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MONEY BOX

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LEWIS: Hello. In today's programme, wait longer to get your state pension and stay at work longer while you're waiting. Is this what the government means by reinvigorating retirement? Bob Howard's here. He's been looking at further problems with cards being blocked when we're abroad.

HOWARD: And how getting your bank to act can drive you to distraction.

LINDA: They said that I needed the fraud department again; and when I tried to explain that I didn't, that phone call got lost. It was an absolute nightmare.

LEWIS: And the Budget. How will the cuts to welfare payments affect you, and how much will those tax rises hurt? And as the Budget details sink in, will interest rates have to rise to control inflation?

But first, pensions. The age at which the state pension is paid was fixed in 1946 and two generations have grown up believing what they were told then.

FILM ARCHIVE FOOTAGE: And this young fellow too can look forward to a secure old age. National insurance contributions are going to build up a better standard of comfort for the old, and this means you when *you* are old.

LEWIS: Well that young fellow may already have claimed his pension at 65, but his younger brothers and sisters and certainly his children may find they have to wait rather longer to get theirs. The government said this week it wants to speed up plans to raise state pension age to 66. At the moment the plan is to raise it to 66 for men and women over 2 years ending in 2026. But the new government says with life expectancy growing the change is more urgent than that, and it's talking of raising it for men as soon as 2016 if it can and for women a bit later. It's all part of what the new government calls "reinvigorating retirement". Well live now to talk to Pensions Minister Steve Webb. Steve Webb, how does it reinvigorate retirement to make people work longer?

WEBB: Well one of the things that we find is when people reach for example 65, I increasingly meet people who are being for example forced by their employers to stop working even though they don't want to. So some of them don't necessarily want to work full-time, full week, but many would like to work part-time, keep in touch with their workmates and so on. And at the moment it's legal for employers to sack people for being over 65, so we want to get rid of that. And we know that pension ages are going up. That's already in legislation that they'll go up to 66, even to 68 already in law, but we're looking at whether that process is happening fast enough.

LEWIS: And on the question of bosses sacking you at 65, in the Budget documents published this week it says the government will consult on how to phase out default retirement age from April 2011. Will it really happen that soon?

WEBB: Well 2011 is pretty soon and we want to get on with it because you know it's incredible that it's illegal to sack someone for being female or disabled, but it's still legal to sack someone for being old. And so you know there are legalities about consultation, about making sure that we don't end up being dragged through the courts when we do this, but the new government wants to get on with it.

LEWIS: So in April 2011, it will be illegal or it will sort of be phased in?

WEBB: Well the exact practicalities are what the Department for Business will be consulting employers and others on, but we’re doing it very quickly because we want to get on with it.

LEWIS: Okay and you also want to get on with raising state pension age to 66. What are your plans for that? When will that happen?

WEBB: So what we’ve said is that we want to pay a decent state pension. And obviously this week, for the first time in 30 years, we’ve pledged that the decline in the state pension will stop - we’ll link it to earnings from now on - and then that the plans already in place to rise to 66 will be brought forward because they are more than a decade away. And when that legislation was passed, and Adair Turner’s commission recommended it - even since then life expectancy has gone up by another year. So we’re looking at bringing it forward. We’ve said not earlier than 2016 for men, but it could be later than that. That’s what we’re consulting on.

LEWIS: And what about beyond that? The Secretary of State’s already on record saying that he thought maybe it should be linked to life expectancy, and I think the age of 70 has been suggested.

WEBB: Well the Secretary of State’s described as “nonsense” the reference to 70, so we can put that to one side. But what we have said is the progression to 67 and 68 is something we will come back to, but what we want to have is a discussion not just about *when* you get the pension but *what* you get because for too long the basic pension has just been withering away and nearly dying and that’s not the basis on which we want to go forward.

LEWIS: And how confident are you that you can raise the pension age for men in 2016 but not for women? Won’t that fall foul of European law?

WEBB: You’re absolutely right, we have to have regard to equalities law, and this week I’ll be writing to the Equalities and Human Rights Commission specifically asking them to input into this consultation because we want to get it right. We will equalise both men and women. We will get them both to 66 and we need to do it in a way that’s compatible with European law.

LEWIS: You mentioned your triple guarantee, which raises the state pension (or part of it) with earnings rather than with prices, or at least with the higher of the two. But next year - 2012, I should say - that will actually mean a lower rise, won't it, because it will be raised with the Consumer Prices Index, which will actually be less than it would have gone up with the Retail Prices Index?

WEBB: No, I think it's the TUC who've been saying this. I think they've misunderstood what the previous government actually put …

LEWIS: Well I've done the figures too and I happen to agree with them, so maybe we're both wrong Steve.

WEBB: Let me tell you why I think it is wrong. It's because the spending plans, in other words the money that's been put aside for 2012 is based on linking the basic state pension to earnings. Not the higher of earnings and prices, but earnings.

LEWIS: Yes, I understand that.

WEBB: And that was less than 2.5%. We will increase the pension in 2012 by a floor of 2.5%, so we've had to find extra money for 2012 compared with the plans that were already built in. So in other words, it wasn't that there was money there put aside for example for the RPI. There wasn't money there for prices for less than 2.5, so we will put in more than was on the spending plans.

LEWIS: Well we'll see what happens at the time and no doubt we'll talk again. Steve Webb, thanks very much. Well also with me is Bob Campion who's Editor of Pensions Insight magazine. Bob, will these changes reinvigorate retirement?

CAMPION: Well it's an odd choice of words, isn't it - we can all look forward to working longer in order to fund our retirement? Part of the strategy is to rebuild the pensions system in the UK - and certainly it needs to be modernised, there's no question about that. But I think where we are all disappointed is in the triple guarantee. As you say, it's not as good as we were expecting. We hoped this would increase pensions in real terms - i.e. by more than inflation - to boost the basic state pension, but because of the measures they're using to calculate inflation, that's not going to be the case.

LEWIS: No. And what about employers? How are they going to react to the plans to end the right to sack people at 65? They're not very happy from what I've heard.

CAMPION: No, not at all. The Confederation of British Industry wants the default retirement age increased but not removed because ultimately they've got a problem in terms of how they manage their workforce.

LEWIS: But the Secretary of State made it clear on Thursday when I heard him, they were just wrong about that. He disagreed with them and get a bit of good management in the company to sort it out was his message for them.

CAMPION: Well there's definitely other ways round it and businesses are going to have to find it because it looks like there's a certain inevitability about changes to default retirement age. But there's going to be other problems with it too. A company has its own normal retirement date, which is the date you take your pension at 65 …

LEWIS: This is your company pension.

CAMPION: This is your company pension. So you can take that pension from 65, but you can then continue if the default of retirement age is scrapped to work for that company while you're taking their pension. So it's a bit of a mess.

LEWIS: And if the state pension age is raised - well obviously it's going to be to 66 and ultimately till further than that - how will that affect company pensions? Their rules won't change, will they, so you could get a company pension one time and then wait another 2 or 3 years for your state pension.

CAMPION: Yeah, that's quite right. The rules in your company pension are set in the scheme documents. They’re in law. They can’t be changed without an awful lot of consultation, so it’s going to be very awkward for companies to work round this. They’ve got a lot of issues they’re going to have to manage there, aren’t they? It’s going to be a bit of a headache for a lot of people.

LEWIS: It certainly is. Bob Campion from Pensions Insight magazine, thanks very much.

Now we’ve had a huge response to our story last week about the problems of using credit and debit cards abroad only to find they’re blocked even though you’ve told the bank when and where you’re going. Many of you have also complained about difficulties getting your card *un*blocked. Bob Howard’s been investigating.

HOWARD: Paul, many listeners have complained about the practical problems and cost of getting through to customer service and fraud departments when they’re in different time zones to the UK like Australia or the West Coast of America. Now all the banks we spoke to insist the phone number customers need to ring to get their cards unblocked are staffed 24 hours a day, but David from Bedfordshire and Ann from Leicestershire both say they’d tried to contact their banks when it was the middle of the night UK time and been told the relevant office was closed. And Linda, who lives in Essex, says she was unable to contact her bank, NatWest, or get it to contact her during her entire holiday in the US.

LINDA: When I called the bank the first time, the woman said “I’ll put you through to the fraud department.” I got through to them. They said, “No, you actually want to talk to this department.” And then they tried to put me through and the phone call got cut off. I called back and then they said that I needed the fraud department again; and when I tried to explain that I didn’t, that phone call got lost. And then the third time when I called back, I had to leave a phone number so they could call me back, and every time I tried it (because I was abroad) I didn’t have enough digits, you know enough spaces to leave all the numbers.

HOWARD: So what impact did that have on your holiday?

LINDA: Oh it was horrible. It was an absolute nightmare.

HOWARD: Now Linda has asked for compensation for what she says was a ruined holiday, especially as she had notified NatWest that she was going to the States. NatWest admits it should have given her a number to call in case her card was blocked when she phoned up to notify her travel plans. And before Money Box had even raised Linda's case, it had offered her £50, then £100. She rejected both offers. This week, Paul, again before any contact from us, had increased that to £200.

LEWIS: Oh don't mess with Money Box listeners, you banks. Now Bob, you've tried to get a bank, *any* bank to speak to us about its card blocking policies. How did you get on?

HOWARD: Well I spent the week, as you said, trying to persuade the ten biggest banks and card providers to speak to Money Box. They all said no, except one - the Co-op. I asked its Chief Operating Officer, Tim Franklin, whether informing his bank you were going abroad was enough to ensure your card wouldn't be subsequently blocked in that country.

FRANKLIN: In the majority of instances, that will absolutely be the case. But in some instances, even if pre-notified, we may want to speak to our customer to verify that the transaction is an authentic transaction. You know if you were in Brazil on holiday for two weeks and you were buying a £3,500 home cinema system, we might think that's a suspicious transaction even though you pre-notified us, and I think in those circumstances would feel we'd want to talk to you to make sure it was you using the card and not somebody in Brazil using it on your behalf. Those instances in which the card might be blocked after you've pre-notified from the Co-operative Bank should be very few and far between.

HOWARD: And yet we've had an email from Russell Miller in West Wycombe and it says that 'On a trip to Australia the Co-op Bank refused to honour my card after 5 weeks away. I telephoned them and was told nobody takes a holiday of more than 5 weeks and security had advised them to stop the payments. I explained that before leaving, I had telephoned saying I'd be away for 2 months and had confirmed this in writing.' So in his case, it didn't seem to work.

FRANKLIN: Well the duration of the holiday here shouldn't really be the issue - particularly if you've pre-notified us in advance - because clearly increasingly people are travelling for longer. But in some instances, as I said before, it is important we speak to the customer to verify it's them.

HOWARD: We've also had cases of people returning home from trips having messages left on their home number.

FRANKLIN: We certainly wouldn't speak to customers in the moment. That's in the interest of the customer and also the bank.

HOWARD: Do you have the systems in place that you can actually contact somebody while they're making that transaction?

FRANKLIN: It's not always possible to do that, which is why in some instances it is necessary for us to speak to the customer again by them actually calling us through a local number in the country in which they're having their holiday. But actually leaving a message on their answer machine for them to hear when they get back to England isn't really of any use to anyone.

LEWIS: Should there not be greater investment in the industry to create systems where you don't have to notify before you go abroad at all and that the systems are just more sensitive?

FRANKLIN: Better standardisation across the industry would certainly be a good thing. So I think it's beholden on all of us banks to remember that: when people are on holiday, they want peace of mind and we have a part to play in helping them to get it.

LEWIS: Tim Franklin of the Co-op Bank. And, Bob, this clearly is still a big problem. What's your advice to listeners?

FRANKLIN: Well, Paul, I think if you notify your bank you're going abroad, it's advisable to check exactly which number you need to call if for some reason it is blocked. And if you're worried about costs, some card providers allow you to reverse charges when you're abroad if they've blocked your card. MBNA, American Express, Barclaycard and RBS NatWest all say you can do this.

LEWIS: Thanks, Bob. And to contact us this week on any subject, don't go through our website, which seems to be working but isn't. You just email us direct, moneybox@bbc.co.uk. And we'd actually like to hear your views on pension age as well - moneybox@bbc.co.uk - telling us when you think pension age should be.

Now you may have noticed earlier this week, there was a Budget. It was the second this year and, appropriately enough in World Cup week, it was a Budget of two halves: almost half the savings were from tax rises, but rather more than half were from cuts in welfare benefits. And let's start with that £11 billion raised by cutting child tax credit, maternity benefits, housing benefit and changing the way benefits are raised with inflation. Whatever you think of those cuts - and I have to say some listeners emailed us to say about time too - there's no doubt they'll mean less money for a lot of people. Well live now to talk to Eddy Graham from Child Poverty Action Group. Eddy, the change in the way benefits are increased each April. It seems a small change, but it will save a lot of money. How much difference will it make to individuals?

GRAHAM: In the first year, it won't make much noticeable difference; but over a period of years, you're talking about quite a lot of money. If benefits are uprated by 1 or 2% lower than the general cost of living - the RPI - then I think claimants and people receiving benefits are going to notice a real difference in their income, in the money in their pocket, after you know only 2 or 3 years.

LEWIS: Yes, so this is why it mounts up each year, doesn't it, and it's 6 billion by the end of the forecasting period of 5 years? And that's because year by year the benefits are a bit less and the increase is a bit less. So it certainly mounts up to, what, a few pounds a week, I suppose, by the time it's processed, after 5 years?

GRAHAM: I think so, yes. I mean for somebody supporting a family or two or three children on tax credits or a means tested benefit, then you know after a couple of years you're probably talking about £20 or £30. So it's a very attractive thing for the government, as you say, because it saves money you know for as far away into the future as you can see, but it's bad news for claimants.

LEWIS: One of the controversial changes was to housing benefit - many people, as I said, emailing and saying well we can't spend £21 billion a year paying people's rent. The Chancellor said it's more than we spend on police and universities. But it is going to affect some families quite badly. What are the changes? What difference will it make?

GRAHAM: Well there are a number of important changes. The first one is there's going to be an absolute limit in what's called the local housing allowance, which decides what people in the private rented sector actually get paid for housing benefits. So there's going to be an absolute cap - for example £400 a week for a four bedroom house. But there's also going to be a change in the way that the level of housing benefit is decided for everybody; and instead of using what was called the median of the rents in the local area, it'll go down to the 30th percentile, which basically means that it will only be the bottom sort of 30% of properties that will be available to people who have to claim housing benefit.

LEWIS: And will there be any transition provisions or will people just be told that you know, come next Monday morning, we're going to cut the amount we give you towards your rent?

GRAHAM: It's not that clear at the moment, I don't think. The LHAs for example are revised every month, on a monthly basis, and people have their housing benefit re-evaluated once every 12 months. So I think it is going to affect people who are existing claimants. And it's important to remember with housing benefit that the money actually goes to the landlord, not to the claimant. Some of the figures that were quoted by the Chancellor in his speech are for people who you know their local authority had a duty to re-house; and because it didn't have any of its own accommodation had to use a private landlord.

LEWIS: Eddy Graham from Child Poverty Action Group, thanks. Well cutting welfare, as I said, was one half. The other was raising taxes. Strange mixture. Let's go to Gloucester now to talk to Mike Warburton, Senior Tax Partner at Grant Thornton.

WARBURTON: Good morning, Paul. It wasn’t just two halves. I think they had extra time because the Budget’s tax changes are good news and bad news. And you even got a section on penalties, but I won’t go into that bit.

LEWIS: Right, okay. A very extended metaphor there, Mike. Well done. *(laughs)* Who’s going to pay extra tax? We’ve heard about people paying a bit less at the lower levels. Who’s going to pay more tax?

WARBURTON: Well the answer is the wealthy are going to pay more. And the red book (as they call it) that comes out on the day of the Budget is actually quite helpful because it shows a table which shows who’s better off and who’s worse off. So the people better off on the lower incomes are £170 better off because of essentially the increase in the personal allowance, but at the other end of the scale you’re definitely worse off. And you’re worse off really above £100,000 a year - these higher income people - because if you remember one of the changes brought in by the last government is to phase out above £100,000 your personal allowances. So they don’t get personal allowances above about £115,000, so they’ve got the extra … they’ve got a shortening of the basic rate band by £2,500 and that’s going to cost them about £500 a year.

LEWIS: And leaving aside perhaps those rather lofty levels, people on more modest but still higher incomes are going to be dragged into the higher rate tax net - so instead of paying 20%, they’ll suddenly be paying 40%, won’t they?

WARBURTON: Yes, this is the sting in the tail. In order to make sure that people who are higher rate taxpayers don’t benefit from the £1,000 increase in the personal allowance, what the Chancellor’s done is he’s reduced the width of what we call the basic rate band by 2,500. So that’s a net £1500 if you like. On my calculations what that shows is that you’ll start paying from next year higher rate tax at 40%. Instead of at an income of £43,875, you’ll start paying it at £42,375. And that is on my calculations going to bring about 700,000 more people into paying higher rate tax.

LEWIS: Sure.

WARBURTON: And it doesn't stop there because we're going to have a freeze on that ban for the next few years.

LEWIS: Yes and of course that's just your income above that level, but any extra money will be taxed at that level.

WARBURTON: Yes, it will.

LEWIS: And finally a very quick word, Mike, if you could, on capital gains tax. Not many people pay it, and the rise there less than people expected.

WARBURTON: Yes, 130,000 people a year pay capital gains tax and in the speech the Chancellor said well half of those are basic rate payers. They'll still pay at 18%. But I think it's actually worse than that because what you have to do, you have to add your capital gain after your annual exemption of £10,100 - you have to add that onto your income to see if that takes you into higher rates. And to the extent that you are taken into higher rates, you then pay at this new higher rate of 28%. So I think it's going to be more like 80,000 to 100,000 people actually affected by this new measure.

LEWIS: Yes and of course if you have a one-off gain as you're retiring, you may only pay it once in your life but that will affect you. Anyway Mike, we must leave it there. Mike Warburton of Grant Thornton, thanks very much.

Now apart from the 8 billion of tax rises and the 11 billion of benefit cuts, the government's planning major cuts to the spending of most government departments and even Chancellor George Osborne admitted the Budget would make life more difficult for many people. But he said the painful changes were needed to sort out the economy.

OSBORNE: Sadly with this unavoidable Budget, we have had to increase taxes. We've had to pay the bills of past irresponsibilities. We have had to relearn the virtue of financial prudence.

LEWIS: Well that was George Osborne. And Labour accused the Conservative and Liberal Democrat government of cutting "too far too fast" and risking throwing us back into recession. Acting Labour Leader Harriet Harman.

HARMAN: This reckless Budget's short-sighted approach will jeopardise the recovery and make the deficit worse.

LEWIS: Well it's not just politicians who are divided. Economists are divided too. Let's go first to Dr Peter Warburton who's on the Institute of Economic Affairs' Shadow Monetary Policy Committee that tries to second guess what the Bank of England should do. Peter Warburton, has the government done the right thing?

WARBURTON: Absolutely. I disagree that this Budget jeopardises economic recovery. I think there is really quite a vibrant economic recovery coming through in the UK now and this is really a Budget that could very well have been delivered much, much sooner. So I think it's a relief now to hear that we're taking the deficit reduction seriously.

LEWIS: Yes and some of the figures before the Budget showed us things were getting slightly better, didn't they?

WARBURTON: Absolutely. You know I think there's really an unmissable and unrepeatable opportunity to start to bring the deficit down more quickly.

LEWIS: And what about the danger that making cuts like this - more people on the dole, cuts to benefits, cuts to departmental spending - will reduce economic activity and that will start another depression?

WARBURTON: No, I think obviously we have to bear in mind that interest rates have been at extraordinarily low levels for a very long time.

LEWIS: But you'd like to put them up, wouldn't you?

WARBURTON: Well I think the time has come, frankly. I think the economy can withstand that. The protection if you like against a Budget effect that is more negative than I would expect, the protection is for the Bank of England's Monetary Policy Committee to resume asset purchases - that is purchases of gilts.

LEWIS: Okay, well stay with us Peter Warburton. But live now - and I must say I never thought I'd say this on Money Box - live now to Glastonbury to talk to Dr Ian Shepherdson, an economist from High Frequency Economics. Ian Shepherdson, I'm tempted to ask you what Dizzee Rascal's view of the Budget is, but tell us what your view is.

SHEPHERDSON: Well I haven't asked Dizzee and I think he's left by now. Well my view is that it is too much too soon. I've got to say I don't object to the principle of planning out a big reduction in the deficit over the next few years. I think that what they've done though is start too early and too aggressively - starting to impose the deficit reduction on an economy that really is not yet very robust, in fact it's still very fragile, and I'm very nervous that now we could really be in for a very tough time ahead.

LEWIS: And what do you think about interest rates? Should the bank hold them at 0.5% or put them up?

SHEPHERDSON: Oh I think it would be absolutely bananas to raise interest rates. The monetary contraction, the shrinking of bank lending is continuing. There's no sign of life in corporate lending. Mortgage lending is still extraordinarily depressed. And although you know a quarter of a point rise in interest rates doesn't imply much change to cash flow of the businesses or to mortgage holders, it does send a signal; and the signal it sends is that we're turning the screws. And if you're turning both the monetary and the tax and spending screws at the same time on an economy that's already very weak, then I shudder to think what the consequences would be.

LEWIS: And what about inflation? Are you worried about that? That seemed quite high in the forecast to me.

SHEPHERDSON: I'm far more worried about deflation actually. I think that the weakness of the economy is going to push inflation down a long way over the next year. Of course VAT will push it up for a while, but the underlying trend, I think, is down.

LEWIS: Well thanks Ian Shepherdson. I'm tempted to ask you who's playing in the background, but we haven't really got time. Peter Warburton, your response to that really in ten seconds.

WARBURTON: Okay, well basically we're in denial. Inflation has averaged over 3% in the last 3 years. Expectations are now at 3%, not at 2%. Basically it's time we gave savers a break.

LEWIS: Savers a break. I'm sure many Money Box listeners will thank you for that. Thanks very much, Peter Warburton; and earlier Ian Shepherdson, with musical accompaniment. But that's all we have time for today. More from the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. Information there, but don't email us through it. Email us direct: moneybox@bbc.co.uk. That includes having your say on pension age and sending questions to Money Box Live for Wednesday's programme when I'll be here to take your questions on probate. Back with Money Box next weekend. Today reporter Bob Howard, editor Richard Vadon. I'm Paul Lewis.