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MONEY BOX

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DUGGLEBY: Hello. And in today's the stock market reaches its highest point for two years. Is it a signal that better economic times lie ahead? And should investors put their faith in dividends rather than hope for higher interest rates in the foreseeable future? As salary related pension funds report lower deficits, are they now better placed to stay afloat? Bob Howard's been looking at fees for unauthorised overdrafts.

HOWARD: Some banks say a daily fee is the right way to charge, but are they looking after their customers?

NAOMI: It just feels as though you really are talking to a brick wall. They're not concerned with the situation you're in.

DUGGLEBY: And university students face a daunting task trying to work out how much they'll have to pay back under the new tuition fee rules. We'll help you to do the sums.

Now who would have believed that within a couple of weeks of the Government's Comprehensive Spending Review, the stock market would be back to its highest level since the recession took hold in the summer of 2008 with the FTSE index recovering from a low of 3,700 to Friday night's close of 5,875? Admittedly that's not much comfort for those struggling to make ends meet or who are about to lose their jobs, but it's worth bearing in mind the market is often seen as a barometer of economic prospect 18 months ahead. As expected, bank base rate was held at 0.5% on Thursday when the Bank of England's Monetary Policy Committee met, but they also decided not to indulge in more quantitative easing. That's printing money to you and me. While the US Federal Reserve did precisely the opposite and agreed to pump in another $600 billion into their ailing economy, which cheered Wall Street up no end. Can both be right? I'm joined by Justin Urquhart Stewart from Seven Management. Who is right, Justin?

URQUHART STEWART: Well you actually see what's happening at the moment - all the asset classes seem to be rising. This is somewhat illogical. You've had the fixed interest markets rising, the equity markets rising, gold price rising. This, I'm afraid, cannot continue. What you've got at the moment is markets which are looking very relieved because someone has actually decided to put an extra $600 billion of quantitative easing into the US economy.

DUGGLEBY: On top of 1.75 trillion.

URQUHART STEWART: Exactly. And so what you've got here is therefore the opportunity, apparently, for companies to benefit from this. Or that's the theory. But of course actually what I think the key issue is here is what's really happening with the currencies because the US at the moment, they decided, Tim Geithner, the Treasury Secretary, he said we don't want to devalue the dollar. But of course by having a huge quantitative easing mechanism produce extra money, you are in fact doing exactly that; and, using that old phrase - which is our currency, your problem - exporting a problem.

DUGGLEBY: Indeed, we'll come to that again in a moment. But also with me Liz Webb from Origen Financial Services. Liz, it seems that base rate's likely to remain low for at least the next year, possibly longer, but inflation is running above target and there's probably more in the pipeline. And it's virtually impossible, isn't it, to get real returns on savings after tax and inflation?

WEBB: It is and that's why at any time you're investing, it's always looking at what your actual objectives are. Cash is still a good place to hold money if you need to have access to that money short-term, so it's as important as ever to actually shop around for the best rates you can get. And also inflation, the impact of 4% inflation say over a 5 year period actually devalues the buying power of £1,000 down to £822; and over a 10 year period down to £676. So 4% inflation, you can see it has a big impact in the long-term.

DUGGLEBY: Indeed. I mean there doesn't seem any prospect of interest rates going up despite these negative impacts of inflation.

WEBB: Not at the moment. It just seems that over the … well the general view seems to be over the next year or so that they're going to remain around the level they are. But who knows? The impact of perhaps the rise in VAT, that might have an impact as well in the future.

DUGGLEBY: And the stock market of course traditionally, Justin, is a means of protecting yourself against inflation, but it's got a pretty patchy record, hasn't it?

URQUHART STEWART: It has over the past 10 years. I'm afraid, it has not performed at all well. But you have to look at actually what the stock market is trying to do at the moment, which is you're seeing more focus on some of the mining companies, which now make up a lot of the FTSE 100, and you're beginning to see now much more focus on dividends. And of course this is going to be crucial for people's patience, and of course the longer term returns for investment really come out of dividends and the compounding of those dividends rather than just the growth of share prices themselves.

DUGGLEBY: Because as always with the stock market, you can pick particular times when it's been superb to invest like when it reached 3,500 or 3,700 later when there were big profits to be had. But, unfortunately, these profits just evaporated a couple of years later, so it was a quick in and out, wasn't it?

URQUHART STEWART: It is. I mean you know trying to time the market is impossible. The old phrase is it’s time in the market, not timing the market, and making sure you’ve got a broad spread not just across stock markets but across those other asset classes as well.

DUGGLEBY: And, Liz, the best returns of course now are for people prepared to tie their money up for 3, 4, maybe 5 years. But I guess with again the inflation impact there, people are going to be reluctant to do that, aren’t they?

WEBB: If you’re talking about in cash investments, yes, because some of the best fixed rates you can get are about 1 year, 2 years. But do you want to be tying yourself up more than that? Probably not. So probably look at 1 year accounts at the moment and see what happens to interest rates after that.

DUGGLEBY: I suppose one of the good pieces of news around is that people can put more money into ISAs, which are at least tax free?

WEBB: That’s right, yes. On the cash side, you can do £5,100 per person. And then stocks and shares, you can do either £10,200 total or the balance against what you’ve put into cash already.

LEWIS: So, Justin, just give us the best places in the market to invest. You’ve said that there are some that are perhaps a bit over valued. What are the sort of prime pieces?

URQUHART STEWART: Well the fashion fads at the moment are the emerging markets where an awful lot of money is chased. I’m afraid very small markets indeed, so be wary there. Certainly one of the great areas I think are some of the most boring companies - those lovely, old-fashioned businesses that build things such as infrastructure, whether it’s in China, whether it’s in America. A lot of this infrastructure has to be rebuilt, so it’s anything from generating plant to electricity plant. Some of these companies aren’t necessarily in Britain, they’re often in Germany, and these are lovely boring companies which pay dividends.

DUGGLEBY: But basically we're still looking ahead to the drivers of growth - China, those places?

URQUHART STEWART: Yes. I mean what we're going to be seeing, I suspect, is a lower, slower world overall over the next decade. The good news is that the Eastern economies will still grow, but probably at a slower rate than before. Meanwhile the West repairs itself. So we need to be globally focused on this. But that doesn't necessarily mean you have to invest in high risk smaller markets. It's what those markets, what those countries are buying. So that may be commodities. That may be also, in terms of the retail outlets, retail and branded outlets that you'd be getting.

DUGGLEBY: And, as you said earlier, keep an eye on currencies.

URQUHART STEWART: Absolutely.

DUGGLEBY: Okay, thank you very much Justin Urquhart Stewart and Liz Webb. Thank you very much.

Right, now pension funds have been hard hit by low interest rates on the one hand and the relatively lack lustre performance of shares over the past decade - the reason why so many final salary schemes are being closed and more people pushed into so-called defined contribution schemes where the size of your pension depends on how well the fund does without an employer's guarantee. But the stock market's reasonable rise has reduced the deficits according to a report by the actuaries Aon Hewitt, so now the 200 largest schemes are £69 billion in the red rather than £80 billion just a month ago. Marcus Hurd is Aon's Principal. Marcus, why has the situation improved so much?

HURD: Well effectively the pension funds are heavily invested in equity investments, and with the rise of the equity market those gains have started to feed through. Unfortunately not all the gains feed through because the value these pension funds actually have on the liabilities are linked to risk free investments; so as their prices are rising, then actually the liabilities are rising as well. But thankfully overall it has been positive with the equity market.

DUGGLEBY: You mention of course having to match liabilities, which usually means using the gilts market, which I mean historically is yielding absolute peanuts at the moment.

HURD: Yeah, absolutely, and the value of these pension scheme liabilities at the moment is absolutely immense. Arguably it's a historical high.

DUGGLEBY: Indeed. I mean one of the problems too for those people who are not in a company scheme but have to rely on buying an annuity in the market, of course, is the annuities are also dependent on the level of gilts, which means that annuities are very low for those not fortunate enough to have a salary related scheme.

HURD: Yeah, absolutely. The low gilt yields are absolutely bad news for pension funds - in particular because annuities tend to be at the higher end, so the very long duration gilts, which of course are extremely expensive at the best of times and particularly in the current economic climate.

DUGGLEBY: So do you think that this latest news will perhaps at least encourage people to stay in final salary schemes - that's the firms that run them - rather than, as we've seen, just closing the whole lot down?

HURD: Well, to be honest, it's a small piece of good news and it's very welcome good news, but against a backdrop of 5 years of absolutely horrific news. And the tide is only going one way - we're only seeing schemes closing rather than opening - and I think it's really more a question of when these schemes close rather than if, I'm afraid.

DUGGLEBY: But do you think that it suggests that some companies might have been wrong in the long-term when they described their schemes as unaffordable in a sense? I mean we've got that problem with the BBC pension fund. I mean is it affordable or isn't it?

HURD: Well I think the deficits stand for themselves. When we talk about a number of 69 billion, that is a big number. And there's only two ways those kind of deficits can be made up, and that's through risky investment returns or contributions. And frankly there isn't really an appetite in the corporate world for plugging those deficits by contributions alone.

DUGGLEBY: There's no sign though that pension funds are prepared to take … have got an appetite for risk anymore.

HURD: No and I think it's really part of the closure of these schemes. There's now a finite lifetime for these schemes. So the trustees in particular and the employers as well are looking to match out these and really try and reduce the risk as far as possible.

DUGGLEBY: So are we looking perhaps over the next year? Again if the market say went back to its all time high of, what, 6,500 or so, would the problem then be solved?

HURD: Well if we had the market up at 6,000, maybe 6,200 - then, yes, that would be one way of temporarily curing the problem. The real challenge though is that once the scheme's returned to what they call a surplus, then actually they're going to target something far more stringent, which is insurance company buyout. And it's only really when you pass the liabilities completely to an insurance company that the liabilities are settled and secured for the members concerned.

DUGGLEBY: Okay, Marcus Hurd from Aon Hewitt, thanks very much.

Now it's a year since the banks won their case in the Supreme Court, which effectively gave them the right to decide on a fair system of overdraft charges, and now we're seeing the consequences for those who consistently go overdrawn. RBS and NatWest are the latest banks to impose flat fees, which from next February will cost customers £6 for every day they exceed their unauthorised overdraft limit. Halifax and Bank of Scotland introduced a similar system at the end of last year. The banks say that having a flat daily rate is easier for customers to understand rather than being charged interest on what they owe and then a set of other fees. But are these new charges fair? Bob Howard's been looking into it.

HOWARD: Vincent, the Halifax and Bank of Scotland are already charging a flat fee of £5 for each day that somebody goes into an unauthorised overdraft. Naomi is one customer who's been affected by this. She suffers from a condition affecting her mobility, so she's unable to work and is cared for by her son and a paid assistant. Her problems started in March when she went past her agreed limit of £200. She found the overdraft fees of £5 a day quickly mounted up.

NAOMI: I was getting letters from the Halifax telling me that I had gone over my arranged overdraft. They were charging me £150 a month. I did actually get a phone call from the Halifax and the lady said that I needed to pay this money, what was I going to do about it? And I just said that I wasn't in a position to be able to do that.

HOWARD: In May Naomi did manage to pay off the fees and get back into her agreed overdraft and thought her problems were over. But the overdraft fees are applied at the end of the following month, so more fees were applied a few weeks later. Since then she's been unable to get out of the cycle and more fees have been applied each month, and the Halifax has twice transferred money from another account she has with him without her consent to pay off the fees. The money was from the council to pay for her personal care and Naomi wants it back, but she says she's not been able to get the bank to listen to her concerns.

NAOMI: It just feels as though you really are talking to a brick wall. They're not concerned with the situation you're in. They're not bothered about people; they're just bothered about the money. It's just difficult because you feel so emotive about the subject because it affects your whole life. There are occasions when you can't sleep and you feel sick and you know the whole situation just gets worse and worse and then that impacts on other things as well. But they just don't get that.

HOWARD: Between March and the end of October Naomi had accrued fees of around £800 in total. The consumer campaign group Which? calculates Naomi's been charged between three and five times more than she would have been under Halifax's old system. And Peter Tutton, a policy adviser from Citizens Advice, says banks have a regulatory responsibility to help customers like Naomi.

TUTTON: Banks are under a duty. For instance, they have a thing called the lending code where there's a duty for them to treat people sympathetically and positively is the phrase; so we would expect banks to be looking at people where charges are clearly creating hardship, clearly putting people into more debt, and they shouldn't be turning people away, they shouldn't be saying well tough. Banks should not be imposing those charges and should be removing charges where people can demonstrate that it's just putting them into bad debt.

HOWARD: And, Vincent, Naomi has had some good news since Money Box contacted Halifax. Nobody was available to speak to the programme, but the bank did send a statement. It said staff had tried to contact Naomi to discuss her overdraft position but had been unable to reach her. The bank said it understood the unfortunate distress caused and it would refund all charges and also the outstanding debt on her account as a gesture of good will.

DUGGLEBY: Well clearly not everyone's going to be as fortunate as Naomi was, but what other options might you have if you found yourself in that position?

HOWARD: Well when Money Box first reported on the changes to HBOS accounts last year, a number of people contacted us with their concerns. Vicky was one. She was worried the new charges would take her over her arranged overdraft limit, so Money Box spoke to Vicky this week to hear whether she'd found a solution.

VICKY: I got the letter through about the charges and I was quite shocked. Obviously it was going to be incredibly difficult to manage. So I spoke to a lady that Money Box put me in contact with and she advised that I should first of all move my account, so I had all my income going into an account that Halifax couldn't touch and couldn't be swallowed up by the overdraft. Then she suggested that I try and set up a repayment plan, and they set up a repayment plan for £20 a month which meant obviously it was well a world of difference basically. I could afford to eat. They also suspended all charges on the account then.

HOWARD: So, Vincent, the suggestions are to talk to your bank, try to set up a repayment scheme, and also consider setting up a basic bank account with another provider to take control of your money again.

DUGGLEBY: Thanks Bob. Well how long interest rates will remain at their present level is of acute concern to anyone hoping to buy a new home or indeed remortgage an existing property. And figures released this week by the Council of Mortgage Lenders suggest that restrictions on lending could mean 2 million existing borrowers will find life increasingly difficult. This is because future deals will have to take account of possible rises in interest rates and whether borrowers can afford the repayments. Hence the question is it better to fix now while the going is good? Ray Boulger is Technical Manager of mortgage brokers John Charcol. Ray, do you think mortgage rates will rise slowly or steeply over the next year or so? I mean presumably they will rise?

BOULGER: Clearly the variable rate can only go one way from where it is, but what happens to fixed rates in the short and medium term depends on how quickly the market expects bank rate to go up. And all the indications are that the economy is in such a mess, despite the higher inflation we're likely to get as we spoke about earlier, that bank rate is likely to stay at 0.5%, I suspect, until at least the middle … sorry until at least the second half of next year.

DUGGLEBY: So that's still a fairly short time horizon when you're considering whether to fix or to leave it on the standard variable rate.

BOULGER: Well it is, but one of the key considerations is first of all what interest rate you're paying at the moment. Some people have got very low interest rates because they reverted to a low rate. Anybody who's with Woolwich, Nationwide or Cheltenham & Gloucester, for example, will be paying between 1.5 and 2.5%. Others, particularly with some of the building societies, will be paying between 5 and 6%. So the higher the rate you're paying, clearly the more worthwhile it is to do something. If you look at the differential between buying a new fixed rate today for say 5 years to give yourself a decent period of protection and a new tracker rate, one's generally talking about a differential of 1.5 to 2%, so the judgement has to be is it worth paying that much more now to buy that security? And I think that because fixed rates in my view are unlikely to go up for some time, it is too early to fix. I would be inclined in general to stay on a variable rate for the time being, but keep an eye on the market closely because there will be a time when it's right to fix, but I don't think it's yet.

DUGGLEBY: There are some amazingly attractive looking deals if you've got a large amount of equity in your home.

BOULGER: The amount of equity if you're remortgaging or the deposit if you're buying is absolutely critical today. If you can put down a deposit or you have equity of at least 25%, there's a good choice of deal, plenty of competition. You can for example get 5 year fixed rates under 4% if you don't need to borrow more than 75%. If you go above 75%, the rates go up quite steeply.

DUGGLEBY: And is that likely to change again in the foreseeable future?

BOULGER: No, I don't think there's any likelihood of that changing. The reason for that is primarily down to some changing in the regulatory rules. Something called R2, which came into force a couple of years ago, means that the banks have to hold much more capital to support high loan to value mortgages. So this is going to be an ongoing situation. And of course there is an aversion to risk at the moment and as long as banks don't have enough money to lend to all credit worthy companies, they are going to favour those who are less risky in their eyes.

DUGGLEBY: Okay, Ray Boulger from John Charcol, thanks very much.

Now the Government's announced plans to allow universities in England to charge students tuition fees of up to £9,000 a year by 2012. In short it's going to cost a lot more to go to university, and if you borrow the money it'll take a lot longer to pay it back. Our reporter Ben Carter has been looking at this.

CARTER: Well Vincent, under the new system students may have to borrow more money, but they don't have to start paying it back until their income reaches £21,000. But when you earn over £21,000, you will pay 9% of your income above this figure. So, for example, if you earn £25,000 you'd pay 9% of £4,000, which is around £30 a month, and you have to carry on paying until the loan is repaid or until the Government writes off your loan on the thirtieth anniversary of your graduation.

DUGGLEBY: Well that's the capital side, but what about the rate of interest that'll be charged?

CARTER: Well right from the point you graduate, you'll have to pay an interest rate pegged to RPI, so even the low paid or unemployed will see the amount they owe increase. And when graduates start earning over £21,000, this interest rate will increase in line with their wages up to a maximum of 3% over RPI. So if the system was in place now, the top rate would be around 7.5%.

DUGGLEBY: Interesting they've chosen RPI and not of course the lower CPI. Anyway, what are the implications of the new system? Who are the winners and losers?

CARTER: Well we ran some admittedly crude figures to try and work out how the repayment system will work. We used a loan figure of £27,000, which is 3 years tuition at the highest rate, and we used an average of 3% for RPI, and we then started using a variety of different salaries. What is clear from our figures is that huge numbers of people are never going to completely repay their loans. They will almost be paying a graduate tax of 9% of their earnings above £21,000 until the Government writes off the debt after 30 years. So if you think you are likely to work in an industry or area where pay is not high or if you think you will take time off to look after the kids, the figures suggest you shouldn't be overly concerned with how much you're borrowing as you'll never have to pay it back. The only people who won't be paying this graduate tax for the best part of three decades will be the lower paid and the rich who earn enough to repay the debt quickly. They will end up paying a lot less interest than those who repay the debt over 30 years. The Government is consulting about whether the rich pay extra for repaying ahead of schedule, but if you earn a really large salary you'll pay the debt off quickly anyway.

DUGGLEBY: I reckon you need a degree in mathematics to work it out at all. How rich, incidentally, is rich?

CARTER: Well our figures were based on people earning the same amount for their whole careers, which is clearly quite a simplistic assumption. But according to our model, if you are paid £42,000, then it would take 30 years to pay off your debt and you would pay £31,000 in interest. But someone earning £60,000 would pay off their debt in around 10 years and would only pay around £10,000 in interest, so this really might be a case of when the squeezed middle pay more.

DUGGLEBY: You might like to look at our website, bbc.co.uk/moneybox, to re-read that piece if you can follow it from the broadcast. You may well also like to work out your own situation. Thanks, Ben.

Now many grandparents and parents listening will be wincing at the size of the numbers involved in paying for higher education in the future and many prospective students will be hoping that the bank of mum and dad will be there to help out financially. So what's the best way to save up enough to help with the costs of university? Still with us financial planner Liz Webb. Liz, can you pay the fees upfront and avoid all these horrendous charges and interest rates?

WEBB: Well when you're planning for any sort of significant event like sending your children to university really the starting point is actually looking at how much you're going to need and when that's going to be because that's then going to dictate how you actually start saving for that. Probably what's going to happen in reality, it's going to be a combination of being funded out of income at that time, savings and perhaps borrowings. But I think what a lot of people are going to be looking at more now is actually planning a lot further in advance because we're going to need to start saving a lot earlier to build up enough to fund the higher costs.

DUGGLEBY: So what should people do?

WEBB: Well the first thing is actually sitting down and working out how much it's likely to be - so it's looking at the cost of fees, accommodation, living costs, etcetera, and how long you've got. You know if you've only got a couple of years, you're going to be looking at it very differently to if you've just had a child now where you're looking at an 18 year period. So once you've looked at the time period, it's then going to be well you know are you going to be looking at cash based investments; or if you've got more than 5 years to save, you're going to be looking probably at share based investments.

DUGGLEBY: Is the stock market a good place to offset university fees or is it too risky, Justin?

URQUHART STEWART: Well it's part of the answer, but it's certainly not all the answer. What you need to have is a proportion in there, of course. But making sure therefore you've got those other assets because over the past few years what you've seen is the strength of those broader asset allocations, including commodities and infrastructure and things like that and obviously fixed interest and currencies as well as equities.

DUGGLEBY: And, Ray, you want to come in.

BOULGER: An offset mortgage can be really useful here. If you plan in advance to overpay your mortgage rather than invest the money, that means you'll pay less interest and then you can borrow that money back when you need it for university fees. So that's also worth considering.

DUGGLEBY: Indeed. Well thank you very much. That's Justin Urquhart Stewart, Liz Webb and Ray Boulger. That's it for today except to flag up next year's Budget. Believe it or not, the Chancellor has announced it'll be on 23rd March. Of course you can check out our website, bbc.co.uk/moneybox, where you can do all sorts of exciting things - watch videos, sign up to Paul Lewis's weekly newsletter, download a podcast, and listen again to the items on the programme. Paul will be here next Wednesday with Money Box Live, this week taking your questions on equality at work. I'm Vincent Duggleby. Good afternoon.