Cost of Cash ISAs – 20th Anniversary Edition

A report by Cebr for Scottish Friendly

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Cebr

Disclaimer

Authorship and acknowledgements
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Executive Summary

The 6th April 2019 will mark the 20th anniversary of ISAs, which since their inception have offered UK residents the opportunity to earn tax free returns on their savings.

The first part of this research analyses the returns associated with two of the most popular types of ISA: cash ISAs and stocks & shares ISAs. We find that since the original 'Cost of Cash ISAs' report in October 2018, a slight uptick in the average annual interest rate offered on savings deposited in cash ISAs, together with a more significant decline in inflation have improved real terms savings returns. With that being said, a saver who deposited money in a cash ISA in January 2018 at the average annual interest rate of 1.1% will still have seen a 0.7% decline in the real value of their savings.

We also examine a case in which an individual utilises their full ISA allowance each year from 1999 to the present. If all of these savings were deposited in cash ISAs paying the national average interest rate, a total of £21,331 of tax-free interest will have been accrued. This is around a third of the estimated £62,805 that will have been accrued had the same money been invested in stocks & shares ISAs tracking the FTSE All-Share Index.

The report then goes on to examine trends in the popularity of ISAs over their 20 year history, and how the use has changed among various demographics. Some of the key findings from this analysis are:

- The popularity of cash ISAs peaked in 2008/09 financial year, when 12.2 million people opened new accounts. However, this number began to decline significantly after 2014, in line with the deterioration of average returns.

- The popularity of stocks & shares ISAs fell significantly after the bursting of the dotcom bubble, and the number of new account openings per year has since hovered around 3 million.

- ISAs are most common in the South East and the South West of England, where 47% and 48% of adults respectively held an account as of 2016. They are the least popular in Northern Ireland, where less than a third (29%) of adults held an account in 2016.

- Since 1999, those belonging to lower and middle income groups have increasingly embraced the benefits offered by ISAs. The share of ISA holders among the bottom third of earners has increased from 40% in the financial year (FY) 1999/00 to 46% in FY 2015/16.

- The share of ISA subscriptions made by women rose from 47% in FY 1999/00 to 52% in FY 2015/16. However, male ISA holders still account for the majority of the total market value of ISAs, despite making up 49% of the population.

- Stocks & shares ISAs are primarily favoured by older age groups. Indeed, 56% of new stocks & shares ISA subscriptions were made by individuals aged 55 or older, despite this age group accounting for 36% of UK adults.

The final part of this report presents the findings from a survey of 4,000 adults, which explores their attitudes and behaviours with regards to saving. One of the standout findings is that individuals' financial concerns appear to have intensified since October last year. In particular, 56% of individuals are concerned about the impact that Brexit will have on their family's finances, while the share concerned about how they would cope with an unexpected bill or are worried about their debts has risen significantly since the last survey in 2018.

The survey also shows that bank or building society savings accounts are the most popular savings vehicle, with more than a third (38%) of respondents adding money to these on a monthly basis. The results also confirm that cash ISAs are more widely used than stocks & shares ISAs. Indeed, over one in five (22%) of respondents add money to a cash ISA on a monthly basis, compared to 8% who add money to a stocks & shares ISA each month. The main factors discouraging the use of stocks & shares ISAs are a fear of losing money, a lack of sufficient funds, and the complexity associated with these accounts.

In general, individuals in the survey are pessimistic about the UK's economic outlook, which is likely to have an effect on savings patterns in the coming months. Indeed, 41% of respondents stated that they will move some savings into a cash deposit account over the next 12 months as a result of the UK's economic outlook.

1 Introduction

Individual savings accounts (ISAs) were introduced on 6th April 1999, providing a savings vehicle through which UK households could enjoy tax-free returns from their savings. Stocks & shares ISAs replaced Personal Equity Plans (PEPs), while cash ISAs replaced Tax-Exempt Special Savings accounts (TESSAs). ISAs differed from their predecessors in their annual investment limits as well as in the degree of flexibility offered. For instance unlike cash ISAs, TESSAs had a five-year fixed term, and early withdrawals led to a forfeiture of some of the tax benefits.[1] There are currently a range of different types of cash ISA available to UK savers, including easy-access accounts, which typically pay a variable rate of interest and allow access at any time without a penalty, and fixed-rate accounts, which pay a fixed interest rate over a specified period of time, with restrictions on early withdrawals. Meanwhile, stocks & shares ISAs can contain a range of investments including stocks & shares, government bonds, corporate bonds and cash.

This April will mark the 20th anniversary of the introduction of ISAs – a period encompassing several historic economic and political events which have shaped savings behaviours and outcomes, including the bursting of the dotcom bubble, the global financial crisis in 2008/09 and the UK's vote to leave the European Union in June 2016. This report explores in detail the 20-year history of ISAs. The first section of this report analyses the interest rates offered to UK savers for cash ISAs and stocks & shares ISAs, and the real returns that these have provided over the past 20 years. The second part of the report examines how the use of ISAs as a savings vehicle has evolved over time among different regions, income brackets, age groups and genders. Part three of the report presents the results of a 4,000 person consumer survey, which provides a snapshot of the savings behaviours and preferences in the UK today.

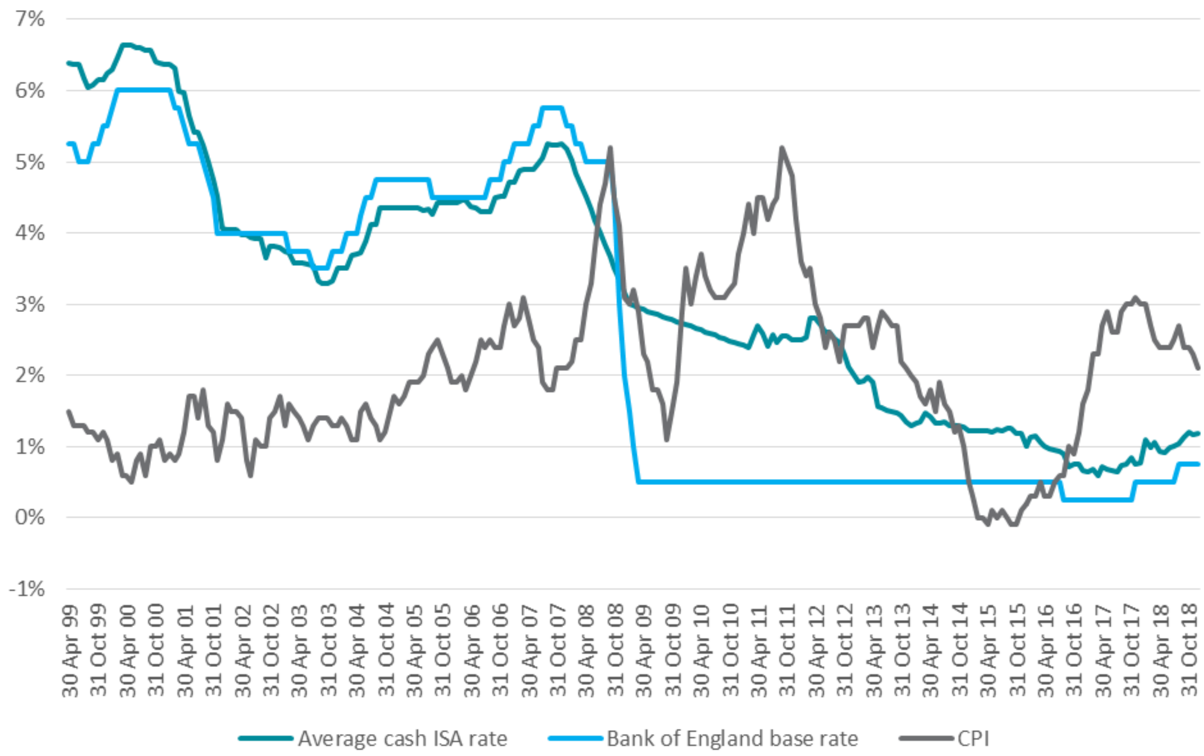
[1] https://www.independent.co.uk/money/tax-exempt-special-savings-accounts-strict-but-simple-rules-keep-your-savings-sweet-1276431.html

2 Cash ISA interest rates climb at the end of 2018, but real returns remain negative

2.1 Cash ISA returns

Over the 20 years since ISAs were introduced in April 1999, the annual interest rate offered on cash ISAs has averaged 3.2%. During the same period, the annual rate of CPI inflation has averaged just over 2%. This means that cash ISA savers have on average seen real returns after inflation of 1.2% per year. The history of the real returns realised by cash ISA savers can be divided into two distinct periods: pre-financial crisis and post-financial crisis. Between 1999 and 2008, average interest rates on cash ISAs were comfortably above the rate of inflation, leading to average annual real returns of 3.1% during this period. However, since the Bank of England slashed its base rate in 2008 and 2009 in order to support the economy during the global financial crisis, the interest rates on cash ISAs have fallen considerably – to a low of 0.59% in March 2017. This has meant that bouts of high inflation – such as the period following the VAT hike in 2011 or the UK's vote to leave the European Union in 2016 – have driven cash ISA savers' real returns into negative territory. Indeed since 2008, annual real returns on cash ISAs have averaged -0.1%, and over the last two years they have averaged -1.8%.

Figure 1 Cash ISA interest rates, BoE base rate and CPI inflation rate since introduction of ISAs in April 1999



Source: Bank of England, Office for National Statistics, Cebr analysis

Since the original Cost of Cash ISAs report, the average annual interest rate offered on savings deposited in cash ISAs has edged up slightly, from 1.04% in August 2018 to 1.18% in December 2018 – a 13% increase. This suggests that the Bank of England's rate hike in August did have some impact on the interest rates offered to cash savers. Meanwhile, the annual rate of CPI inflation has also fallen significantly from 2.7% in August to 1.8% in January, driven by the sharp decline in oil prices throughout the final quarter of 2018 as well as heavy discounting by retailers ahead of the crucial Christmas period. These developments have boosted the real terms returns available to cash ISA savers. However, a saver who deposited money in a cash ISA in January 2018 at the average annual interest rate of 1.1% will still have seen a 0.7% decline in the real value of their savings – despite the recent moderation of inflation.

Looking ahead, Cebr forecasts that CPI inflation will average 2.0% in Q1 2019, before edging back up to 2.2% by the end of the year. This means that those saving money in cash ISAs at the current average annual interest rate of 1.18% are highly likely to experience a real terms decline in the value of their deposits. The inflation outlook for 2019 – and consequently the real terms returns for cash savers – will be influenced heavily by Brexit. A no-deal scenario would likely be met by a depreciation of the pound, which would drive up import prices and overall inflation. Meanwhile the policy that the government chooses to follow with regards to tariffs could either reduce consumer prices (if tariffs are unilaterally waived by the UK) or increase consumer prices (if tariffs are applied on EU imports which were previously tariff-free).

2.2 Stocks & shares ISA returns

Since April 1999, the annual return delivered by the FTSE All-Share Index – which includes over 600 companies listed on the London Stock Exchange – has averaged 6.3%. Taking into account inflation and account fees[2], the average annual real return available to stocks & shares ISA savers since 1999 has been 2.9%. This is more than double the corresponding figure of 1.3% for cash ISAs. As of February 21st 2019, stocks & shares ISAs tracking the FTSE All-Share Index will have delivered effective annual returns of 3.6% over the last two years, 5.2% over the last five years, and 5.0% over the last 20 years going back to 1999.

While the low interest rate environment created by the Bank of England since 2008 has suppressed cash ISA returns, it is widely thought to have boosted equity prices and hence returns from stocks & shares ISAs. There are numerous ways in which low interest rates can impact the stock market. Lower borrowing costs for businesses lead to higher levels of investment, increasing prospects for future earnings and hence stock prices. Also, lower interest rates increase the levels of disposable income for households that are in debt, which in turn boosts spending and company revenues. Additionally, access to cheap finance makes it easier for companies to borrow in order to conduct share buybacks.

2.3 Stylised case studies

To examine the typical returns that individuals using cash ISAs or stocks & shares ISAs may have seen over the past 20 years that ISAs have been available, we have revisited the following case studies from the original Cost of Cash ISAs report[3]:

1. An individual who saves the maximum permitted amount in a cash ISA each year at the average available interest rate for that year[4].
2. An individual who saves the maximum permitted amount in a stocks & shares ISA which tracks the FTSE All-Share Index, with an annual fee of 1.4%.

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[2] A review of the current market shows that these fees vary significantly between different providers, but on average are around 1.4% per year.

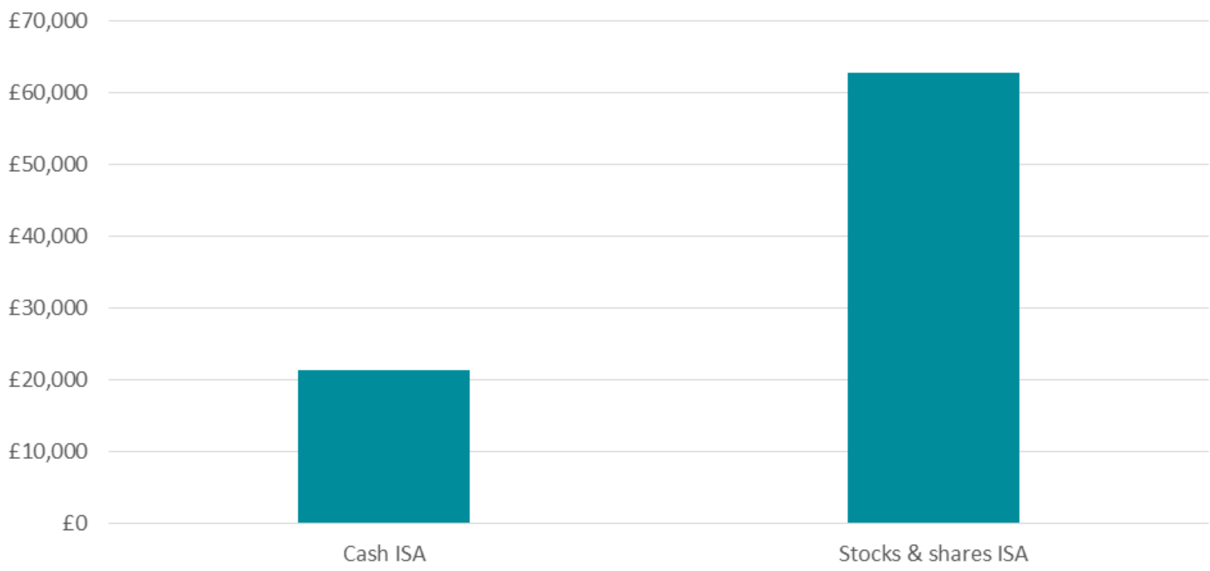
[3] In calculating savings returns for each case study, we have used data running from 1st April 1999 to 1st October 2018. Data on average annual interest rates on cash ISAs is published by the Bank of England. Data on total returns from the FTSE All-Share Index is published by the Financial Times Stock Exchange.

[4] The annual individual allowance for ISAs has risen from £3,000 in the 1999/2000 financial year to £20,000 in the 2017/18 financial year.

Case studies 1 and 2 examine a case in which an individual utilises their full ISA allowance each year from 1999 to the present. In total, this would equate to £131,860 being invested in cash ISAs over the last twenty years. Assuming that the interest rate received on these savings corresponded to the national average each year, a total of £21,331 of tax-free interest will have been accrued. This is around a third of the estimated £62,805 that will have been accrued had the same money been invested in stocks & shares ISAs tracking the FTSE All-Share Index.

The estimated returns from stocks & shares ISAs are £8,182 lower than estimated in the original Cost of Cash ISAs report in October 2018. This is attributable to the significant stock market correction that took place at the end of last year. Indeed, over the final quarter of the year, the FTSE All-Share Total Returns Index fell by over 11%. This is in line with the volatility in equity markets observed across the world during this period, reflecting investor concerns about the US-China trade war, the normalisation of interest rates in the US and the overall slowdown of the global economy.

Figure 2 Gains from investing maximum annual ISA allowance into cash ISAs since 1999 vs gains from investing in stocks & shares ISAs



Source: Bank of England, Office for National Statistics, Financial Times Stock Exchange, Cebr analysis

3 The 20-year history of ISAs

3.1 UK-wide trends in the use of ISAs

Number of accounts opened each year

Each financial year, all UK residents aged 16 or over have the opportunity to open a new cash ISA, and all those aged 18 or over have the opportunity to open a new stocks & shares ISA in addition. This section of the report examines the degree to which UK residents have embraced the chance to open ISAs each financial year. During the first 12 months after ISAs became available, 4.6 million opened a cash ISA. The popularity of cash ISAs increased consistently in the following years, reaching a peak in FY 2008/09 when 12.2 million people opened new accounts. The number of new cash ISA subscriptions each year hovered between 11 million and 12 million over the subsequent four years before beginning to decline significantly after 2014, in line with the deterioration of average returns described in Section 2 of this report. In FY 2017/18, just 7.8 million people opened a new cash ISA account. This is 8% down on the previous year and marks the lowest number of new accounts since 2002.

Figure 3 Number of cash ISAs opened by financial year[5]

Source: HMRC

The popularity of stocks & shares ISAs took a significant hit following the bursting of the dotcom bubble between 2000 and 2003, which saw the FTSE All-Share Index shed over 40% of its value. In FY 2000/01, just over 5 million people opened a stocks & shares ISA, compared to 2.7 million in FY 2004/05[6]. While the number of annual subscriptions has increased somewhat in subsequent years, it has not reached the levels seen at the turn of the millennium. There was a small spike in popularity between 2009 and 2011. One potential explanation for this is that while the volatility in equity markets during the financial crisis

[5] FYE refers to the calendar year in which the financial year ends (financial year ending)

[6] Subscriptions to maxi ISAs – which were available until FY 2008/09 – have been included within the stocks & shares ISA category. Although in theory, funds could be deposited as cash into maxi ISAs, in practise many providers only offered a stocks & shares option.

will have deterred many investors, the dramatic falls in stock prices also created pockets of opportunity for new entrants to the stock market.

Figure 4 Number of stocks & shares ISAs opened by financial year

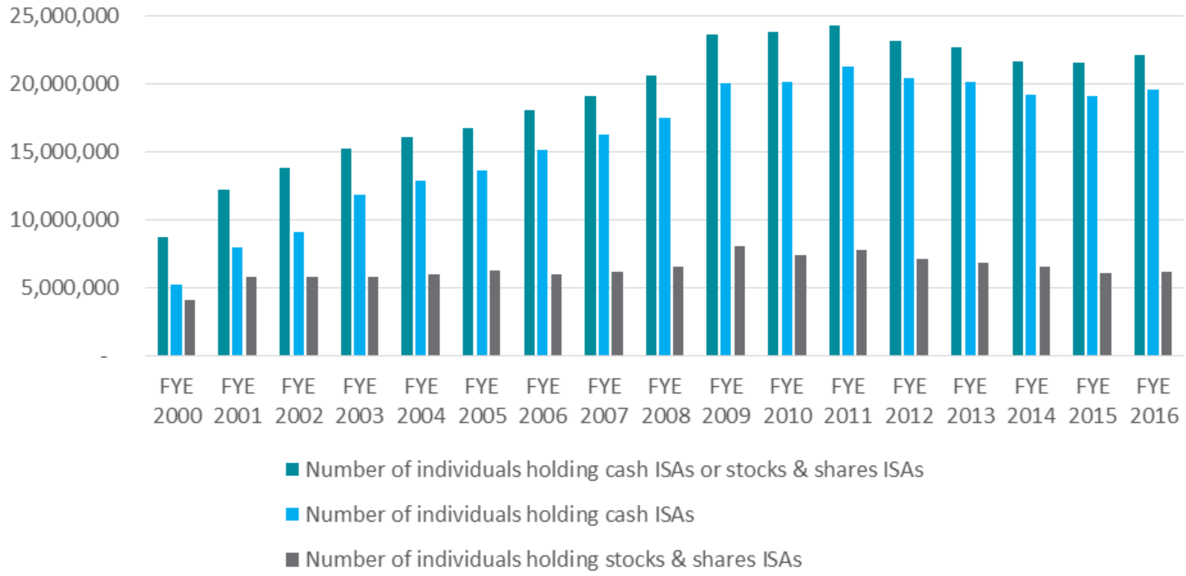
Source: HMRC, Cebr analysis

Total number of ISA holders

New account subscriptions each year often come from individuals who already hold at least one ISA. Therefore, to explore the popularity of ISAs among the population as a whole it is important to also look at the total number of adult residents who hold either a cash ISA or a stocks & shares ISA. The number of individuals with a cash or stocks & shares ISA climbed consistently in the years following their introduction, peaking at 24.4 million adults in 2011. Since then, the number has been on the decline and stood at 22.1 million in 2016 (the latest period for which data are available). This is consistent with the fall in new account subscriptions for cash ISAs described above.

Interestingly, the number of individuals holding a stocks & shares ISA fell from 8.1 million in 2009 to 6.2 million in 2016. However, among individuals who hold a stocks & shares ISA, the average market value of their accounts has increased from £25,890 in 2011 to £51,306. This indicates the savings vehicle is highly popular among those who already have an account, but it has become less ubiquitous among the wider population. This is consistent with the overall decline in savings rates among UK households since the financial crisis.

Figure 5 Number of individuals holding ISAs by financial year



Source: HMRC, Cebr analysis

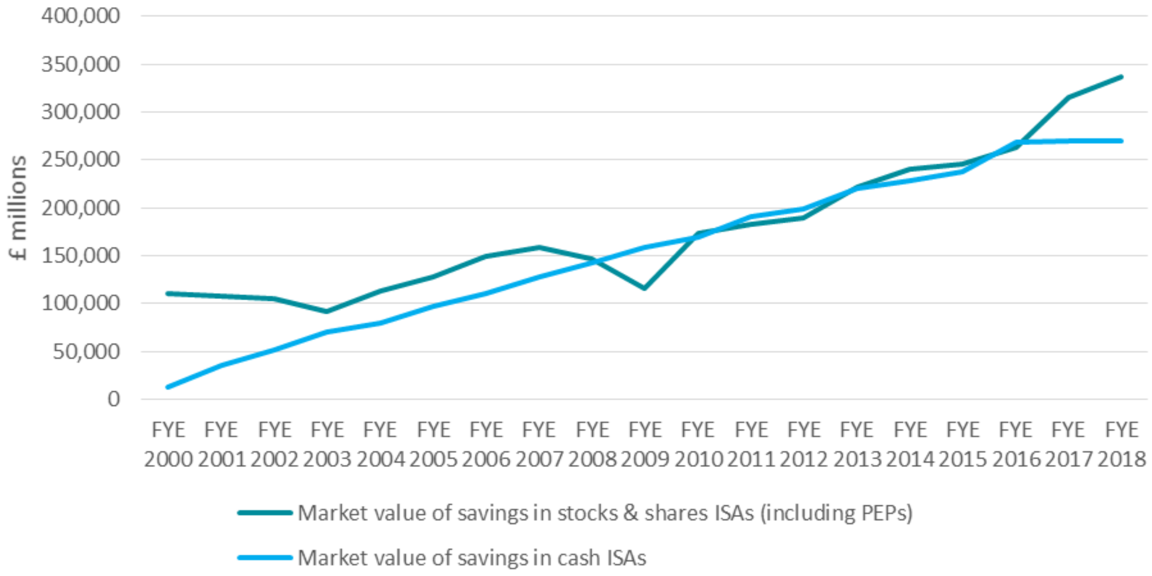
Average account size

The average amount deposited in newly opened ISAs has increased markedly over the past decade. In FY 2008/09, the average amount saved in a new cash ISA was £2,483. By FY 2017/18, this had risen to £5,114. Similarly over the same period, the average amount saved in new stocks & shares ISAs has soared from £3,281 to £10,124. This pattern can be linked closely to the nearly threefold increase in the annual ISA allowance from £7,000 in 1999 to £20,000 today. These findings confirm that a substantial portion of ISA savers are indeed constrained by the annual allowance, and that changes to this limit are therefore an effective tool to influence the average amount saved. The results also indicate that levels of investment into stocks & shares ISAs are more sensitive to changes in the annual allowance than levels of investment into cash ISAs. This is consistent with the fact that stocks & shares ISA savers on average are held by higher income groups, meaning that they are more likely to be constrained by the annual subscription limit.

Market value of ISA savings

In April 2018, the market value of cash ISAs stood at £270 billion. Meanwhile, £337 billion was held in stocks and shares ISAs. In 2010, the market value of cash ISAs (£169 billion) was similar to that of stocks & shares ISAs (£174 billion), and over the subsequent six years the market value of the two account types grew at a similar rate. However since 2016, the value of savings held in cash ISAs has flatlined while the value of savings in stocks & shares ISAs has continued to climb. The introduction of the Personal Savings Allowance in 2016 allowed basic rate taxpayers to earn up to £1,000 in savings income tax-free, nullifying one of the primary advantages of cash ISAs. This, together with the decline in interest rates on cash ISAs, has contributed to the divergence in the market value of cash ISAs and stocks & shares ISAs since 2016.

Figure 6 Market value of ISA savings



Source: HMRC, Cebr analysis

3.2 Regional breakdown

Since 2010, the share of adults holding an ISA has declined in all of the UK's regions. ISAs are most common in the South East and the South West of England, where 47% and 48% of adults respectively held an account as of 2016. They are the least popular in Northern Ireland, where less than a third (29%) of adults held an account in 2016. The share of adults with ISAs in London and Scotland was also well below the UK average in 2016.

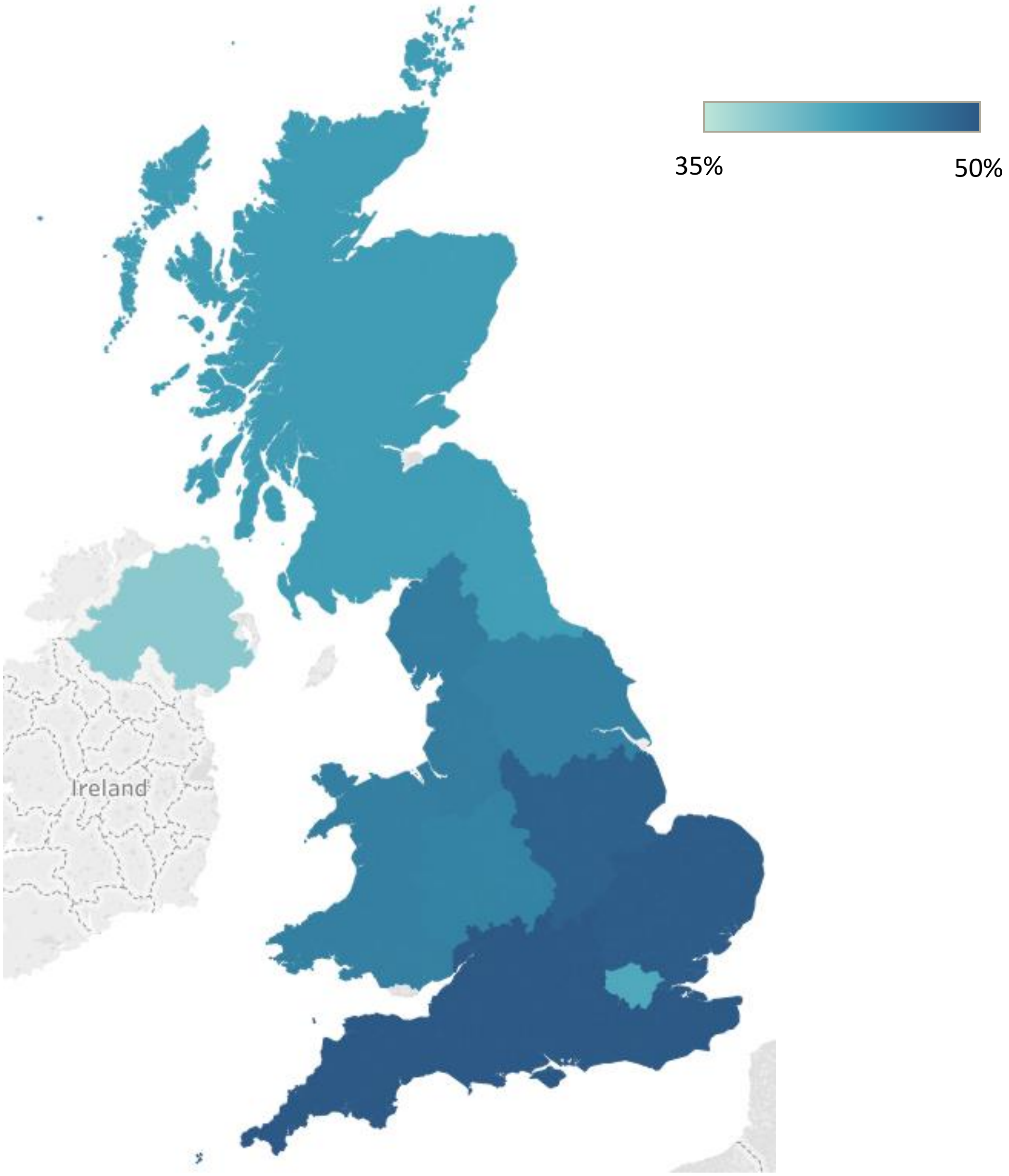
Figure 7 Share of eligible adults with an ISA, 2010 & 2016

Source: HMRC, ONS, Cebr analysis

The South East and the South West also have the highest rates of new account openings. In 2016, 22% of eligible adults in the South West opened a new cash ISA, and 6% opened a new stocks & shares ISA. In Northern Ireland, just 11% opened a new cash ISA in 2016, while 3% opened a new stocks & shares ISA.

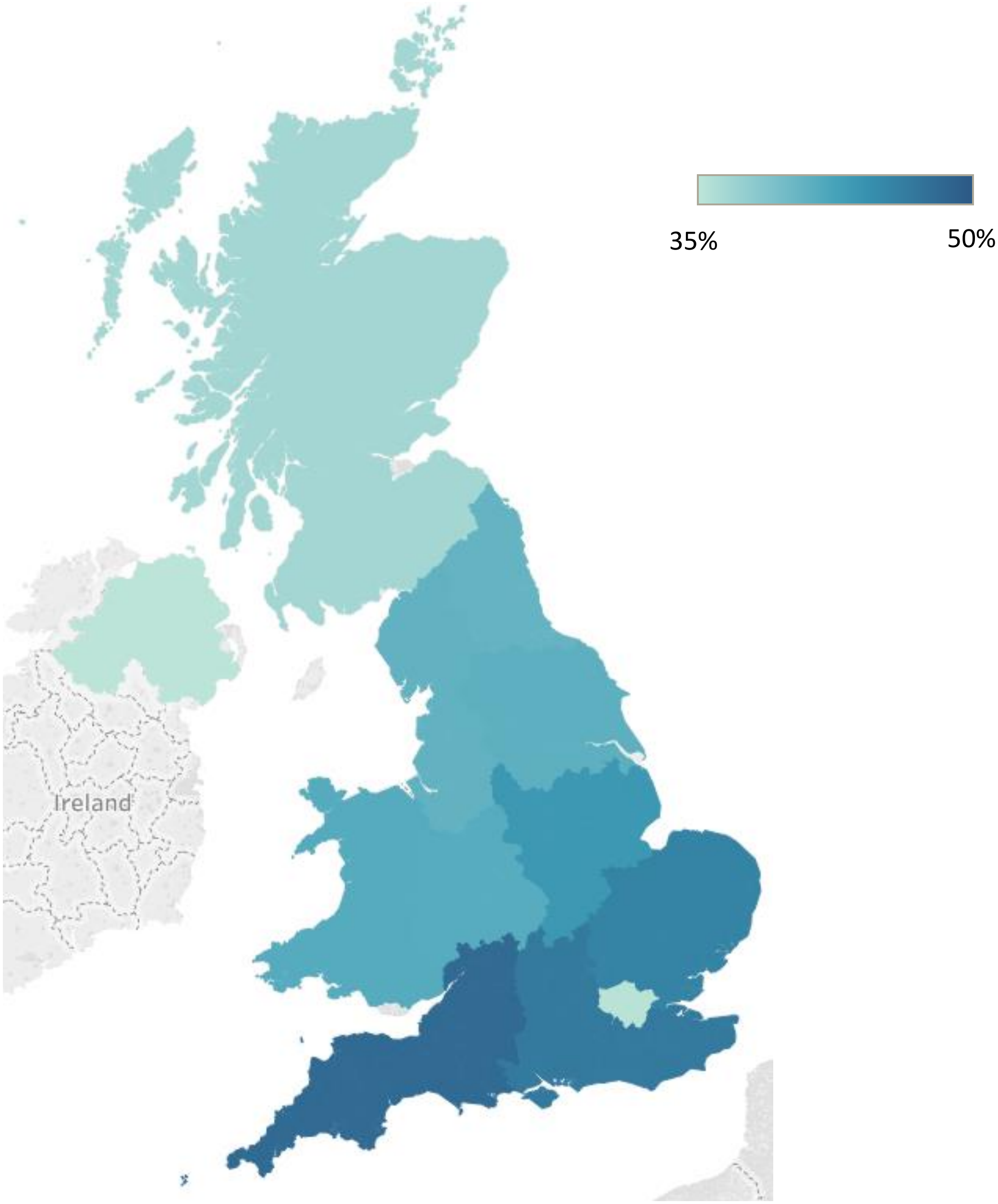
The following regional heat maps further illustrate how the share of adults holding ISAs has fallen throughout the UK between 2010 and 2016. However, the relative popularity of ISAs across the UK's regions has not changed significantly between 2010 and 2016, with regions in the South of England (excluding London) consistently displaying the highest rates of ISA ownership, while Northern Ireland, Scotland and London have lagged behind the rest of the UK.

Figure 8 Share of adults with ISAs, by UK region, 2010



Source: HMRC, ONS, Cebr analysis

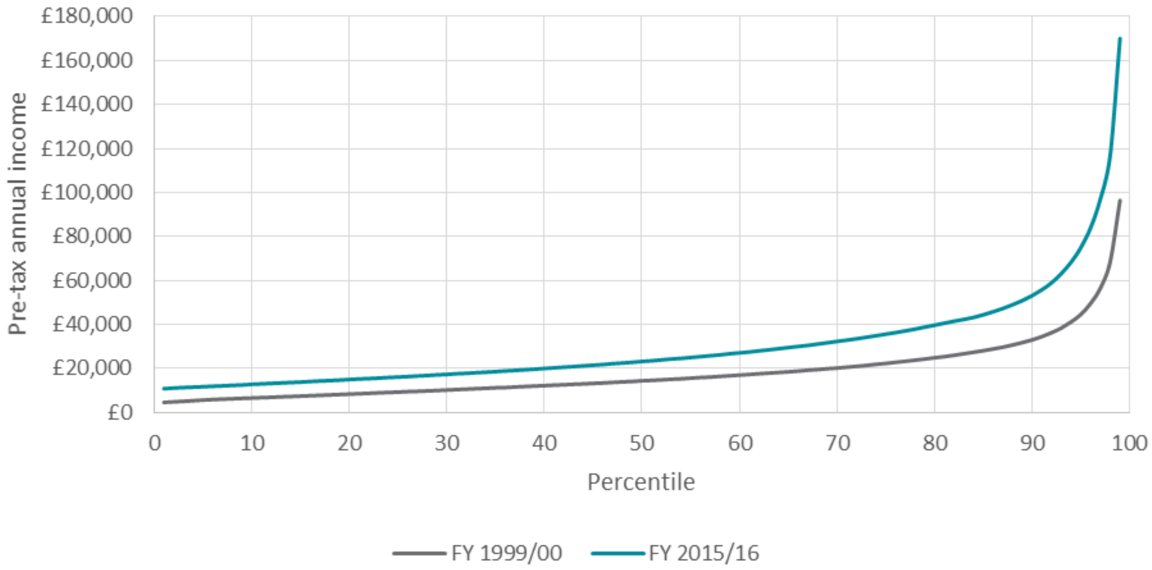
Figure 9 Share of adults with ISAs, by UK region, 2016



3.3 Income breakdown

Since 1999, the income distribution of the UK has changed considerably. According to HMRC, in FY 1999/00 over two-thirds (69%) of taxpayers earned less than £20,000 per year before tax. In FY 2015/16, just 40% of taxpayers earned less than £20,000 per year. Similarly, the share of taxpayers earning less than £10,000 per year has fallen from 29% in FY 1999/00 to 12% in FY 2009/10 and less than 1% in FY 2015/16. This growth in incomes across the spectrum of taxpayers reflects a combination of inflation and real increases in earnings.

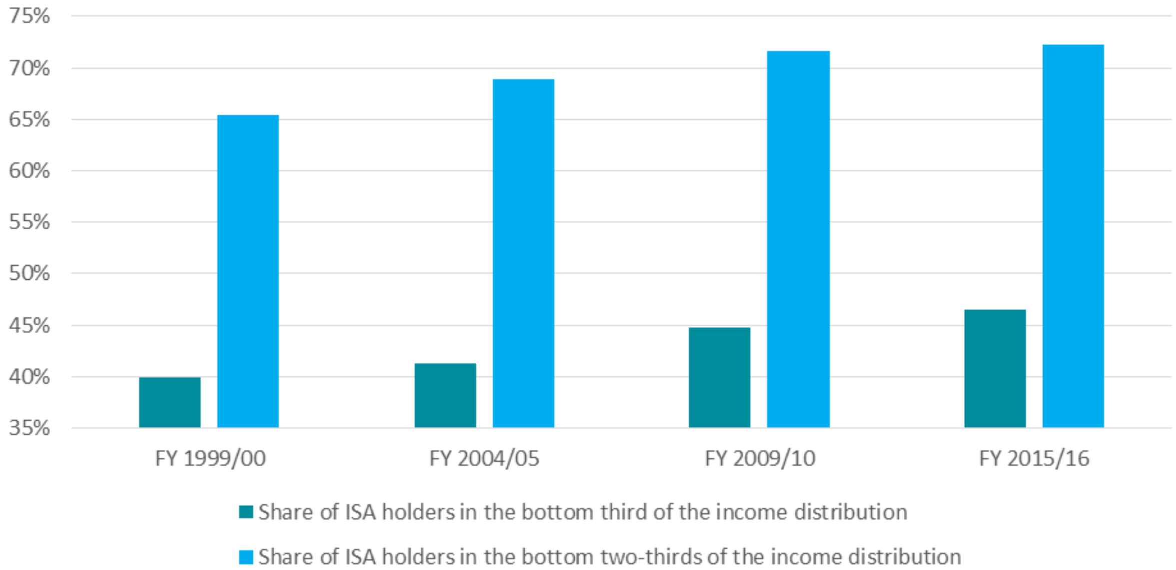
Figure 10 Distribution of pre-tax annual income, FY 1999/00 & FY 2015/16



Source: ONS, Cebr analysis

Given the transformation of the income distribution over the 20-year lifespan of ISAs, it would not be valid to compare the share of ISA holders with an annual income below £20,000 in 1999 and 2019, since this group now makes up a substantially smaller part of the adult population. Instead, we have examined how the share of ISA holders that are in the bottom third and bottom two-thirds of the income distribution has changed since 1999. In FY 1999/00, an estimated 40% of ISA holders had an income below that of the bottom third of UK taxpayers. This share has risen gradually in recent years, reaching 46% in FY 2015/16. Meanwhile, the share of ISA holders with an annual income below that of the bottom two-thirds of UK taxpayers has risen from 65% in FY 1999/00 to 72% in FY 2015/16. These results show that since 1999, those belonging to lower and middle income groups have increasingly embraced the benefits offered by ISAs.

Figure 11 Share of ISA holders from lower and middle income brackets



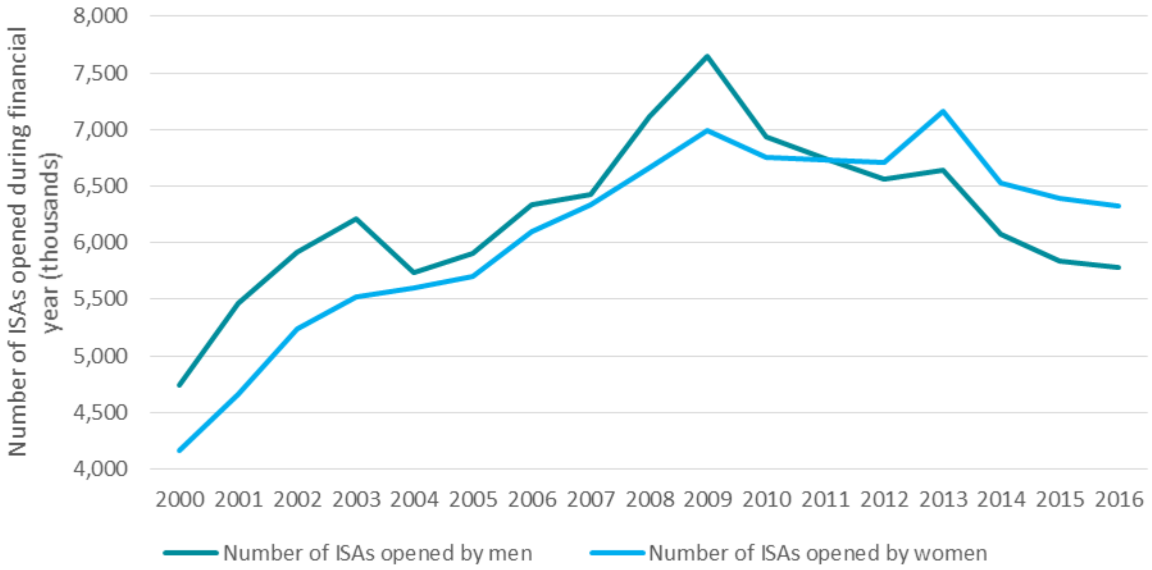
Source: HMRC, ONS, Cebr analysis

Although lower and middle income groups have been accounting for a growing share of the total pool of ISA holders, the market value of ISAs is disproportionately concentrated among higher earners. In FY 2015/16, nearly a fifth (18%) of the total value of ISAs was held by individuals with annual incomes in excess of £50,000. This is despite just 11% of taxpayers falling into this income group.

3.4 Gender breakdown

Over the past 20 years, ISAs have become increasingly popular among women. During the first year that ISAs were available, 47% of ISA subscriptions were made by women – despite them making up 52% of the adult population. However since 2009, the share of ISAs being opened by women each year has been on the rise. Indeed, women for the first time accounted for the majority of ISA subscriptions in FY 2011/12. By FY 2015/16, the percentage of new accounts opened by women had climbed to 52%. This phenomenon can be attributed in part to the rising share of women participating in the workforce, which has boosted incomes and correspondingly the demand for savings vehicles such as ISAs. In 1999, around 65% of working age women were employed, compared to more than 71% today.

Figure 12 Number of ISAs opened per year, by gender



Source: HMRC, Cebr analysis

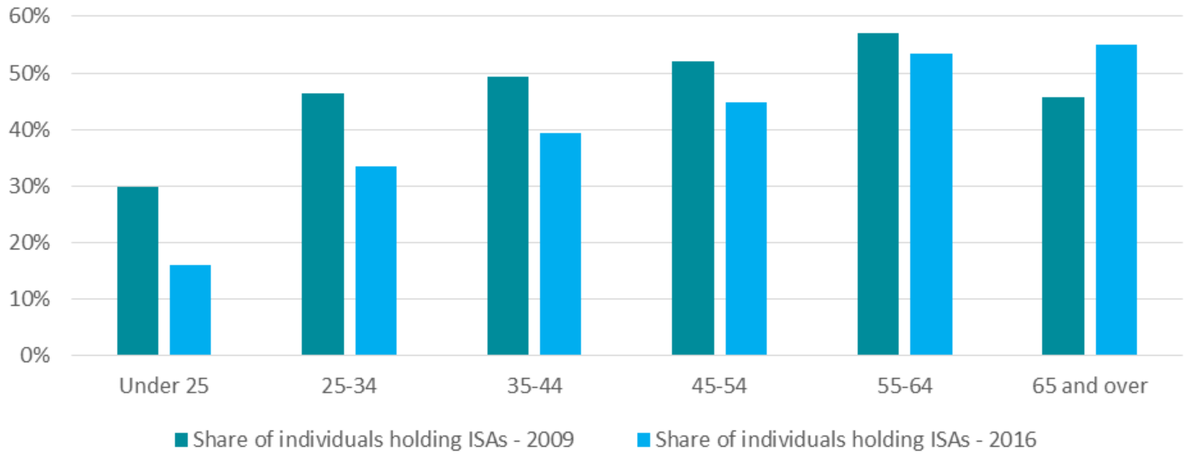
During the 2015/16 financial year, a total of 11.3 million women held an ISA, compared to 10.8 million men. However, the average market value of ISAs was £25,459 for men – 12% higher than the corresponding figure for women (£22,680). This means that male ISA holders still account for the majority (52%) of the total market value of ISAs, despite making up 49% of the population. In FY 2010/11, male ISA holders accounted for 53% of the total value. This highlights that while the gender gap in the number of account holders has closed over the past 20 years, further progress is needed in order to balance the market value of ISAs held by women and men. The current imbalance is likely a reflection of differences in average earnings between men and women.

3.5 Age breakdown

In the 2015/16 financial year, 5.3% of ISA holders were aged under 25. A further 13.5% were aged between 25 and 34, while nearly half of ISA holders (48%) were aged 55 or older. This highlights that a disproportionate share of ISA holders belong to older generations. Analysing data for earlier years shows that the age distribution of ISA holders has become less balanced over time. In 2009, adults aged over 54 accounted for just 37% of total ISA holders, while 25% of ISA holders were aged under 35.

The share of adults holding an ISA has fallen between 2009 and 2016 for all age categories apart from the 65 and over age group. The largest declines were recorded in the under 25 and 25 – 34 age groups. According to the ONS' Annual Survey of Hours and Earnings, the median pay among all employee jobs increased by just over 8% between 2009 and 2016. However for the 60 and over age group, median pay rose by more than 11% over the same period. This is one factor which may have driven up the share of ISA holders that are in older age groups.

Figure 13 Share of individuals with ISAs, by age group



Source: HMRC, ONS, Cebr analysis

The latest available data shows that stocks & shares ISAs are primarily favoured by older age groups. Indeed, just 1.2% of new stocks & shares ISA subscriptions in FY 2015/16 came from individuals aged under 25, while 4.4% came from individuals aged between 25 and 34. Meanwhile, 56% of new stocks & shares ISA subscriptions were made by individuals aged 55 or older, despite this age group accounting for 36% of UK adults.

A more balanced picture emerges when analysing the data for cash ISA subscriptions. Indeed, the under 25 age group accounted for 9.9% of new cash ISA subscriptions in FY 2015/16, while those aged 25 – 34 accounted for 19.3%. This is roughly in line with the share of adults that are aged 34 or under (30%). Meanwhile, 39% of new cash ISA subscriptions were made by individuals aged 55 or over.

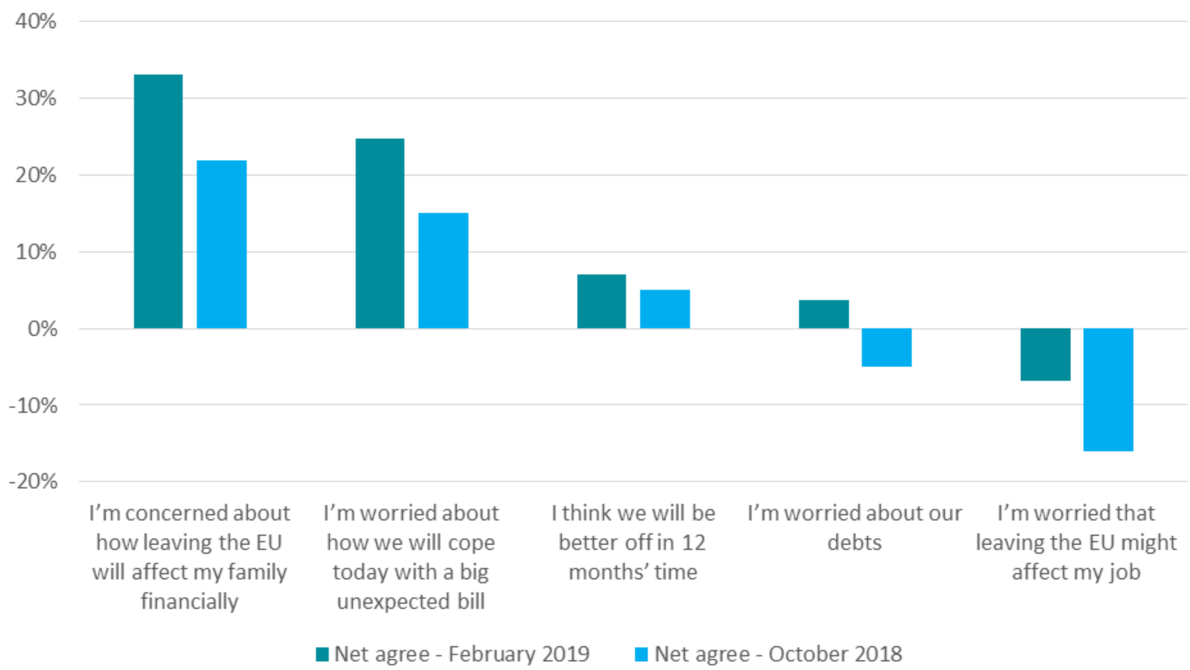
4 Financial concerns intensify in 2019

While the above sections of the research have examined trends among UK savers over time, the following section presents the results of a 4,000 person consumer survey, which provides a snapshot of the savings behaviours and preferences in the UK today.

4.1 Financial concerns

Amid the backdrop of a slowing domestic and global economy and prolonged economic and political uncertainty, individuals' financial concerns appear to have intensified since October last year. The continued lack of clarity on the nature of the UK's future relationship with the EU has led to an increased share of individuals (56%) who are concerned about the impact that Brexit will have on their family's finances. Meanwhile, a net of 25% of individuals are worried about how they would cope with a large and unexpected bill, compared with 15% last year, while a net of 4% are worried about their debts – up from -5% in October 2018. This reflects the rapid growth in consumer credit that took place after 2016 and has only recently started to subside, which has left many households' finances in a more precarious state.

Figure 14 Individuals' main financial concerns



Source: 3Gem, Cebr analysis

The annual rate of average earnings growth in the three months to December was the highest it's been since 2008. However, this does not appear to have translated into a substantial boost to disposable incomes for many households, with 39% of survey respondents stating that they have less money left at the end of the month after paying for essentials than they did 12 months ago.

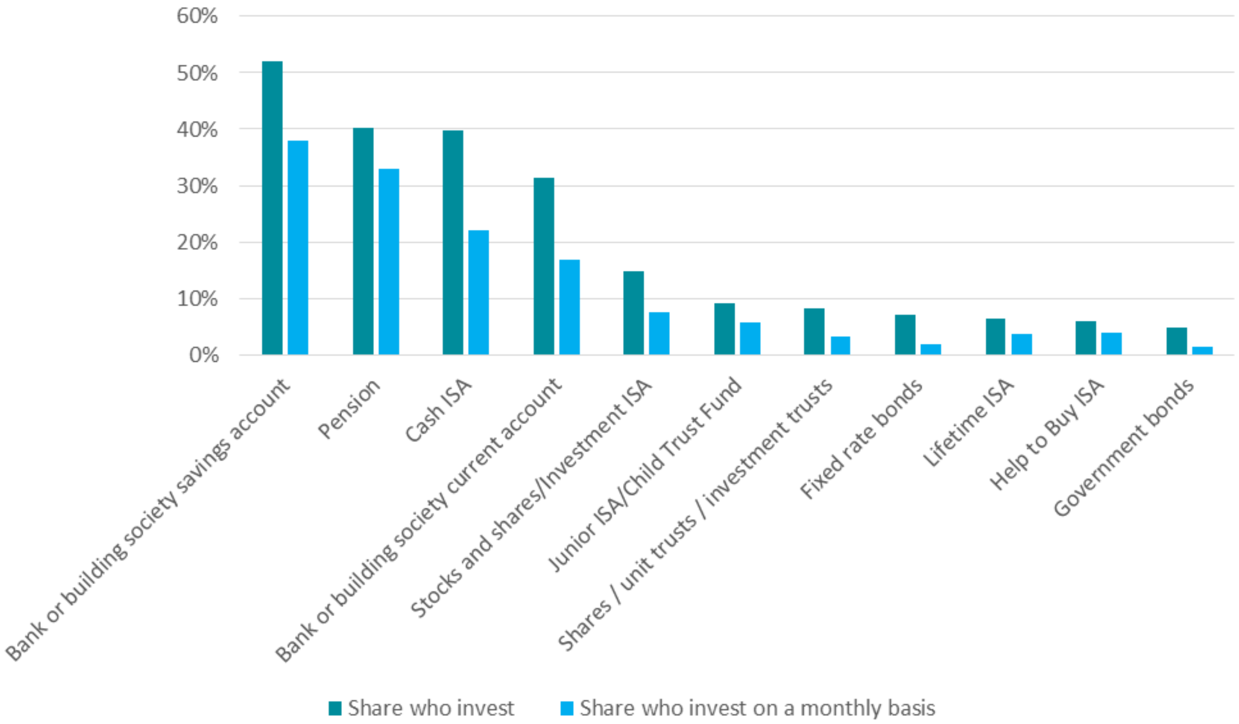
4.2 Attitudes and behaviours to saving and investment

The results of the consumer survey show that the majority (59%) of individuals save at least once a month. Millennials are the generation that save the most frequently, with nearly one in five (19%) saving more than once a month, compared to 16% of individuals in Generation Z, 12% in Generation X and 8% of baby boomers.

Bank or building society savings accounts are the most popular savings vehicle, with more than a third (38%) of respondents adding money to these on a monthly basis. Meanwhile, one in three (33%) save money into their pension each month, while just over one in five (22%) add money to a cash ISA on a monthly basis.

Investment in stocks & shares remains a significantly less common savings option than depositing into cash accounts. 8% of survey respondents indicated that they deposit money into a stocks & shares ISA each month, while just 3% invest into shares, unit trusts or investment trusts. This figure falls to 2% among those in the sample aged 34 or under. With that being said, there is evidence from the survey that younger people are increasing their engagement with the stock market. Nearly one in 10 (9%) of individuals aged 25 – 34 saved money in a stocks & shares ISA for the first time over the past 12 months, compared to around 3% of those aged over 44. The survey results show that the low rates of interest available on cash accounts in recent years have been a major consideration for those opening new stocks & shares ISA over the past 12 months, with 80% indicating that this was a driving factor.

Figure 15 Popularity of different savings vehicles



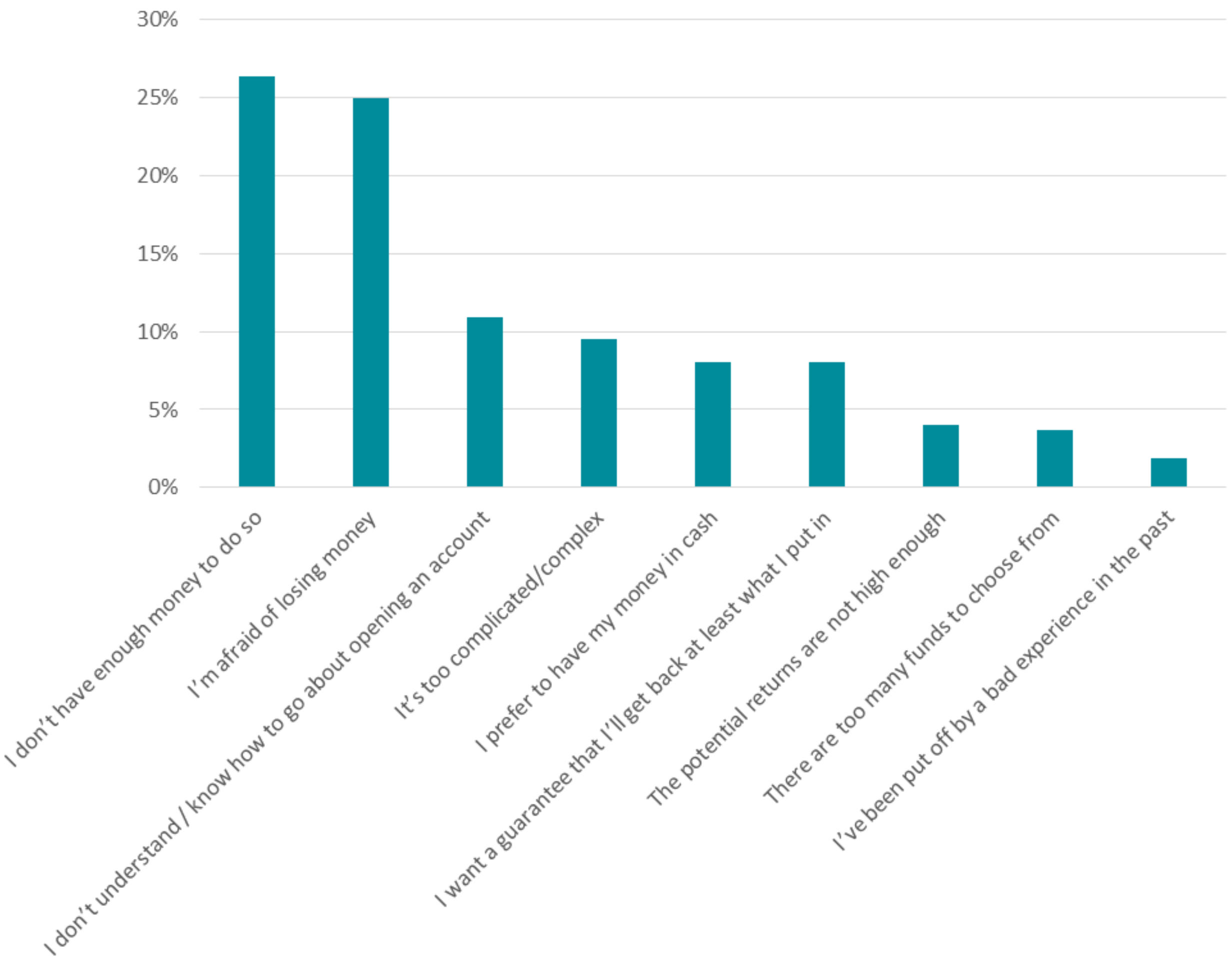
Source: 3Gem, Cebr analysis

While the share of individuals who feel confident when it comes to investing (41%) is greater than the share who do not feel confident (29%), this result still points to a sizeable chunk of the population that do not feel comfortable with certain savings vehicles. This is also reflected in the fact that just 13% of individuals in our survey currently have a stocks & shares ISA, while nearly two-thirds (65%) have never had one. The relatively small share of the population that have a stocks & shares ISA appear to be satisfied with their experiences so far with this savings vehicle, with the majority (56%) in our survey stating they regret not having opened an account earlier.

Around one in five (19%) of those who used to have a stocks & shares ISA but do not anymore, indicated that they closed their account within the past two years. There are a number of forces which could have driven this, including the recent stock market turmoil, as well as the decline in average real earnings that took place through much of 2017. This will have put many households' finances under strain, inducing some to transfer their savings from stocks & shares ISAs to accounts where the funds are more readily accessible.

Among those who do not have a stocks & shares ISA, a quarter (25%) say that a fear of losing money is the main factor behind this, while 26% indicate that they do not have enough money to do so. While many stocks & shares ISAs are available that do not require a minimum deposit, they are usually associated with account fees which makes the accounts a less viable option for many savers. Informational barriers represent another major obstacle to opening stocks & shares ISAs. 11% of those without a stocks & shares ISA cited not understanding or not knowing how to open an account as the main reason for not having one, while one in 10 (10%) stated that the savings vehicle was too complicated.

Figure 16 Reasons listed for not having a stocks & shares ISA



Source: 3Gem, Cebr analysis

Despite the relatively low uptake of stocks & shares ISAs compared to other savings options, the survey provides evidence that there is an appetite for these accounts if solutions are offered to the types of issues described above. Indeed, 28% would either probably (20%) or definitely (8%) consider opening a stocks & shares ISA if their concerns were allayed. While the risks of losing money are an intrinsic part of investing in the stock market, there is the potential to increase uptake of stocks & shares ISAs through increasing education and awareness of the accounts, and simplifying the application and management processes.

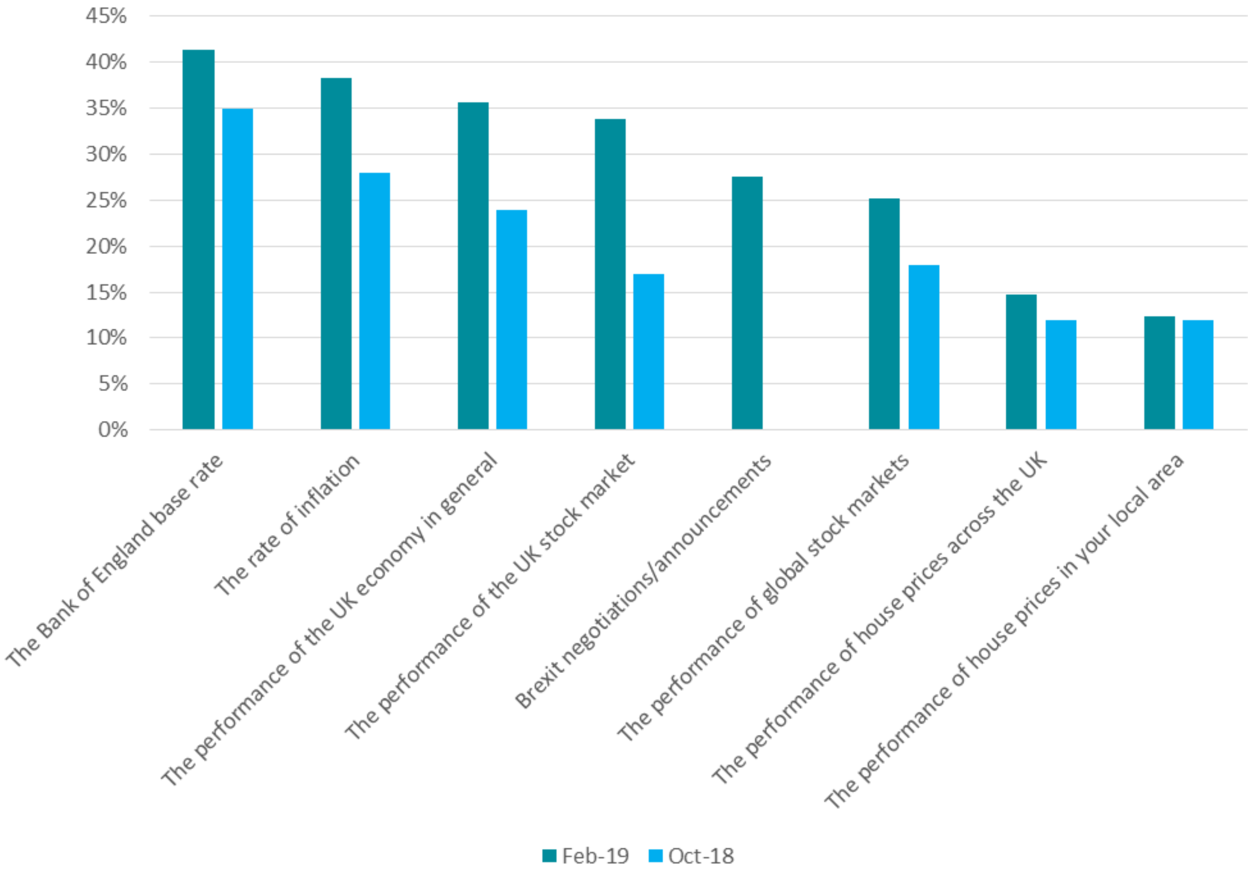
The survey then goes on to ask individuals about which savings vehicles they feel are most appropriate for certain financial goals. In the majority of cases, respondents most commonly selected the savings vehicles that are tailored to that specific financial goal. For instance, one in three (32%) stated that a help to buy ISA was the best option for saving towards a house, while 28% said that a junior ISA or child trust fund was the best option for saving towards a child's education. For less long-term financial goals, such as purchases of a car, holiday or general savings for a rainy day, the most popular accounts are those in which funds are more readily accessible – in particular bank or building society savings accounts.

4.3 Impact of UK's economic outlook on savings

Collectively, individuals in the survey have a pessimistic view on the UK economy. Indeed, 41% of respondents said that they have a negative outlook for the UK economy over the next 12 months, compared to just over a quarter (26%) who have a positive outlook. The UK's currently shaky economic footing appears to be increasing consumers' appetites for lower risk savings vehicles, namely cash accounts. 41% of respondents stated that they will probably (25%) or definitely (16%) move some savings into a cash deposit account over the next 12 months as a result of the UK's economic outlook.

According to the survey, the impact of wider economic and political factors on saving and investment decisions has grown since October 2018, suggesting that consumers are now more cognisant of these developments. The most closely monitored economic variables remain the Bank of England (BoE) base rate and the rate of inflation. This reflects the important role that the BoE's base rate has on shaping interest rates throughout the economy, while inflation has the potential to erode real savings returns. The share of respondents who take into account the performance of the UK stock market when making saving or investment decisions has doubled since October 2018, which suggests that the stock market turmoil observed at the end of last year has made many consumers more alert to the potential for further volatility.

Figure 17 Economic and political factors considered when making savings / investment decisions



Source: 3Gem, Cebr analysis

5 Conclusions

The use of ISAs among the UK population has undergone many changes since they were introduced in April 1999. Despite offering considerably lower returns over the past 20 years, cash ISAs have consistently been adopted by a larger share of the population than stocks & shares ISAs. The results of the consumer survey suggest that barriers to the uptake of stocks & shares ISAs are both financial – for instance a fear of losing money – and informational – for instance the perceived complexity of investing in stocks & shares ISAs.

There have also been a number of notable shifts in the demographic breakdown of ISA holders since 1999. Rising female participation in the workforce has increased the savings power of women, which is borne out in the data on ISA uptake. Indeed since 2011, women have accounted for the majority of new ISA subscriptions. However, gender imbalances remain in terms of the value of savings, a likely reflection of the difference in earnings between men and women. Adoption of ISAs among lower and middle income groups has also increased significantly over the past 20 years.

The results of the consumer survey highlight that financial concerns are growing for households in the UK. Brexit currently tops the list of individuals' financial worries, although concerns surrounding debts are also on the rise. This suggests many households are not comfortable with their existing level of debt, as evidenced by the sharp slowdown in consumer credit growth observed in recent months. At present, risks are stacked to the downside for the UK economy, with disruption surrounding Brexit and slowdowns in key external markets such as Europe and China all weighing on the growth prospects for 2019. Given this backdrop, many consumers are likely to pivot towards what are perceived to be less risky savings vehicles. Indeed, 41% of survey respondents indicated that they were likely to move some of their savings into cash accounts as a result of their outlook for the UK economy.