but that doesn't have the guarantee of an annuity and is seen as slightly riskier. Money Box listener Jonathan Buckley (who was 55 in April) lost his job, and with £48,000 in two pensions with Aviva and Legal General, he wanted to access the £12,000 he could take out tax free. But both firms told him at first that to access the cash, he also had to convert the balance into an annuity, which he didn't want to do.

BUTLEY: In April my contract came to an end for my employment and I thought well why not take out my 25% tax free lump sum from my pension. My fund's probably around about £48,000 and it's not big enough for me to take out the cash lump sum and leave the rest invested. I was told by both the providers - I have it in two pots - that I had to take an annuity, and I didn't want to do that. Very difficult to work out what the best thing was to do.

LEWIS: I asked two independent financial advisers whether it was possible and, if so, was it sensible for Jonathan to take his cash at 55. First Martin Bamford. He's a chartered financial planner and Managing Director of financial advisers Informed Choice.

BAMFORD: I think Jonathan's main objective is to access the cash in his pension funds but not generate an income from what's left over, so one of the options we would have considered would have been an unsecured pension. We wouldn't usually consider those with such a small … a smaller pension fund of under £100,000, but in his circumstances it does sound like that would be a good option to consider.

LEWIS: But he has been told not only by his adviser but also by the firms that have his pension fund at the moment, it can't be done unless you have at least £100,000.

BAMFORD: Certainly the Financial Services Authority several years ago issued some guidance to financial advisers suggesting that funds of under £100,000 are not usually suitable, but that doesn't mean it cannot be done. It's just important that he considers all of the risks involved in that option as well as the advantages.

LEWIS: Let's bring in Steve Taylor now. He's also a chartered financial planner. He's partner and pension specialist at the IFAs Taylor Oliver. Steve Taylor, would you agree with the unsecured pension or do you think he should convert it into an annuity now?

TAYLOR: The million dollar question. There are a lot of options. I think what Martin's suggested is quite right if he's not looking to take an income. But there is an argument as well mathematically, which I also would go through with the client, about taking an annuity now because by deferring the income for 5 years you're effectively not taking that income which you could have had. We have this with a lot of clients who basically say I'm not going to take my annuity because I'm too young and 5 years later the rate is either only just above that or very similar.

LEWIS: Well he's got about £48,000. He wants to take a quarter of it, so that would leave him £36,000 to buy a pension for life, an annuity. He's not going to get much for that, is he?

TAYLOR: No, he's not going to get much. He'd roughly get at that age something around 5.5% as a rate, so he'd get roughly about £2,000 gross a year. But if he takes that at 55 for 5 years and he puts that £2,000 away, it may be taxable but as he's unemployed it may not. Then effectively he could have up to £10,000 there, plus any interest or whatever depending where he's invested it before he even starts taking a pension at age 60, for example.

LEWIS: So Martin, Steve seems to think better than just leaving the money in the fund it was in, he should actually take the annuity and then reinvest that or maybe put it into some kind of deposit account to earn money. And I suppose he could even buy another pension with it then, couldn't he, when he was 60 or 65?

BAMFORD: Absolutely, that thought was going through my head then as Steve was describing that possibility. He could quite easily in fact recycle those annuity income payments as pension contributions now - neutralising the tax he pays on the pension income because he then gets tax relief on the contributions. And because the amount we're talking about here is probably about £2,000 a year of annuity income, he's well within the £3,600 annual pension contribution limit without having to justify it through earnings.

LEWIS: Right, so maybe that would be the best idea - get the annuity even though it doesn't seem very much, save it up, maybe put it in index linked National Savings so he was at least protecting it against inflation, and then at the end of that time he could do something else with it, couldn't he?

BAMFORD: It's certainly yes an option to consider.

LEWIS: Martin Bamford of Informed Choice and also Steve Taylor of the Taylor Oliver Partnership.

Banks are trying to sell more and more of us current accounts that we pay for. Called 'packaged accounts' they charge a monthly fee - typically maybe £15 - and give us a bundle of insurance products and other things. But there are concerns that they're being sold to people who can't take advantage of the extras they're paying for. Live now to Oxford to talk to Richard Bristow. He's a magistrate and a part-time adviser for Age UK Buckinghamshire. Richard Bristow, you've come across I know some examples of people who you think were wrongly persuaded to pay for these accounts. What's been happening?

BRISTOW: Well I've just made a note of three clients that I've been dealing with, each of whom has been sold a packaged premium account. And I'm thinking of one particular chap. Sadly he died a few weeks ago, but the case is still valid. His income was about £160 a week in pension credit. The bank sold him this packaged account for £25 a month, which amounts to about 2 weeks of his annual income. For this he was given benefits such as World Wide Travel Insurance, but he can't travel because his health was wrong; AA breakdown cover for the car he didn't have; mobile phone insurance that he'd already been sold by the person he bought the phone from. There are similar cases from household name banks who are doing this.

LEWIS: Yes, I mean I know that the Financial Services Authority is concerned about this and has made it clear that if you're selling these accounts the insurance element has to be sold as if you were just selling insurance. It doesn't seem as if it happened in that case. What other examples have you got?

BRISTOW: Well there's another lady who lives with her disabled husband who's on permanent oxygen. They have a Motability car, but they've been sold a packaged account that includes AA breakdown cover that they've already got with Motability. They've got these various travel perks and incredibly they've got discounted stock broking and financial advice, which is preferential share dealing, which is utterly useless.

LEWIS: Yes. And often with these packaged accounts you're told well all these benefits amount to you know over £1,000 in some cases and you're only paying £15 or £20 a month, so they're worthwhile. But you seem to be saying that they're being mis-sold to people who couldn't possibly use the benefits they're paying for.

BRISTOW: Indeed. And banks ought to know their customer's personal circumstances. If they don't know, they ought to ask because the three people I have in mind are all living on state benefits, they're all over retirement age, and the bank's made no effort to find out their circumstances.

LEWIS: And briefly, have you raised this with the banks?

BRISTOW: We've got two of them reverted to the original cheaper bank account. But the banks were quite sticky about it. We had to go and see them and thump on the table to get that done.

LEWIS: I'm sure you did that. Richard Bristow, thanks very much. Well Ben Carter's with me. And it's not just elderly people, Ben, is it paying for accounts they don't need? In fact you used to pay for yours.

CARTER: Yes, thanks Paul. But I ended up only really using it for the mobile phone insurance and I could get that for much less than the £12 a month that I was paying for my account.

LEWIS: But there are people, we're always told, who can benefit from paid accounts.

CARTER: Yes, the benefits are wide ranging. Travel insurance …

LEWIS: If you can travel.

CARTER: … if you can travel, car assistance, fraud protection and an interest free overdraft are widely available with fee paying accounts. And, for example, there are older customers who may not be able to get affordable travel insurance easily who could source that through a paid account.

LEWIS: And you've also been speaking to the banks I know about the way packaged accounts are sold. What did they have to say about it?

CARTER: Well I asked them how staff were rewarded for selling these accounts and how many of their customers actually pay for them. HSBC told me that of their 11 million current accounts around 900,000 are fee paying, so that's less than 10% of their customers. No other banks were willing to give me their figures, but an industry insider told Money Box that around one in three accounts opened are now paid for. And I wanted to know whether bank staff are paid incentives for selling paid accounts and whether these sorts of incentives could explain their rise in popularity, but all the banks that replied were keen to stress that staff are not paid commission to sell individual products. Instead they said they're rewarded according to sales performance, service performance and treating customers fairly.

LEWIS: So no commission but rewarded according to sales performance. *(laughing)* Thanks, Ben for that very much. And Bob Howard's also here. He's been looking at the cost of energy and how it's sold. Bob, news this week?

HOWARD: Yeah British Gas is the second big energy supplier to announce big hikes this summer. Its gas will go up by an average of 18% and electricity by 16% on 18th August, so experts advise now is a good time to fix your energy costs if you can.

LEWIS: And doorstep selling has been suspended by another energy company.

HOWARD: Indeed, yes. Scottish and Southern Energy, SSE, has said it expects to permanently close its doorstep selling operation. SSE, along with Npower, EDF and Scottish Power is being investigated by the regulator Ofgem into the alleged mis-selling of its products through doorstep selling. But the other big five energy companies all told Money Box they will continue selling this way.

LEWIS: Thanks very much for that, Bob. Bad news if you use energy I suppose really, isn't it? That's almost it for today. More on our website: bbc.co.uk/moneybox. There you can find my weekly newsletter, you can listen again to the programme, and of course you can send us your ideas and stories. Many of you are also commenting through our email. We're not doing Have Your Say this week, but we do read them all. Thank you for that. How to pay for care seems to be the main topic. I'm back on Wednesday with Money Box Live taking questions on consumer rights. Back next weekend with a special Money Box on housing. You can read my thoughts whenever I'm awake on twitter at Paullewismoney. Today the reporter was Ben Carter, the producer Bob Howard, and I’m Paul Lewis.