

## Never had it so good?

In 1957 the then Prime minister Harold Macmillan told his electorate "You've never had it so good". In retrospect, the claim has been vindicated by subsequent experience, though it could be said to have sown the seeds of this month's general election result

As Richard Buxton of Old Mutual has pointed out, the fact is that the post-war 'baby boomer' generation has enjoyed financial advantages which are simply not available to the young of today.

Unlike the baby boomers, the younger generation often emerge from college saddled with debt. They have little prospect of affording a house in most urban areas, let alone benefiting from the extraordinary house price escalation of the second half of the 20<sup>th</sup> century.

Their greater pre-disposition to spend rather than to save means that even if they were able to do so, they would be unlikely to enjoy the benefit to savings created by the stratospheric increase in share prices since the FT 30 index hit its low point of 146 in 1974.

Pensions are on few young peoples' agendas, but they have little chance of being able to join a final salary pension scheme or to save enough on their own account to provide for retirement.

Mr Buxton concludes that capitalism is not working for the young, and that Jeremy Corbin's agenda could result in a return to the pro-labour, anti-business agenda of the 1970s, and that if this scenario is reflected in share prices they could have a long way to fall.

Other commentators express concern about the effect of such a fall on so-called index-tracking funds, which have become popular because they are cheaper than actively managed funds. Trackers have clear merit when markets are buoyant but provide no protection against falling prices – a factor which is causing some wealth managers to scale back their passive holdings.

One approach which has been used to address this issue is for portfolios to be constructed with a long-term core of active funds supported tactically by a number of shorter-term satellite tracker funds.

Overriding all these issues however is the principle that investment should be for the long term.

## Tax advantages of marriage

The number of unmarried cohabiting couples more than doubled in the 20 years between 1996 and 2006, from 1.5 million to 3.2 million.

However, research commissioned by law firm Mills & Reeve found that 35% of a sample of over 1,000 cohabiting couples either assumed that they had the same rights as married couples or those in civil partnerships or were unaware of the tax consequences of their unmarried status.

Probably the least significant tax benefit of marriage is the marriage allowance. This enables one spouse to transfer to the other one tenth of the benefit of their personal allowance (£1,150 in 2017/18).

The tax saving is 20% of the allowance, i.e. £230. To qualify, the transferor must be a basic rate taxpayer with income between £11,500 and £45,000 and the recipient should of course be a taxpayer.

When it comes to capital gains tax, each spouse is taxed separately and there is no CGT on transfers between them. So there may be scope to transfer an investment which is pregnant with gains to the spouse with an unused allowance.

However, capital gains tax will be payable on the sale of a second home by a married couple, with a top rate of 28%. Unmarrieds, on the other hand, can each have a 'principal private residence' which is exempt from CGT.

In addition, the purchase of a second home by a married couple will attract the 3% additional stamp duty levy on second homes which applies to purchases in excess of £40,000. This would not apply to unmarried couples each buying one property.

The biggest tax advantage of marriage relates to inheritance tax, and this factor alone lies behind the marriages of many cohabiting couples.

Transfers between spouses who are domiciled in the UK are free of inheritance tax, whereas for unmarried couples, tax would be payable at 40% on the value of an estate over £325,000.

Of course, the main downside of marriage is the cost of divorce!

## Capital protection on divorce

According to the Office for National Statistics, divorce rates are falling. There were 111,169 divorces in 2014, a reduction of 3.1% compared with 2013.

Many divorcing couples favour a clean break and opt for lump sum settlements rather than regular payments from their former partner.

However, handling what could be large lump sums may hold worries for people who are inexperienced in financial matters. Many divorcees would simply place what they received on deposit, but the Financial Services Compensation Scheme usually only provides protection for deposits of up to £85,000.

Fortunately, a special Temporary High Balance Protection is available which covers deposits of up to £1 million for up to 6 months, when large sums are received, for example, from divorce settlements, insurance payouts or inheritances.

## Equity release on a roll!

In 2016, the value of funds released from the capital value of homes in the UK exceeded £2 billion for the first time.

It appears that most of the money is being used to fund home and garden improvements and a smaller proportion to pay for holidays or to repay credit card and loan debts or to support other members of the family. So few people are as yet turning to equity release to supplement their retirement income.

Other factors may in future be influencing the growth in the equity release market. Both of the main political parties are eyeing the value locked up in family homes as a potential source of tax revenue, and whether it be on account of the mooted mansion tax or the so-called dementia tax, there could be merit in reducing the taxable value of the family home, while at the same time enjoying the other benefits of equity release.

## Gender gap

Recent research by the Mercer consultancy found that the gap between women's and men's pensions in the UK is 39.5% greater than the gap between their respective earnings. The fact that women are living longer than men but saving less means that there is a danger that women who are reliant on their own resources may be destined to retire in poverty.