MONEY BOX

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LEWIS: Hello. In today's programme shares plummet, markets in turmoil. What can we do to protect our pensions, ISAs, cash, savings? The more you pay, the less you get when it comes to investment fund charges. Should you just buy the cheapest? Restaurant staff tell us they've been asked to meet the bill when customers leave without paying. Bob Howard's here. He's been looking at the perils of prepaid cards.

HOWARD: Yes, if you think you can't go into the red on one, you may need to think again.

ELAINE: It's totally unacceptable. You could end up being well out of pocket and not realising it.

LEWIS: And when is money in a PayPal account safe? One listener lost the lot after a month.

But first, share prices. They tumbled by 5.5% in London this week after bad news from the United States and continued dithering in Europe. Even gold fell sharply, now 15% below its record price of 18 days ago. So what should we do with our pensions, investments, even our cash in the light of these turbulent times? Live now to Edinburgh to talk to Merryn Somerset Webb, Editor-in-Chief of Money Week. Merryn Somerset Webb, there is fear about, isn't there, you know among ordinary people with pensions, ISAs, savings? Where is safe?

SOMERSET WEBB: Where is safe is a very difficult question. I mean I think what's happened over the last couple of days is you've seen investors suddenly realising - I don't know why it's so sudden because the information has been out there - but realising that we're moving into a new economic era, one of very slow growth and one which central banks cannot bail us out of. And that does mean that over the next 5, maybe 10 years, we're going to see much lower economic growth and probably much lower growth in the stock market. So it's hard to know exactly where you go to get the returns you might have got over the previous 20 or 30 years. Times have changed.

LEWIS: Is this more serious than the banking crisis?

SOMERSET WEBB: Possibly. I mean what it is is effectively another banking crisis. I mean we're looking at it as a sovereign debt crisis, but the reason people are so worried about that is because it ricochets into another banking crisis. You know if you lose a country from the Euro, you bring down a lot of the European banks at the same time, so it's gone banking crisis, sovereign crisis, another banking crisis.

LEWIS: One of the groups of people who've been contacting me this morning really anxious are people just approaching retirement who've found the value of their pension funds going down and what they can buy with it going down as well.

SOMERSET WEBB: Well I'm afraid that you know that's what happens. The market was grotesquely overvalued. It's still overvalued in many areas, and when things are overvalued they come down. And a lot of people who are on the verge of retirement had made their retirement plans on the assumption of a much higher level of stock market, but that's not where the value is.

LEWIS: Do you feel it's still overvalued in some areas?

SOMERSET WEBB: I think that we're beginning to get to a point in some places where there is some value emerging, so if you were looking to invest over the next kind of say 5, 7, 8 years America is still expensive, the UK is still reasonably expensive. Europe is in many areas beginning to look - beginning, I say, I wouldn't go piling in right now - but beginning to look like it offers good value.

LEWIS: You're talking about Europe shares.

SOMERSET WEBB: Yes.

LEWIS: Of course they've fallen twice as much in Germany and France as they have in London.

SOMERSET WEBB: Absolutely, there's your value.

LEWIS: I asked you about safe havens and I know one of the things professional investors are doing is going for the American dollar, but the American economy is in a mess, isn't it, with nearly 15 trillion dollars in debt?

SOMERSET WEBB: Absolutely, but it's hard to change the mindset of investors. You know for decades now, whenever there's a crisis in the globe everyone flees to the dollar. But you'll note that the dollar hasn't gone up relative to other countries nearly as much in this crisis as it has in previous crises. You know the dollar is slowly dying, but these things take a long time.

LEWIS: I know you've been looking at safe havens and wrote a piece in one of the newspapers this morning about it. Have you found a safe haven? What can people do with their money if they're really, really, really worried?

SOMERSET WEBB: In an environment like this, the only really, really safe place to be is cash. You know if you hold cash, then when things get cheap you can buy them. And I think last time I was on, I did say that you know a good thing to hold in an environment like this is cash, but of course, as you know, I'm also very keen on gold.

LEWIS: You also told us to buy gold, Merryn, when it was I think 1500 dollars an ounce. It was 1920 and it's fallen to, what, 1650 yesterday?

SOMERSET WEBB: Yes, the gold price has fallen in line with everything else. You get that: when risk sells, everything falls in price. I'm still very keen on gold, I'd still hold it. It's the anti-asset, the anti-currency. It's the thing that over the next couple of years I think will outperform everything else. Now it's going to go up and down. It's very volatile, it's very volatile. This is not something that everyone should be looking to trade in and out of. It's just a little insurance to have there at the back of your portfolio. I'm still a very happy holder.

LEWIS: Gold and cash. Anything else you mentioned in your FT column this morning?

SOMERSET WEBB: Well I was talking about where the value is in stock markets and I still think there's a lot of value in the Japanese stock market. That's where things are genuinely, genuinely cheap, and I do think the value is emerging in Europe.

LEWIS: Merryn Somerset Webb, thanks very much for talking to us from Edinburgh.

And still with investment, the more you pay, the less you get. That's the conclusion of a detailed study into the fees investment funds charge and the performance of those funds. In other words, the lower the cost of managing the fund, the better the return. The justification for charging more of course is usually it gives you a better chance of a better return, but the evidence shows that over the last 3 and 5 years, that's not true; the best returns have been with the lower cost funds. The research was done by TCF Investment, which offers a range of low-cost funds, so perhaps no surprise that it found low-cost was best. But live now to Norwich to talk to its co-founder David Norman. David, how surprised should we be that a low cost fund provider published research telling us low cost fund management's better value?

NORMAN: I guess that's a good question. You'd always expect us to you know talk our own book. But also if you think about it from a common sense perspective, the less money that's going out of a fund in cost and charges, the more that's left to grow, so you know all things being equal low cost funds will do better.

LEWIS: Yes I'm sure that's true, that's sort of self-evident in a way. But what people tell us is that if you pay more, you get better fund management and more growth, and it's the growth that matters, not the charges dripping out of the bottom.

NORMAN: Yes and you know that's an often cited argument. What the analysis shows - and we followed our analysis from some work that was done in America by Morning Star

- what you discover is actually when you look at the returns that are generated by low cost funds, on average they consistently beat the highest cost funds and quite often will beat the sector average. So there's a very clear correlation between that cost and that extra performance.

LEWIS: So the less you pay, the more you get at the end …

NORMAN: Yes, clearly cost is …

LEWIS: … broadly speaking?

NORMAN: Broadly speaking. It's not the only factor, but it's clearly a very strong predictor of future performance.

LEWIS: Okay, well also with me is Gary Shaughnessy. He's UK Managing Director at Fidelity, one of the big fund management companies. Thanks very much for coming on, Gary. We spent a long time trying to find somebody and none of your colleagues in other competitive firms would come on, so thanks for being here to defend yourselves. And just react to these research findings - that the less you pay, the more you get.

SHAUGHNESSY: Thanks, Paul. I mean I think there are four things that come out of this. The first one is, is cost important? Absolutely it is, and we've been pioneering low cost investments, active investment over the last 20 years with our MoneyBuilder range. The second thing that I think is good news is it demonstrates that good quality active management doesn't necessarily correlate with being the most expensive active management. But I think then you've got to say two other things. Firstly it's about value and risk. It's about being clear on the value you're getting, the performance you're getting, and the risk your fund manager's taking. And what you certainly don't want to do is pay active fees for inactive management, and I think anyone who's in a fund that is a benchmark hugger that's paying active fees, you know my view would be get out of it. But it's also about transparency.

LEWIS: Sure. You talk about a benchmark hugger. You mean a fund that pretends it's active but just basically buys the FTSE 100 Index or All Share Index like a tracker fund?

SHAUGHNESSY: Absolutely.

LEWIS: I'm sure that's true, but do you get more for your higher charges? If I pay you to actively manage my money, do I get a better return than just tracking an index?

SHAUGHNESSY: I think it depends really on what your manager's doing. That's why I think it comes back to selectivity. So take our MoneyBuilder Income Fund. It's actually the lowest cost triple A rated corporate bond fund in the market. It's managed by Ian Spreadbury and he's performed consistently well, but it's a mainstream corporate bond fund.

LEWIS: And corporate bonds are company investments?

SHAUGHNESSY: Correct and, therefore, the costs of running that fund are lower. If you're running an Emerging Asia Fund, which we've just launched, you're talking about researching companies right the way across Asia, Indonesia, Vietnam, etcetera. There are costs to doing that.

LEWIS: Of course you say low charges are important and you've pioneered them and you certainly have in the USA, haven't you: the Fidelity Spartan Fund is .33%, and for institutions it's .06%. This is far less than you can get investments for in the United Kingdom.

SHAUGHNESSY: Yeah and I mean if I go back to MoneyBuilder Income, that's .8%. In the US …

LEWIS: Well .8 would compare with .33 or .06.

SHAUGHNESSY: Absolutely. And the point I'm making is that in the US the cost of administration or in fact the cost of advice is shown separately, whereas MoneyBuilder Income actually includes the cost of advice. Which is the transparency point because a lot of these low cost funds that have been launched recently are exhibiting Ryanair pricing: they've excluded the cost of advice and the cost of administration.

LEWIS: David Norman, this does suggest that there is a bit more to the picture than what you've suggested. I mean among the averages you've given, there will be some funds that produce much higher returns.

NORMAN: Yes I think that's absolutely true, so yes, you're right, we've looked at the average across the piece. I think your point about average costs, if you look in the UK market as a whole, over the last 10 years total expense ratios - so the typical cost of running a fund - have gone up from 1.5% to 1.7% despite the fact the average fund size has more than doubled, so there's no economy of scale in driving that cost down.

LEWIS: You'd think a bigger fund, Gary Shaughnessy, would charge less because of the economies of scale.

SHAUGHNESSY: Yeah, I mean David's absolutely right. What we've seen is new funds being launched in two ways: new funds moving costs down, multi-asset funds such as our multi-asset allocator funds that are all coming out with a lower cost using passive investments; but then yes higher charges in some cases for emerging markets, special situations and so forth.

LEWIS: And just in a word. These Spartan funds you sell in the United States, why won't you offer them here at that sort of charge level?

SHAUGHNESSY: Well in a sense that's what MoneyBuilder does.

LEWIS: It's not as cheap though, is it?

SHAUGHNESSY: Not as cheap, but it does include the cost of advice, which Spartan Funds don't.

LEWIS: And David Norman, are funds more expensive here than the US because there isn't competition here?

NORMAN: I think that's part of the reason and I think another part, which Gary touched on, is the transparency. The FSA is starting to look at the cost of advice. I think we really need a very, very thorough examination of the costs in the UK right the way through the value chain.

LEWIS: I'm going to have to stop you both there. David Norman, thanks, and also Gary Shaughnessy of Fidelity.

Now what rights do waiters and waitresses have when customers don't pay and the manager says they have to make up the loss? Well that's what three young people have been asking Money Box this week. They all work for the same restaurant in the ASK Italian chain. To protect their jobs, they all want to remain anonymous. Here's the first, read by …

MALE VOICE: There was a large party of about 20 in the restaurant. I didn't know they had separate tabs for food and drinks. They left without paying the food bill of £80. I told my supervisor straightway. They didn't seem bothered at first. Later on the manager told me that I was responsible for the shortfall. I said I wouldn't be comfortable paying the full amount, so we settled on me paying around £40. I had to pay it out of my cash tips over a period of time.

LEWIS: And now his colleague, one of two waitresses, who told us of another problem.

FEMALE VOICE: I was cashing up and realised I was missing a credit card for £15. I checked on the computer and on the handset that I'd used that night and the payment had gone through, but I was told I had to pay that sum from the tips I'd made that day. My main concern is that the restaurant would surely be £15 up at the end of the night by pocketing my money.

LEWIS: ASK Italian denies that either of those procedures is in fact its policy. No-one would be interviewed from the restaurant chain, but in a statement it said:

ASK ITALIAN STATEMENT: It is not our policy to ask restaurant teams to pay for credit card payments if the slip has been lost. As soon as a customer pays using one of the handheld PDQ machines, their payment has already been made. Neither is it our policy to ask our restaurant teams to pay the bill of customers who leave without paying for their meal.

LEWIS: Well a firm denial there from ASK Italian. But what's the law? Hannah Reed is

Senior Employment Rights Officer at the TUC.

REED: The law on tips is quite complicated, but in most restaurants tips are treated as if they belong to the company and they're not treated as waiter or waitress's wages, in which case there's very limited protection that an individual has for deductions from an employer. The first important thing though to bear in mind is that an employer must pay an individual the national minimum wage plus tips. They cannot count tips towards the national minimum wage. But beyond that, tips are not treated as wages and, therefore, employers can have policies to say if there's a shortfall they can ask that to come from the cash tips provided to the individuals.

LEWIS: When somebody runs out of the restaurant without paying, is that really the waiter's responsibility?

REED: Why should it be the waiter who has to cover the cost of a meal where a client has simply failed to pay? For many years now unions have been campaigning to say that tips should be treated as pay for workers and that, therefore, the normal protections for deductions from wages should apply to those cash tips. That would mean that employers first of all would have to assess if there's a shortfall, if that's due to that particular waiter not gathering the money, and then the employer could only deduct up to 10% from gross wages for that particular individual each monthly pay day. But at the present time, the concern is that because cash tips and indeed troncs are not treated as wages, employers can simply say we want to cover any shortfall from those sums.

LEWIS: And a tronc of course is where all the tips are put into one sort of box and then distributed to the staff at some stage, at a later stage?

REED: Absolutely.

LEWIS: So in these two cases where the manager said, "I want this money out of the tips", whether or not that particular money should have been deducted, they are within their rights to take any amount out of the tips?

REED: They are within their rights to take money out from the tips. The question comes down to then is that fairness? The problem is that currently the law says that money does not belong to the worker. It can be treated as belonging to the company and they, yes, can take any shortfalls from that cash.

LEWIS: Hannah Reed of the TUC. And you can let us know your experiences of waiting, tips, and how these low paid but valuable staff are treated on our website: bbc.co.uk/moneybox.

Prepaid cards are widely marketed as an alternative to cash for your holiday money. One advantage is supposed to be that you can only spend and be liable for the cash you've loaded onto the card. That's reassuring for people who want to keep a careful eye on their budget, but Money Box has discovered that it is possible to go overdrawn even if you check the balance before you spend the money. Bob Howard reports.

HOWARD: Paul, Money Box has been contacted by Elaine from Bedfordshire who went on holiday to the Far East in June. Before she went, she visited a branch of Thomas Cook and decided to load her holiday money onto a prepaid card it offers with Mastercard called Cash Passport. Elaine decided to load her card with sterling and paid 2% commission. The holiday went well, but by the time she reached one of her last stops, she knew that she'd be getting short on funds. So she went to check whether she still had enough money on the prepaid card to pay her hotel bill, which came to just over £1,000.

ELAINE: Towards the end of our holiday, we stayed at a resort for a week and paid for our bill there, and before we paid for the bill I went online and checked to make sure that the balance we had remaining on there was enough to cover that and paid the bill.

HOWARD: The transaction went through and Elaine used the same card to buy a meal the next night. She then returned to the UK thinking no more about it. Then, 7 weeks later, she received a letter from Cash Passport.

ELAINE: It took me totally by surprise. The bill that we'd paid for at the resort in Malaysia had not settled - or "finalised", as they sort of called it - until two days later, which resulted in the transaction costing us an extra £65.96. And because of that, it then pushed us over into a negative balance on our cash card, which again I didn't think would be able to happen because I thought that it was a set amount on there and they wouldn't let you take money out unless you had the money on there to spend.

HOWARD: Elaine was warned if she didn't pay up within 30 days Mastercard would start applying fees, but she was confused as to what she was being charged for and so she contacted Money Box. We discovered that Elaine had got caught out by a hefty charge Cash Passport levies on transactions in other currencies - 5.75% - and also when exactly it decides to apply that charge. In Elaine's case, that was two days after the payment for the hotel bill. As she was only a few pounds in credit by then, it now meant she had a negative balance of £63. She says that's a poor feature of a card that's supposed to help you budget.

ELAINE: You could end up being well out of pocket and not realising it. What astounded me was that they suggested it can take up to 7 working days for the balance to settle on any transaction abroad. I just find the whole experience really quite upsetting. I've tried in all good faith to keep within the balance and I thought that I had.

HOWARD: And someone in the prepaid card industry itself agreed this is not how these sorts of payment methods are supposed to work. Amit Sharma runs the price comparison site Prepaid365.

SHARMA: Prepaid is meant to stand for ensuring that the customer knows exactly where they stand from a financial standpoint. It's meant to be a tool to let you stay in control. I would certainly challenge that because it should have been the card provider's responsibility to ensure that those funds were blocked on the card. Lots of other people at card companies do insert some sort of padding or margin within their card programme to take care of instances such as this and I really don't think that the customer should lose out.

HOWARD: Money Box contacted Mastercard about Elaine's experience. Nobody would be interviewed, but in a statement Mastercard said it was sorry that Elaine was not satisfied with Cash Passport. And the Money Box effect worked its magic: Mastercard decided it would no longer pursue Elaine for the outstanding sum and has returned her account balance to zero.

SHARMA: And, Bob, lucky of course for Elaine, but this could happen to other people.

HOWARD: Yes, I'm told these cases are still quite unusual. You certainly seem potentially more at risk of this happening with some card providers than others, so it's really important if you're considering using prepaid cards for holidays to think about exactly how you intend to use it, then look at which is the cheapest for your particular needs. And if you can load it in the currency of the country you're visiting, that would normally benefit you, so US dollars for the States and in euros for Eurozone countries. But it's worth noting that prepaid cards are not covered by the Financial Services Compensation Scheme, so in the event of a provider going bust you wouldn't be able to claim.

LEWIS: Thanks very much, Bob.

Now when is money you've received through PayPal definitely yours? The question was raised this week by Money Box listener Sarah Jones. She had a super king-sized mattress to sell. She put it on eBay and after a lot of interest it fetched £285. The money went into her PayPal account towards the end of July. She moved it into her bank. A few days later the buyer rang and collected the mattress by car. Sarah thought no more about it, but then it all went horribly wrong.

JONES: We went on holiday and when I came back from holiday I had an email from PayPal saying that the account had been frozen, and then within a few days they had refunded the buyer's bank the money from my PayPal account, which actually took my PayPal account into minus figures.

LEWIS: And how long after did that happen?

JONES: It must have been about 4 weeks afterwards.

LEWIS: And what reason did they give you?

JONES: They eventually said that the buyer had claimed that there was some fraudulent activity on their account.

LEWIS: Will you use eBay and PayPal again?

JONES: I've already closed my PayPal account. I have no intention of ever using them again. As far as I'm concerned, paying by cheque or old-fashioned cash is far more safe and secure than using PayPal who can weeks or even months later just reverse the transaction.

LEWIS: Well one listener's experience. With me is Richard Ambrose, Commercial Director of PayPal UK. Richard Ambrose, what went wrong in Sarah's case?

AMBROSE: Well Sarah had a very unpleasant experience, with which I sympathise, called a payment reversal where a buyer instructs their bank to return a payment. It's very uncommon and I should point out that it's an industry wide issue, it's not something which only happens on PayPal. It can happen, for example, if a seller has taken payment with a credit card as well.

LEWIS: Yes, but I mean this happened more than 4 weeks after she got the payment. What people really want to know is when is money paid into a PayPal account certain? When can I take it out knowing it's mine and won't be snaffled back by PayPal?

AMBROSE: Well PayPal operates on bank and card payment systems and so it's subject to precisely the same issues as bank and card payments are. Specifically that means that a card payment can in theory be charged back up to 180 days after a transaction and a bank account reversal at any time after a transaction. Now we know that …

LEWIS: So the money may never be safe?

AMBROSE: Well we know that our sellers really couldn't live with that and so at PayPal we offer them very comprehensive protection against chargebacks and reversals. We do, however, ask them to provide proof of delivery in order to be able to do that.

LEWIS: So if Sarah had gone to the Post Office with her two metre square mattress and wrapped it in brown paper and posted it and recorded it, that would have been fine. But no-one's going to do that, are they?

AMBROSE: Well that would have been fine, or she could have you know tried to jimmy it into the slot in the letterbox. Local collections do carry a small element of risk …

LEWIS: *(over)* Where the buyer collects from your house?

AMBROSE: Precisely. And so we urge sellers whenever they can to post their items - even for big, bulky items like mattresses. One of the pleasant side effects of ecommerce becoming so popular is that there are a number of courier companies now who can send these things round the country at surprisingly small rates.

LEWIS: You see some time ago I had a similar conversation with the banking industry because cheques were never certain, and they changed their policy and now 6 working days after you've banked a cheque it is safe; and if there's a fraud or a chargeback reversal, then the bank bears the cost. Surely you should offer something like that to everyone, not just people who can take a mattress to the Post Office?

AMBROSE: Well for the vast majority of transactions that are posted and can have trackable delivery, we do offer that protection. We'd like the bank and card payments world to operate in such a way that people could be sure of the money. Until it does, there is a small element of risk with local transactions. We'd ask sellers to be very cautious about local collection and post whenever they can.

LEWIS: And get a receipt, a recordable delivery, recorded delivery. Richard Ambrose of PayPal, thanks very much. Well that's it for today. More on our website: bbc.co.uk/moneybox. You can sign up to my newsletter, read it, download a podcast, listen again, send us your ideas and of course have your say, as some of you are, on how waiters are treated. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on tax. I'm back with Money Box next weekend. Today the reporter was Bob Howard, the producer Smita Patel, and I'm Paul Lewis.