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Savers 'banking on ISAs'

Weighing up the tax-efficiency versus flexibility

More than one in three retirement savers^[1] are planning to rely on Individual Savings Accounts (ISAs) for the majority of their retirement income. ISAs don't attract the upfront tax relief that pensions enjoy. However, unlike retirement savings plans, there is no tax to pay when you cash them in. With pensions, up to 25% can be taken as tax-free cash.

EXPLORING A WIDE RANGE OF OPTIONS

Even so, according to a study from MetLife, 34% of savers are looking to ISAs to deliver the majority of their guaranteed income in retirement, highlighting the growing interest in exploring a wide range of options to deliver certainty and flexibility over funds. Even among the over-55s, who are in the run-up to retirement, more than a quarter (28%) are considering using ISAs.

The findings highlight the lack of awareness of available options for ISA savers – with more than two thirds (66%) saving into a Cash ISA, and just 10% saying they are happy with the rates they receive. More than half of Cash ISA savers (55%) are dissatisfied with their rates. Best fixed-rate cash ISAs currently pay around 1.75%^[2] – just above inflation.

MAKING MORE USE OF ISAS FOR RETIREMENT

The study^[3] found around 21% of pension savers say they are making more use of ISAs for

retirement planning following pension freedoms. But the lack of savings choice could mean that some people are unaware of the options available to boost their pensions. The increase in annual ISA tax-efficient subscription limits from £15,240 to £20,000 from April this year makes them a complimentary vehicle for retirement planning.

A significant amount of ISA savings is focused on Cash ISAs. Few savers are happy with the rates they are earning; however, it's also understandable that some are nervous about investing their money in a traditional Stocks & Shares ISA when markets are uncertain. ■

Source data:

[1] Research carried out by Consumer Intelligence using an online methodology to question 1,071 employed adults aged 18-plus. Fieldwork was carried out between January 30th and February 2nd 2017

[2] <https://moneyfacts.co.uk/isa/fixed-rate-isa/>

[3] Research carried out by Pollright among a sample of 107 specialist retirement advisers in February 2017.

TAX-EFFICIENCY OF PENSIONS VERSUS THE FLEXIBILITY OF ISAS

It's important to think about the tax-efficiency of pensions versus the flexibility of ISAs. Retirement savings should predominantly be in pensions, but once they start being cashed in you could consider reinvesting the proceeds back into ISAs in retirement. To discuss your requirements, please contact us to review your situation.

