

Stocks & Shares ISA Report 2020

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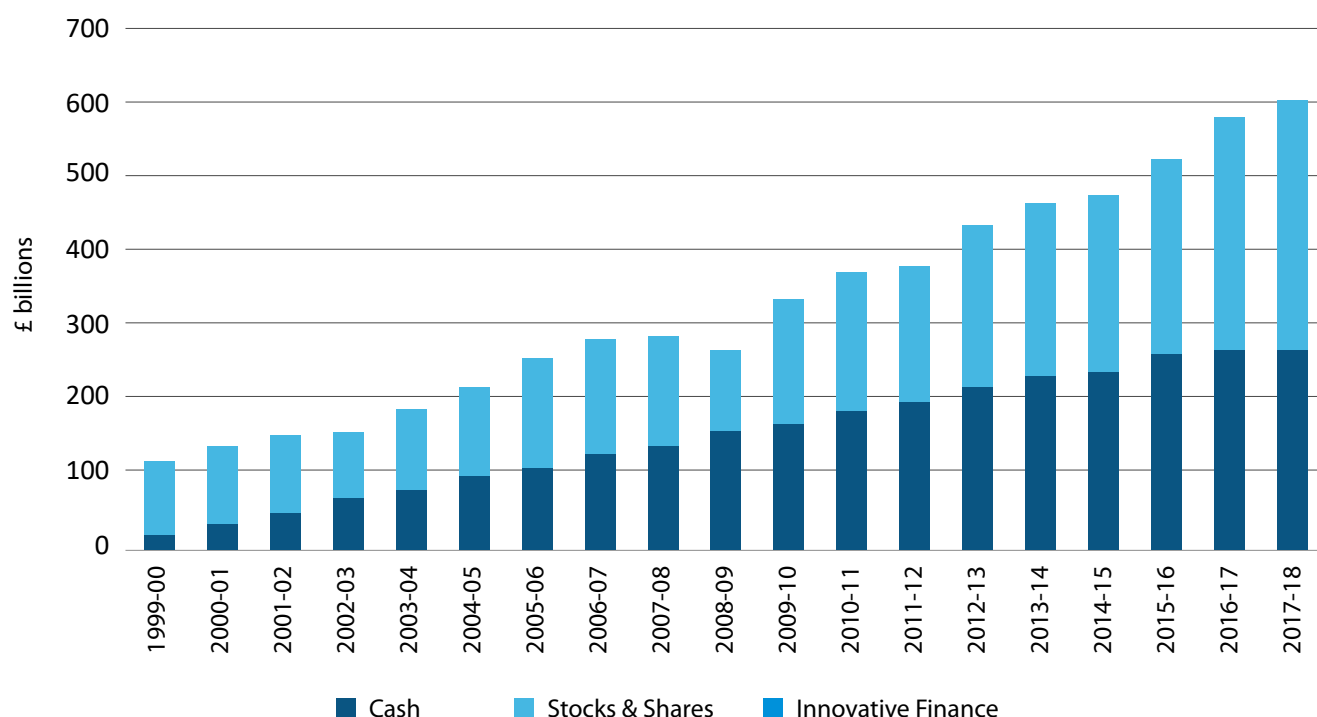
BACKGROUND

Individual savings accounts (ISAs) were born in 1999 when they replaced personal equity plans (PEPs) as tax-efficient savings vehicles.

As ISAs celebrate their 21st birthday, they have become an established part of the UK savings

landscape. Indeed, the 2017/18 tax year saw 10.8 million adults in the UK make £69 billion in ISA contributions. And according to UK government statistics, the total value of the ISA market was estimated to be £608 billion at the end of the 2017/18 tax year.

Total value of ISA market



Source: HM Revenue and Customs

Tax-efficiency is at the heart of the ISA success story: interest and dividends received, and capital gains made, are tax-free. Increases in the amount people can save into an ISA — the current annual contribution limit stands at £20,000 a year — has also fuelled ISA flows.

Alongside these strong flows, the ISA itself has evolved into several different mutations including the Lifetime ISA, Help to Buy ISA and Innovative Finance ISA.

But cash ISAs and stocks & shares ISAs remain the dominant vehicles. The former are used for building up flexible cash savings and the latter for longer-term investing through stocks and shares. Government data shows cash ISAs account for 44% and stocks & shares ISAs make up 55% of the market value of ISA funds. Higher income groups are more likely to use a stocks & shares ISAs.

Cash ISAs can act as a regular savings account, rainy day fund or used to save for a specific goal. Investors

in stocks & shares ISAs, on the other hand, usually have a longer-term outlook, with many using ISAs to save for retirement or supplement retirement income.

Overall, the median ISA holder has an annual income between £10,000 and £19,999, with average ISA savings of £24,035. This relatively low level of income is likely a function of the fact that a large segment of ISA savers are retired and therefore living off accumulated assets and drawing an income gradually. As earnings increase, so the average amount held in an ISA rises; for those with incomes of £150,000 or more, the average ISA amount climbs to £82,750.

Better-off investors are naturally more likely to make use of the full ISA contribution limit. Government statistics show 20% of ISA savers contributed up to the maximum limit in 2016/17, with this figure rising to 43% of those with incomes of £100,000 to £149,000 and 61% for those with incomes of £150,000 or more.

Despite the impressive growth story since their inception in 1999, the ISA wrapper has lost some of its shine over the last few years. The cash ISA, in particular, has come under attack from two sources. Firstly, the prevailing low rate environment stemming from successive cuts to the Bank of England base rate mean that interest rates on cash ISAs are extremely poor. Indeed, some non-ISA savings accounts now offer better rates than cash ISAs. Secondly, the introduction of the Personal Savings Allowance in 2016, which allows basic-rate taxpayers to earn up to £1,000 interest tax-free, has dealt another blow to the cash ISA.

All of which makes stocks & shares ISAs a more attractive proposition for those looking to grow their savings and make a return on their investment. While stocks & shares ISAs entail far more risk, they also offer the opportunity for handsome returns over the long-term.

Indeed, one illustration of this is the emergence of 'ISA millionaires' – savers that have amassed ISA

wealth of £1 million or more by investing in the market over the long-term.

It is estimated there are now around a thousand ISA millionaires in the UK who have benefited from equity bull markets, sound investment choices and the power of compound interest. In some cases, however, rolled over gains from PEPs have contributed to these gains.

According to a March 2020 Financial Times article, the Interactive Investor platform reported 395 ISA millionaires at the end of February 2020, with another 300 reported by Hargreaves Lansdown and 30 by AJ Bell.

These ISA millionaires tend to have certain characteristics, according to the platforms. These include taking an active approach to investing and holding high levels of company shares, investment trusts and exchange-traded funds (ETFs). The platforms note that ISA millionaires also select shares with high dividends, which are reinvested, and often opt for smaller companies which have the potential to grow rapidly.

Going forward, it is likely that stocks & shares ISAs will grab a larger slice of the market. While cash ISAs are beginning to lose some of their appeal, Help to Buy ISAs and Lifetime ISAs have proved controversial and complex. Help to Buy ISAs were intended to help struggling first-time buyers but are now closed to new applicants. And the Lifetime ISA, intended to help those under 40 buy a property or build up savings, suffers from a lack of flexibility and punitive withdrawal penalties. These restrictions, coupled with lower contribution limits, have acted as a brake on the take-up of these newer ISA brands. And for many investors, attaching such conditions undermines the very simplicity and flexibility that made ISAs such popular wrappers back in 1999.

All of which suggests the stocks & shares ISA will continue to cement its position as the ISA wrapper of choice.

KEY FINDINGS

1

ISAs hold particular appeal for individuals in retirement. Three-quarters (74%) of semi-retired investors, 62% of fully retired investors and 60% of those currently taking benefits from a pension have a stocks & shares ISA. This demonstrates that the older demographic is using stocks & shares ISAs to fund their retirement or supplement retirement income.

2

A far higher percentage of males (63%) than females (25%) invest in stocks & shares ISAs. Male savers also have larger amounts invested and are more likely to use their full annual ISA allowance. And while males are predominantly using ISAs to maximise investment returns through capital growth, females are adopting a more long-term and pragmatic approach revolving around retirement, income and lifestyle planning.

3

Stocks & shares ISA investors tend to be self-directed, autonomous investors. Two-thirds (65%) buy their ISA through an online platform or broker compared to just one in seven (13%) through a financial adviser. Stocks & shares ISA savers also like to take control of the investment process. Three in 10 pick their own shares and a large proportion of those using funds construct their own portfolios. Far fewer investors follow the advice of their financial adviser when picking funds or choose funds recommended by their ISA provider.

4

Four in 10 investors hold investment trusts within their ISAs. This reflects the growing popularity of these vehicles as open-ended funds face mounting questions about a mismatch between daily liquidity and illiquid assets. It may also reflect the fact that some trusts are currently trading on large discounts due to market volatility caused by the Coronavirus crisis. Meanwhile nearly a third (30%) of investors hold index funds or ETFs, underscoring the rise to prominence of passive and hybrid investments. Millennials are particularly keen on index funds and ETFs, perhaps due to their low cost, simplicity and transparency.

5

Despite the introduction of the personal savings allowance, the tax-efficiency of stocks & shares ISAs continues to be the main draw for investors. Older investors are especially likely to point to the benefits of tax-efficiency. In contrast, younger investors are more focused on making a return on their investments than seeking a tax-efficient shelter. In line with this, Millennials attach the most importance to capital growth when it comes to specific ISA goals.

Methodology: CoreData Research surveyed 370 UK retail investors in March 2020. Investors comprise a mix of full and part-time workers and fully and semi-retired investors from all age groups in the adult population. The average age of respondent is 58. Baby Boomers (54%) account for the largest segment of the overall sample, followed by Generation X (28%), Generation Y (10%) and the Silent Generation (8%).

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About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

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CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

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CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.



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