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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, is it right to cut the pensions of civil servants, teachers, nurses and council workers, and has Lord Hutton produced a scheme that's fair or too generous? Lord Hutton himself will be answering that in a moment. We hear from a man who repairs cars after accidents, who says he can make more money by passing on details of victims than by repairing their vehicles. Banks are after our money, offering good deals for cash ISAs before the April 5th deadline. And tax breaks for wealthy parents who pay for riding lessons or extra tuition, but act fast before they disappear.

Pay more, work longer, get less. Those six words were used this week to summarise the recommendations on public sector pensions by Lord Hutton, and it wasn't an unfair summary of his 215 page report which was published on Thursday. Pension age would be increased to match state pension age, rising to 68 or beyond. The pension paid would no longer be based on the salary just before retirement but on the average earns throughout the years in the scheme, and there'd be a cap on the amount taxpayers paid towards the pension. After the launch on Thursday morning emails and tweets started pouring in, mainly from people angry at the changes. Sue works for a local council. Already worried about her job security, she was paying £150 a month into the local government pension scheme. But not any more.

SUE: With the prospects of an increased contribution from me into the local authority pension, I had to make the decision that I couldn't afford it anymore and it probably wasn't going to be worth my while in the long-term because the prospects of my being in work for a long period of time with a local authority were going down. So having taken everything into account, I did decide earlier this week that it was time to withdraw from the pension because it was something that was no longer affordable.

LEWIS: Steve is a civil servant and transferred several pensions into the civil service pension scheme. He says the changes are a "broken promise".

STEVE: Over the years I've had various jobs that I had private pensions go in, and then I worked for the local authority. All these pensions I then accumulated and paid into the civil service pension that I now have because I put all my eggs in one basket. It may not have been good advice. I haven't got any objection really to paying slightly higher contributions, but to actually do away with the final scheme when I've been a member of it for a period of time, I think is unfair.

LEWIS: But some were in favour. Tom has worked in public and private sector jobs.

TOM: We're all well aware of the current fiscal predicament in the UK. From looking at the Hutton Report, those who would be hardest hit are the middle to senior managers within public sector organisations or, in other words, those who were the best paid and who have an opportunity to make alternative investments for the future. The lowest paid and nearly retired will be the least affected. Personally, in my view on balance, having worked in both sectors, I think it's pretty much fair enough.

LEWIS: I also got a lot of complaints about the frequent assertion - not least by me - that people in the public sector now earned more than those in the private sector. Official figures seem to indicate that's true - average weekly pay levels are slightly higher in the public sector - so I put it to Alastair Hatchett, Head of Pay at Incomes Data Services, that it must be fair to conclude that public pay was higher.

HATCHETT: I don't think it is fair to say that. What the ONS publish is an average figure for the public sector and an average weekly figure for the private sector. But you are talking about very different groups of employees; you're not really comparing like with like. For example, 80% of employees are in the private sector, and that ranges from the city bankers at one end to the people in retail, fast food, hospitality at the other end. So you've kind of got the private sector spans the very high paid and a large number of people on the minimum wage, whereas the public sector's more bunched in the middle. In the public sector obviously you've got nurses, teachers, social workers, doctors and dentists. So the fact that at the average there might be a 10% lead either way between the public and private sector is really not telling us anything very clearly.

LEWIS: When you look at jobs that exist in both the public and the private sector, like for example teaching or nursing or maybe accountancy, administration of payroll, how do they compare between the two sectors?

HATCHETT: They tend to compare rather surprisingly closely. In the private sector of teaching, the pay rates are actually very much similar to those set by the School Teachers' Review Body, which sets rates of pay for teachers in the state system, and in the private hospital world often you will find that nurses earn roughly comparable amounts of money. I think the big difference you would find if you start looking at accountancy and finance managers is that in the private sector they're probably going to have a company car and probably there'll be a number of other perks and annual bonuses, which would take them way ahead of a comparable job in the public sector.

LEWIS: Alastair Hatchett of Incomes Data Services. Well with me is Lord Hutton whose Independent Public Service Pensions Commission Report came out this week. Lord Hutton, if public sector workers are not better paid than those working for companies, why do their pensions need to be cut?

LORD HUTTON: Well I think the challenge is to make the long-term pension settlement for the public services sustainable and affordable over the long-term. This has nothing to do with the immediate fiscal challenges we face. This is trying to get a very important part of our national pension savings infrastructure onto a much more solid financial footing, and that's really what I've tried to do with these reforms. But I think the danger in all of this debate is over-generalisation. It's not my argument - I haven't tried to put it in these terms - that because public sector pay has moved ahead of the private sector, there now needs to be some readjustment on the pension side. It's not my argument about that at all, although I think over the last 10 years undoubtedly pay in the public sector has caught up largely with pay in the private sector. This is about long-term financial balance in the pension system.

LEWIS: A lot of people are saying, giving that as a reason though. I accept you didn't. But your own figures do show, don't they, that the cost to public sector pensions will actually go down as a share of national income over the next 50 years?

LORD HUTTON: These figures are very difficult to model and we make that clear in the final report of my commission. And I think I say that the public really shouldn't draw the wrong conclusion from that particular chart in my report that says somehow, as some people have tried to say, everything is fine. Everything isn't fine. There's a significant amount of uncertainty about these long-term 50, 60 year projections. And if we've learnt one thing from the last 20 or 30 years about public service pensions, it's not to bet your shirt on one prediction coming true. I think we've got to be much more prudent in the way that we plan for the future.

LEWIS: And how do you respond to Steve, who we heard a few minutes ago, who really did bet his shirt on the scheme, didn't he? He said it's a "broken promise". He transferred all his pension money in there for a final salary pension. Now he says he won't get it and that's a broken promise.

LORD HUTTON: Well I've made it very clear in my report that we should honour all the pension promises that have been made. And I'm particularly recommending, for example if we do move from final salary schemes to career average schemes over the next few years, that we should retain the link to final salary going forward. So if you've got let's say 20 years in the final salary scheme now and then you can look forward to having another 20 years in a career average scheme - which will be really, really good schemes and better than anything else you'd probably find anywhere else - it'll be your final salary at the point of retirement that is used to value your pension pot in the final salary scheme, not the final salary at the point of when the scheme's ended. So that's a very important additional financial buffer for people in final salary schemes.

LEWIS: But some people - and we heard from Sue earlier and many others have emailed me to say the same thing - she's decided … she's threatened with redundancy, higher costs to the pension, less pension when she retires. She's just going to stop paying in. Can that ever be sensible?

LORD HUTTON: Well I think she clearly needs to take proper advice and I don't really want to give her advice over the radio on that. But I mean I think it's never a good idea, in my view, not to be saving for your retirement because there comes a point in time when you do retire and you need to look around and say well where's my income coming from? And if you're not saving for your retirement, then it's going to come from the welfare state and that's never going to be good enough.

LEWIS: Another point many people like Sue in the local government pension scheme have made to me - well ours isn't an unfunded scheme, our pensions aren't paid by taxpayers. We have a fund and it's adequate. Why do we have to be treated like civil servants, doctors, policemen and all the rest?

LORD HUTTON: Well I think the fact that there's a fund is very good - I mean I'm not recommending any changes to that - but of course we do need to be honest. The local government pension scheme is not fully funded. There is a significant gap in it between assets and liabilities and that has to be closed, and the obvious way to do that is through contributions. So I think there is an argument for a contributions increase. But I'm recommending a change from final salary to career average schemes not to save money, but to produce a fairer pension scheme going forward because it is only people at the very top who gain significantly from final salary schemes. People who have a more steady career trajectory, they're the ones who pay for the higher pensions of those at the very top, and I think we should end that cross-subsidy from low paid to high paid.

LEWIS: And very, very briefly, some people will say you actually haven't been tough enough because many people in the private sector are facing much more draconian cuts in their pension. Have you actually been too generous with all these public servants?

LORD HUTTON: Well the left say I've gone too far; the right say I haven't gone far enough. That probably means I'm in the right place, I think.

LEWIS: Lord Hutton, thanks very much indeed. Well live now to Guildford to talk to Chris Curry who's Research Director of the Pensions Policy Institute. Chris Curry, Lord Hutton saying there career average is fairer. Does the research support that view?

CURRY: It certainly does support that view. Certainly the work that we've done at the PPI has highlighted that different types of schemes are beneficial for different types of individual. And I think, as Lord Hutton was alluding to there, the final salary schemes that have existed in the public sector have been very good for those who have seen very strong pay progression during their careers and had long careers; whereas career average would tend to be better for those who don't see rapid promotions, for example, and perhaps have a more steady career. And also those who don't stay in the public service, people who move in and out, are probably likely to do better from a career average structure than final salary.

LEWIS: If these changes are made, as Lord Hutton recommends by the government, where will this new public sector pension scheme fit compared with the private sector? Will it be in the middle, at the top, near the bottom?

CURRY: I mean in some aspects it's moving much closer towards what does happen in the private sector - so, for example, the changes in the normal pension age is something which has already happened in the private sector. But in some areas there will still be some fairly significant differences with what's on offer for most people in the private sector - in particular amongst who's bearing the risk of things like inflation, investment risk and life expectancy increases; whereas for most people in the private sector, that's going to fall on the individual. Even in the reformed public sector schemes, that's still going to be borne by the employers and the state.

LEWIS: So not a bad scheme. And on this question of affordability - Lord Hutton saying it's just all so uncertain, we can't say we can afford these even though it appears that the cost will go down in the future?

CURRY: I mean I think certainly the projections that we've done suggest that the cost is likely to go down, but I would agree there is always a degree of uncertainty about looking forward 20, 30, 40 years. And there's also a question as to how much is affordable. Even the figures that we have estimated ourselves suggest that by 2050 it's still going to be 1% of GDP after allowing for member contributions being paid from the government towards funding these pensions. So whether that's affordable or not, I think is a very difficult question to answer.

LEWIS: Chris Curry of the Pensions Policy Institute, thanks.

Now if you're in a motor accident and it's not your fault, your name and address, your personal details can be worth more than £1,000 to the garage that mends your car. Money Box revealed recently that after an accident victims are treated as commodities - names, past repairers, hire companies, lawyers and a carousel of fees passing from one to the other. Now the manager of a garage which does accident repairs for a major insurer has revealed the scale of the money he can make, and that's before a dent has been filled. Ruth Alexander's been talking to him. Ruth?

ALEXANDER: Well just to say, first of all, we discovered this 'cash for contacts' industry after looking into why motor insurance has become so expensive. AA figures show the average premium is up by a third in the past year and is expected to rise another 20% this year. And this seems puzzling at a time when accident figures are going down. But the first clue is that although accidents are down, personal injury claims are going up; and a key driver of this claims culture turns out to be referral fees

- payments, as you said, made for the contact details of someone who's been involved in an accident that wasn't their fault. So how much money is being passed around along with your contact details? A repair garage manager who didn't want to be recognised for fear of losing this kind of business has given me the low down. His words have been revoiced.

REPAIR GARAGE MANAGER (WORDS REVOICED): If you referred an accident to an accident management company and there was a personal injury in the car and there were two or three people in that car, you could get around £400 to £450 per person paid as a referral fee, which is massively more than the repairer would ever make out of actually repairing that customer's vehicle. In fact you'd be better off just taking the referral fee and letting someone else repair the vehicle, which is a crazy state of affairs to be in.

LEWIS: It certainly is. And, Ruth, it's not just the repair garage is it? Your insurer, the roadside recovery truck, anyone involved can make hundreds of pounds just from passing your details on?

ALEXANDER: Yes and some accident management companies have been known to pay as much as £1,000 per person. But there's more money to be made from that car full of people. The driver might want a replacement vehicle while theirs is mended, and the garage manager told me he could make typically £150 passing their details onto a credit hire company which supplies replacement cars. Now often that referral fee is a percentage fee that depends on the number of days the car hire period lasts.

LEWIS: So there's an incentive to make a repair job last as long as possible?

ALEXANDER: Yes. Now we reported 3 weeks ago that credit hire companies will often send repairs in on a Friday even though they won't be done till Monday, turning a one day repair job into a four day hire period. That was denied at the time, but I've now corroborated that from my new sources it does happen, and I'm also told accident management companies will also delay passing on the authorisation to start the work on the vehicle often for two to three days. But cash for contacts isn't the only hidden money exchanging hands when you've had an accident. Repair garages have told me that insurers also have lucrative deals with paint companies.

REPAIR GARAGE WORKER (WORDS REVOICED): You start repairing for insurer A and you have to use the paint brand they tell you to use because the paint company is paying the insurer a percentage of the margin they make. That discount, it isn't transparent. There's no transparency.

ALEXANDER: And the at fault insurer who foots the bill at the end certainly won't be getting that discount. And a number of garage insiders have told me that repair invoices get inflated in other ways.

REPAIR GARGE WORKER (WORDS REVOICED): What one particular insurer did in the past, they set up a secondary network to their main repair network. So if you were a policyholder with that insurer and you were involved in an accident that wasn't your fault, you were sent to the secondary network. Those repairs were done at a much more inflated price and then charged to the at fault insurer, and at the same time the repair network was paying a rebate back to the first insurer. I'd be amazed if that kind of thing isn't still going on.

LEWIS: An extraordinary insider's insight there into how accidents have become a money spinning industry for which of course we all pay ultimately. A parliamentary committee's been looking into this as part of its inquiry into the rising cost of motor insurance. I spoke to Louise Ellman, the Labour MP who chairs the Transport Select Committee. I asked what she wanted to be done about referral fees.

ELLMAN: We thought that as a first step insurance companies and others should have to disclose exactly what referral fees they were receiving and how that system worked, and to publish that information on their website. We think that disclosure of what's happening - which is currently very, very secretive and unknown to the public - might of itself make a very big difference.

LEWIS: But how can you force a garage, a commercial company, a breakdown truck, a repairer, a credit hire firm, accident management companies … You're saying they should all have a sort of list of referral fees that they make or receive on their websites?

ELLMAN: Well we think there should be absolute disclosure of what's happening, and that might need the government to step in to make sure that that happens. It might indeed of itself cause some of those practices to cease.

LEWIS: The insurance industry says it's resisting this transparency that you're calling for and it says you've missed an opportunity to add your voice to call for these fees to be banned. And I'm just not quite clear why you didn't take that step to say not just publish them, but better than that - let's not have them at all?

ELLMAN: Well the insurance industry when they spoke to us actually had mixed views and some of them didn't want anything to be banned. We were aware that the issue …

LEWIS: *(over)* But the ABI, the body that speaks for the industry, has said they should be banned. They've said it on Money Box, they've said it to you.

ELLMAN: But yet they're resisting transparency in declaring what they're doing. We're not opposed to referral fees being banned, but we were aware this had been looked at very recently. The Legal Services Board Consumer Panel did look at that last year and they felt that a straight ban on referral fees might not solve the problem and the issue might arise in other ways.

LEWIS: Louise Ellman, Chair of the Transport Select Committee.

Now April 5th is the deadline for applying for childcare vouchers before the system changes. If you pay higher or top rate 50% tax, then these vouchers are a good way to pay for childcare of various sorts with a hefty taxpayer subsidy. Ben Carter's been looking at this. First of all, Ben, how does the scheme work?

CARTER: Well it's a salary sacrifice scheme, Paul. Money is taken out of a parent's pre-tax income to buy the vouchers for Ofsted registered childcare, and this makes the childcare cheaper because it reduces the amount of tax and national insurance that you pay. But the rules of the scheme only allow each parent to spend £243 on vouchers per month - so it's a good tax break but, like most tax breaks, it's actually those paying the higher rates of tax who get the most out of it. It's actually the very richest who pay the 50% tax rate who get the most help with their childcare.

LEWIS: And what's changing in April?

LEWIS: Well the last government wanted to save money on this scheme, so from April 6th this year any higher or top rate taxpayers joining this scheme will save substantially less, as Lee Healey from state benefits consultancy Income Max told me.

HEALEY: Presently all taxpayers can benefit from this £55 a week exempt childcare voucher scheme, but from April higher rate and top rate taxpayers, the amount of help they're going to get is going to be less generous. For higher rate taxpayers, parents who join the scheme after 6th April 2011 are going to be able to benefit from 28 pounds worth of tax and national insurance exempt childcare help, and for top rate taxpayers that's going to be £22 a week.

LEWIS: So those paying basic rate tax will get the biggest benefits in future on the figures I've seen, Ben - over £900 a year. Tax breaks for higher and top rate taxpayers will be less - about £600. But are these childcare vouchers just used for nurseries and nannies for young children?

CARTER: No, they're not. They can be used up until September 1st after the child's 15th birthday, and they can be used for things which some people might not think of as childcare. We found out that they can be spent on music lessons, judo, riding lessons and extra tutoring in the evenings. If the scheme is Ofsted registered for childcare, then you should be able to use these childcare vouchers to pay.

LEWIS: So you can now get tax breaks for horse riding lessons. What a spiffing wheeze. And just remind us, Ben, of the deadline again.

CARTER: Well to get these existing tax breaks, higher rate and additional rate taxpayers need to register in a scheme by April 5th this year. There's no change for basic rate taxpayers or those already in a scheme.

LEWIS: Thanks, Ben.

April 5th is also another deadline. It comes round every year and if you haven't put any money into a tax free cash ISA already, you've barely 3 weeks left to make your choice and put in anything up to the maximum of £5,100 if you've got that much. There's been a flurry of new deals announced over the past week or so. You can earn between 3% and 5% tax free on your savings. But, as with any financial deal, you must watch out for the small print. Live now to the man who reads every word of that, Kevin Mountford from the comparison site Moneysupermarket.com. Kevin, many people want to save, but they may want to take the money out. What's the best deal on instant access variable rate ISAs?

MOUNTFORD: Yeah, as you say there's been a flurry of activities. It's getting very competitive and there are a handful of products offering 3% or above in variable rate options. Santander are currently leading the way with their flexible ISA. They're paying 3.3%, which strangely enough for an ISA is better than you'd actually get for non-ISA products, which is rare in itself.

LEWIS: That sounds a good deal. Can you transfer money into that?

MOUNTFORD: You can't. That's the only downside. However there are a handful of products still paying excellent rates where you can transfer: the likes of Halifax and Bank of Scotland with their direct ISA; and also Nationwide, which is paying 3.1%.

LEWIS: And what about fixed rate where you're quite happy to leave the money tied up? What's the best deal there?

MOUNTFORD: Yes, I mean unfortunately the shorter term deals are not as attractive. Nationwide is paying 3.25 on its 18 month, so you've got to go to that extent before you get parity with the easy access. But, as you mentioned, the longer term ones: 4 year products from some of the building societies like Cheshire Dunfermline, Derbyshire's paying 4.4, and Skipton's paying 5% and you can transfer money in.

LEWIS: So that's over a long period though, and of course in 4 or 5 years time goodness knows whether it'll seem a good deal or not. Interest rates may be a lot higher then, mayn't they?

MOUNTFORD: Yes, exactly. And I think when we talk about the Santander product, that's quite interesting because it's paying 2.8% above Bank of England base rate. So if there are a couple of increases over the next 12 months, then you get an even better return.

LEWIS: You have to be clear though, don't you, whether you want this instant access or you're happy to lock it away? How do you make that choice?

MOUNTFORD: Yeah, I think that if you're in a position where you can have a portfolio of products, then I think to get a balance between easy access and fixed is worth consideration. But you're right, you've got to be very, very careful. And I think for anybody that's uncertain as to whether they can afford to lock their money away, then some great deals in the variable rate space at the moment.

LEWIS: Kevin Mountford from Moneysupermarket.com, thanks very much for that. And of course always check when the bonus rate ends because you might have to move your money.

And that's almost all we've got time for. There are a couple of emails coming in. Adam from Bradford wants to see the government squeezing the commission that pension administrators make. And Susan from the Highlands says many retired public sector workers claim benefit, so it's clear they're not getting huge pensions. You can find out more from our website, bbc.co.uk - all the usual stuff; have your say on Lord Hutton's plans for public sector pensions, as many of you are. I'm back on Wednesday with Money Box Live with questions on benefits and employment rights for new parents. And clear your diary for Wednesday 30th March and book a trip to Plymouth because Money Box Live will be coming live from Drake Circus Shopping Centre as part of the BBC's Money Matters Roadshow. There all day with experts on hand to answer your money questions. So if you want free advice or just come to see us all in action, it's Plymouth March 30th. I'm back next weekend, my Twitter Paul Lewis Money. Today reporter Ben Carter, producer Ruth Alexander. I'm Paul Lewis.