Many cash ISAs are losing value – is there an alternative?

Since their introduction in 1999 the Cash ISA has been a popular choice for many savers and its popularity has continued to grow. With the government continuously raising the ISA allowance from £3000 to the current £20,000, the amounts subscribed to these tax-efficient accounts has risen by over 55% in the past decade with £39 billion added in 2016/17.

Recently the attractiveness of Cash ISAs has waned and many long-term savers have looked for alternatives. There has been a drop in both the number of Cash ISAs being opened and in the amount. Figures released by HM Revenue & Customs (HMRC) show in the 2016-17 tax year there were 1.6 million (16%) fewer accounts taken out and the amount saved fell by £19.5 billion – a drop of 33% on the previous tax year.

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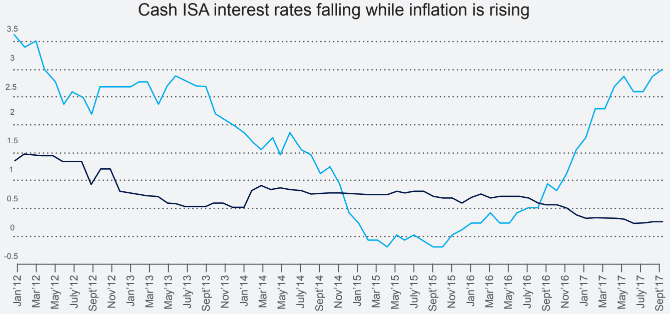
The average Cash ISA is now losing value in real terms. Why is this happening?

1. Poor interest rates

After over 8 years of historically low interest rates, falling as low as 0.25%, savers have suffered with progressively falling interest rates offered by Cash ISAs as a result. Just over five years ago, the average Cash ISA paid 1.5% - more recently, this dropped to a paltry 0.34%[1].

Despite the first increase in the Bank of England base rate in over a decade, Cash ISA interest rates have still remained extremely low.

Cash ISA interest rates falling while inflation is rising



Cash ISA Interest Rate (%)   Consumer Prices Index (%)

Source: Bank of England and Office for National Statistics

2. Rising inflation

Low interest rates aren't the only reason why Cash ISA's have lost their appeal for many savers.

Inflation has also been rising steadily and over time this erodes the spending power of your cash significantly. If inflation is greater than the interest rate you can get on your savings, then in real terms, the spending power on every £1 you have saved is being constantly eroded by rising prices.

With the rate of inflation over six times higher than the average interest rate on an easy access Cash ISA (as at April 2017) the table (below) illustrates how damaging inflation can be on the value of £1,000 of cash savings in real terms.

Value of £1000 after	Inflation rate	1%	2%	3%	4%
	5 years	£951	£906	£863	£822
	10 years	£905	£820	£744	£676
	20 years	£820	£673	£554	£456

Is there an alternative?

Cash savings should be an important part of anyone's financial arrangements as its always wise to have access to some 'emergency funds' and although Cash ISA interest rates are currently poor they can still provide an easy access home for this.

If you've already got your emergency funds sorted and are comfortable with taking at least some risk, you could potentially obtain better returns by transferring some of your Cash ISA funds to a Stocks & Shares ISA.

A recent report estimates that Cash ISA savers have lost out on £100bn of potential returns over the past decade by not investing in the stock market[2]. This includes the time of the financial crisis of 2008 which saw some of the biggest falls in the value of stock markets for decades.

In fact, whilst £1000 put into a Cash ISA a decade ago could be worth less than this today, the same amount put into a simple multi-asset fund could be worth more than £1500.[2]

What is a Stocks & Shares ISA?

Just like a Cash ISA a Stocks & Shares ISA is essentially just an account which shelters the money held within it from tax. However with a Stocks & Shares ISA, you can choose from a wide range of investment funds, offering the potential for greater growth than a cash savings ISA can offer.

We have access to a comprehensive range of investment portfolios and funds from which we can carefully select to match your attitude to risk and investment objectives. This opens the door to far greater scope to grow the value of your savings beyond what can typically be achieved with a Cash ISA and help counter the effects of inflation. But, it's important to remember that as with any investments, the value of a Stocks & Shares ISA can fall as well as rise and so you might get back less than you invest.

A stocks & shares ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested. Past performance is not a guide to future performance and should not be relied upon.

[1]Bank of England Statistics
[2]The Curse of Long-Term Cash, Royal London, 2017

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