



Losing interest in cash ISAs

The popularity of cash ISAs is continuing to wane, according to new statistics from HMRC. With inflation persistently above interest rates, it's not hard to imagine why.

The bank of England recently increased the interest rate to 0.75%, **A** but inflation was 2.7% **B** in August 2018. This means, if you are holding cash in an ISA or considering topping up an existing account, you need ask yourself two questions:

1. What interest rate are you earning? You could be earning less than the current 0.75% base rate, particularly if the account is not open to new investors.
2. Do you need a cash ISA at all? The personal savings allowance means you can earn interest of £1,000 tax-free per tax year if you are a basic rate taxpayer, or £500 if you pay tax at the higher rate.

For a variety of reasons, not least cheap funding available from the Bank of England, competition in the cash ISA market has waned. For example, the Halifax is offering only 0.6% to new ISA investors for 12 months (and just 0.2% thereafter – the rate for existing Instant ISA Saver investors). **C** Also, last month National Savings & Investments cut the rate on its Direct ISA to 0.75%, defying August's increase in the Bank of England base rate.

In April 2018, there was over £270,000 million sitting in cash ISAs, **E** and during 2017/18 they attracted nearly £40 billion in new money **F** according to HMRC's statistics released at the end of August. However, the total value of cash ISAs rose by less than £80 million over the year, including accrued interest. This balance of new money and withdrawals followed a similar pattern to 2016/17.

Whilst historically cash ISAs have offered competitive rates for savings, with interest rates stuck below inflation it could be worth reviewing your options. For advice on all your ISA investments, including transfer opportunities, please talk to us.