

# WOMEN ILL- PREPARED FOR RETIREMENT

Increasing numbers of women face a shock in retirement because they are not saving enough. A report has revealed that the gender pension gap is growing with 13% fewer women saving enough for retirement than men. The figure was 8% 12 months ago.

The gap exists partly because women on average earn 38% less than men; a gap which is mirrored in women's savings in defined contribution schemes - typically just 66% of men's. But there is more to the problem than just earning potential. Men are more likely to belong to their workplace pension scheme than women. The report found that 35% of women do not have any pension scheme compared to 22% of men and of those that are saving, on average men save 10.3% of their earnings - compared to women who save 9.3%. Employers also contribute more money into male employee's pension schemes - typical employer contributions are worth 6.5% of annual salary to a man, compared to just 5.7% for a woman.

**If you have genuine concerns regarding your own pension arrangements, we would be delighted to speak to you and arrange for a pension forecast which can help you decide if increased contributions are necessary and affordable.**

For many women family comes first. Over a third, have at least one child and some 28% have had to stop work or have reduced their savings for the long term because of their children. However we need to remember that without your own pension scheme in place they could be left without anything for retirement!

# INHERITANCE TAX

All individuals are entitled to a Nil Rate for Inheritance Tax which for this year is set at £300,000. This means that the first £300,000 of a person's estate can pass tax free to their family; however, transfers to spouse and civil partners are tax free regardless. Prior to 9th October 2007 if the first spouse or civil partner dies and left their assets to the survivor the transfer was tax free but the Nil Rate Band on that first death was wasted.

From 9th October any unused proportion of the Nil Rate Band can be transferred to the survivor. This means that if the estate of the first to die passes outright to the surviving spouse or civil partner there will be no inheritance tax charged at that time but on the death of the survivor the Nil Rate Band available will be doubled.

Up until now it has been possible to ensure that the Nil Rate Band is not wasted on the death in a marriage or civil partnership by ensuring that couples have tax efficient Wills. The best advice has been to use a trust in the Wills to utilise the Nil Rate Band legacy. The Chancellor has effectively given all married couples and civil partners something that those who have previously taken advice already have i.e. the ability to use two Nil Rate Bands.

The new provisions will apply to all deaths of surviving spouses or partners from 9th October onwards regardless of what date their spouse or partner predeceased them. There will be provisions capping the maximum amount of Nil Rate available on the second death to double the Nil Rate at that time; this will be relevant where there are multiple marriages to consider.

The changes are to be welcomed and will improve the Inheritance Tax position for married couples, civil partners, widows and widowers.

THE ABOVE IS NO BENEFIT FOR SINGLE PEOPLE OR UNMARRIED COUPLES. IN SPITE OF THESE CHANGES TAX REMAINS A SERIOUS ISSUE FOR MANY PEOPLE WHO SHOULD CONTINUE TO FOCUS ON LIFETIME PLANNING TO MITIGATE THE TAX.

**IF YOU HAVE CONCERNS REGARDING INHERITANCE TAX PLEASE GIVE US A CALL ON 0191 230 3034 OR EMAIL YOUR ENQUIRY TO [INFO@THREE-COUNTIES.CO.UK](mailto:INFO@THREE-COUNTIES.CO.UK).**

## For further information please contact:-

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You should be aware that investment in securities involves risk. The value can fall as well as rise and you may not get back the full amount invested, particularly in the earlier years.

Taxation: All statements relating to taxation are based upon our understanding of the law and HM Revenue & Customs practice in force at the date of this report. There can be no guarantee that the tax position or proposed tax position at the time of investment will endure indefinitely.



# CLIENT BRIEFING

December 2007



## Market Review Peter W West

It seems at times that financial institutions will never learn from past experience. Residential property prices have gone through the roof driven by easy credit and lending multiples being offered of 5 x salary with little or no focus on the applicants' ability to service the loan. Money on credit has been easily obtained and not for the first time, is resulting in the damage now being experienced by these financial institutions through their exposure to the sub-prime sector. Their answer, too late, is to withdraw easy credit and to prepare to write off huge debts now known as the "Credit Crunch" in which the USA has the largest exposure. We have the right to expect a more responsible attitude from our major banks and lenders but not for the first time, and probably not the last, short term greed takes over from long term judicious practice.

We should also remember that stock markets are coming off a four year bull run following which a period of re-pricing risk is in fact healthy for their longer term stability. 2007 will go down as a year of consolidation in markets; but consolidation which is unlikely to result in a major crash in world stock markets. Equities remain the favoured long term asset class for most asset managers with good value still to be found in the right companies. Since late 2006 we have been recommending that you adjust your portfolios so that you have increased exposure to the large and mega cap companies. For the last six or seven years we have been recommending to you fund managers who pick stock on individual merit. Currently many see good value for investors in holding large and mega cap companies that have low levels of debt and stable and reliable cash flows in sectors such as Oil, Pharmaceutical, Tobacco, Utilities and Telecoms. These are the very companies which were largely overlooked during the period 2003 – 06 when small and mid-cap companies dominated market activity. It is the fact many of our largest companies were over looked throughout that period which has created the good value currently available and which in turn should ensure that we will avoid a major stock market crash whilst providing investors with the opportunity for real value once the current extreme volatility reduces.

Clients who invested throughout 2007 in our Advisory Portfolio Service will see it as a year when their portfolios have achieved small gains, perhaps in line with the return on cash. It is quite impossible to react to short term factors and the strategy in place will always be for the medium to long term. In the four years up to the end of 2006 our Advisory Portfolios achieved very good returns for clients whilst remaining within their relevant risk profile (Cautious, Balanced, Growth etc.). The current turmoil is based on real problems which need to be resolved but we expect that the strategies in force will continue to yield good returns for clients as soon as the market again focuses on valuation, cashflow and dividend stability. We should reasonably expect this to happen in 2008!



## Guaranteed Income for Life – 5% tax-free! Len Smith

### Are you retired or approaching retirement?

As a nation, we are living longer, healthier lives. Today, a 60 year old man has a 50% chance of living until he's 88 and a woman until 90. The not so great news is that living longer puts more strain on your retirement finances. Some people run the risk of running out of money. Others will be unable to leave as much as they would have liked to their loved ones.

The chances of running out of money are very real. Take for example a 60 year old man, who invests in a typical 50/50 fund (50% equities/50% fixed interest) through an investment bond and takes withdrawals of 5% of his original investment.

A recent analysis based on this popular approach to investment, carried out by a major product provider, shows that this investor should be seriously concerned about how long his money could last. Back in 1990, the chance of running out of money was 1 in a 100 – now, it's just 1 in 3. People are living longer and interest rates are lower.

When you retire you'll still have to pay for some of the expenses you have now. For example: - electricity, gas and water bills, council tax, living costs like food and phone bills, running your car and insurance premiums.

You could class these as your fixed costs, because no matter how many of you live in the house, whether you are retired, you still need to make these payments. Not being able to meet these costs will have a dramatic effect on your life.

But your retirement is about more than just planning for your fixed costs. It's about enjoying it, and improving your quality of life. Perhaps by doing things like:- taking a dream long haul holiday, eating out, hobbies, a season ticket at the theatre.

So, once you know how much money you'd like in retirement, you need to decide:

- How you'll protect the amount you need to live on – your fixed costs
- How to invest to make sure you can afford the life you want

At Three Counties we have been looking for new ways to give our clients the kind of benefits they need today. There are brand new products which offer you:

- **A 5% tax-free income – guaranteed for life**
- Insurance against falls in the stockmarket
- The ability to stay in control of your assets
- The flexibility to access your investment if you need to
- The possibility of benefiting from any future growth and locking in the income
- Potential death benefits for your family

(Continuous Mortality Investigation, 90% '00' mortality tables, projected to 2007 using 'mid-cohort' improvement factors with a 1% floor)

We have already arranged this investment for a number of our clients. If you feel that this investment would suit you, please contact us to arrange a meeting.

**IF YOU WOULD LIKE TO KNOW MORE DETAILS ABOUT THIS PRODUCT, PLEASE GIVE US A CALL ON 0191 230 3034 OR EMAIL YOUR ENQUIRY TO [INFO@THREE-COUNTIES.CO.UK](mailto:INFO@THREE-COUNTIES.CO.UK).**

# CAPITAL GAINS TAX

**Alistair Darling announced some sweeping changes to the Capital Gains Tax regime in his first Pre Budget Report. These changes will affect individuals, trustees and personal representatives with gains which are subject to Capital Gains Tax; companies subject to Corporation Tax in respect of chargeable gains are not affected in any way.**

For disposals made on or before 6th April 2008, the following changes will be introduced:

- A single flat CGT rate of 18% - an individual's marginal tax rate is no longer relevant.
- Taper relief will be withdrawn completely for disposals and held over gains coming into charge on or after this date.
- Indexation Allowance will also be withdrawn, thereby affecting the calculation of CGT on assets acquired before 6 April 1998.
- The 'kink test' rules will be abolished. This means that all assets held on 31 March 1982 will be deemed to have a cost equivalent to their market value on that date - original cost is no longer relevant.
- The 'Last in First Out' basis of identifying shares for CGT purposes will be replaced with a simpler regime - all shares of the same class in the same company will be treated as a single asset ( a share pool) regardless of when they were actually acquired. The 'same day' rules and bed and breakfast rules are not affected, and the shares will be identified under those rules before they are identified with the new pool share.

There are no changes to the Annual Exempt Amount, to any of the CGT reliefs or to the use of allowable capital losses - these will continue to operate as before. Delay in the introduction of the changes gives a window of opportunity to take advantage of the existing system of taxing gains. As a minimum individuals in business should review their short and medium term strategies and take action if appropriate.

## CHRISTMAS DRINKS

We are delighted to invite you to our Annual Office Christmas Drinks on Thursday 20th December 2007 between 3.00pm - 6.00pm. It is slightly later than previous years but it should leave you a little longer to complete any last minute Christmas shopping and then unwind by joining us for a few drinks and a bite to eat.

**Friends and colleagues are more than welcome to join and we look forward to wishing you all a very Merry Christmas.**



# IS THERE GOING TO BE A HOUSE PRICE CRASH?

## Mark West

### **Predictions of a potential property slump are coming thick and fast. But is Britain on the cusp of a house price crash?**

Experts ranging from US economics gurus to Bank of England rate-setters have all warned the UK house prices could run into trouble. But property cheerleaders have been fighting back claiming the market is due a soft landing but no dramatic slump.

After years of robust house price inflation, the market appears to be cooling. The Land Registry reported monthly inflation for England and Wales of 0.3% for August and 0.4% for September - down on the 0.7% average over the past 12 months and considerably below the rises of around 1% per month seen earlier this year.

Suggestions that the market is cooling have been supported by a report from the Bank of England showing mortgage approvals for homebuyers slumped in September to 102,000 the lowest level for two years and 10,000 below the recent monthly average.

There are a number of theories as to what has applied the brakes to the property market.

Some point to the Bank of England hiking the cost of borrowing five times in less than a year. Other pundits highlight the banks and building societies tightening lending criteria,

especially those dealing with poor credit borrowers, due to the knock on effects of the US sub prime mortgage crisis.

These events have coincided with the first run on a British bank in more than 100 years during Northern Rock crisis, which severely dented public confidence, and the arrival of Home Information Packs, which estate agents claim are distorting the market and deterring speculative sellers.

Another major factor is that prices have continued to rise to record levels compared to income and even with affordability-based lending there is a limit to how much people can pay back.

The crucial driver of house prices, as with that of any asset, is confidence. When confidence is high, prices will continue to rise and people will continue to buy. But once uncertainty sets in demand slows. The public's confidence in the property market has taken a knock during 2007.

The term house price crash is an evocative one, conjuring up images of stock market-style collapses - but, of course, this is not the way that property prices work

The Black Monday stock market crash, 20 years ago, saw the Dow Jones lose 23% and the FTSE 100 lose 11% of their values in one day, with the FTSE 100 losing a total of 26% during the month of October.

When house prices crash you do not walk past the estate agents one morning to find every price has been cut by 10% overnight. For starters, it is an illiquid asset - most people live in their homes and are unlikely to sell them because the price will fall. Instead, a property slump starts with a steady drip of monthly negative growth or stagnation that is compounded over time and further exacerbated by inflation.

There are definite parallels between the UK property market now and before the 1990s crash, with rapid house price rises and seriously stretched affordability - back then it was high interest rates that were the issue, now it is huge mortgages.

But the crucial difference is that current economic prospects look benign compared to the early 1990s, when people were forced to sell their homes as prices fell, unemployment soared and negative equity took hold.

Any correction is likely to be a slow fall in values in real terms, as house price inflation dips below consumer price inflation.

What may happen is a big drop in transactions and market stagnation, with sellers sitting tight, buyers staying away and buy to let landlords proving more resilient than sceptics might think and content to sit on what they see as their pension.

## TAX EFFICIENT CHARITABLE DONATIONS

**To be eligible for the Gift Aid Scheme, you must be a UK taxpayer. Under the Gift Aid Scheme, if you are a basic rate taxpayer and give £100.00, then the total gift to charity would be £128.00, which will fall to £125.00 from next year when the basic rate of income tax is trimmed.**

Those people paying tax at 40% are able to reclaim the extra 18% tax they have paid for themselves on top of this through their tax returns.

The charity can only reclaim the basic rate of tax if you have paid enough tax in the tax year to cover the amount reclaimed on your gifts.

There are no minimum or maximum amounts you can donate to charity through the payroll scheme.

If you are a UK taxpayer, you can claim income tax relief on the value of quoted stocks and securities when you donate them to charity.