

For customers

A guide to ISA investing



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When deciding if you should use an individual savings account (ISA), you'll need to weigh up the pros and cons of investing in a stocks and shares ISA versus holding your savings in a cash ISA. Here we highlight the key things to consider when assessing which is appropriate to your needs.

This document is for information purposes only. Reliance shouldn't be placed on the information here when taking individual investment decisions. The ISA types compared are designed to meet different customer needs and this should be taken into consideration. If you need any help making those financial decisions, please speak to a financial adviser. If you don't have a financial adviser, visit [moneyhelper.org.uk/choosing-a-financial-adviser](https://www.moneyhelper.org.uk/choosing-a-financial-adviser) to find an adviser near you. There may be a charge for financial advice.

What is an ISA?

An ISA is a tax-efficient savings account.

Every tax year you have an allowance to save or invest money up to a certain amount without any personal liability to income tax or capital gains tax on your returns. The ISA allowance for the current tax year is £20,000 per person.

There are four types of ISA for adults: cash, stocks and shares, lifetime and innovative finance. The ISA allowance can be held in one type of ISA or split across different types of ISA and ISA providers. We'll look at the first two here, but you can find out more about the others at [gov.uk/individual-savings-accounts](https://www.gov.uk/individual-savings-accounts)



Cash ISA

Similar to a regular cash deposit savings account.



Stocks and shares ISA

Lets you put your savings into investments, such as company shares and funds.

While a cash ISA and stocks and shares ISA share some characteristics - they are very different products in terms of the risk to your capital, who they're suitable for, and in what circumstances.

The value of any tax benefits will depend on individual circumstances. The favourable tax treatment of ISAs may not be maintained in the future. When looking at the tax saving benefits of an ISA, there are other tax allowances you may wish to consider. Please speak to a financial adviser to find out more.

Cash ISAs

Potential benefits

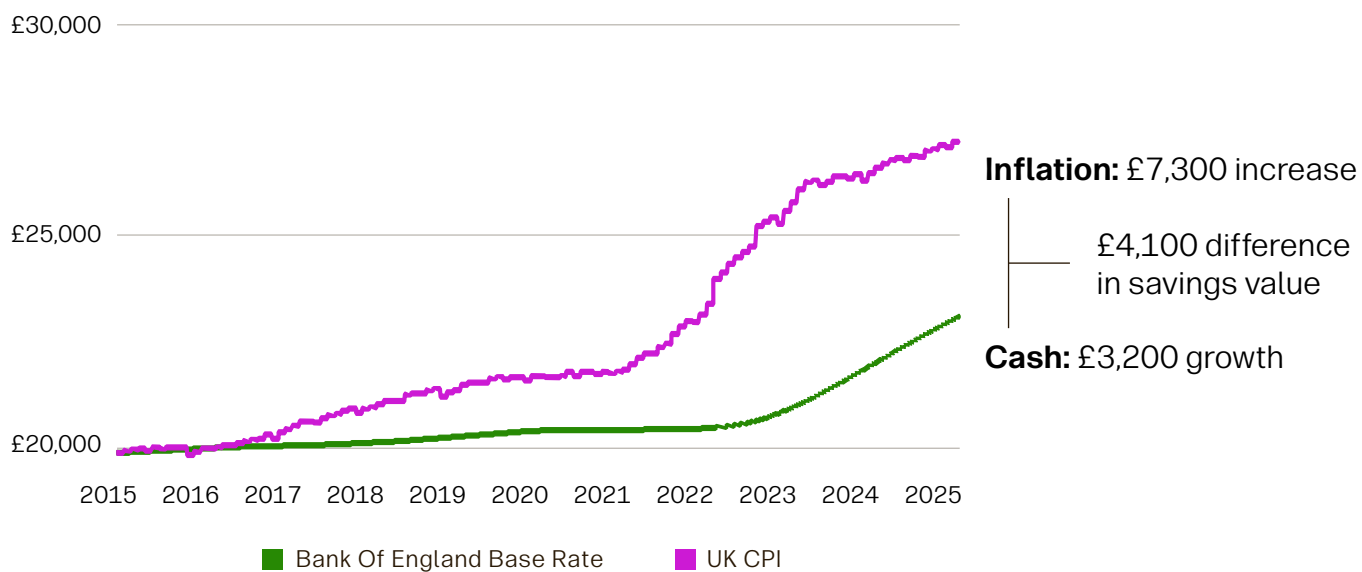
1. They're less risky - the value of your savings won't fluctuate up and down in value like stocks and shares can. This means their value is more stable, which can be particularly useful if you're likely to need your savings over the short-term (up to five years).
2. They're cheap - generally, a standard cash ISA will have no set up fee or ongoing charges. There may be other charges to consider however, such as early withdrawal fees.
3. You can earn tax-free interest on your savings.
4. Generally provide easy access to your money should you need it, although some ISAs may have early withdrawal penalties.

Possible downsides

1. Historically, the long-term growth potential of cash has been lower than investing in assets like equities (company shares), bonds (company and/or government) or commercial real estate, so it may not help meet your long-term savings goals. Although, past performance isn't a reliable indicator of what will happen in the future.
2. Over the long term, cash has historically struggled to keep up with the rate of inflation, which means the spending power of your savings can reduce. As the chart overleaf illustrates, over a 10-year period, £20,000 cash savings grew by £3,200 but the impact of inflation meant a drop in spending power of £4,100. You're effectively losing money, as you may be able to buy less than at the start.



Cash - inflation gap over 10 years



For illustrative purposes only. Past performance isn't a reliable indicator of future performance.

Source: Financial Express, produced by Aegon. Figures based on a one-off investment and show simulated returns for Cash represented by the Bank of England base rate, and inflation represented by the UK CPI. Figures are in £s, from 31 March 2015 to 31 March 2025. Figures are rounded to the nearest £100. This illustration assumes there are no investment charges.

- Higher interest rates generally result in higher returns from cash savings, however interest rates can change so please speak to your adviser for the latest outlook and guidance.

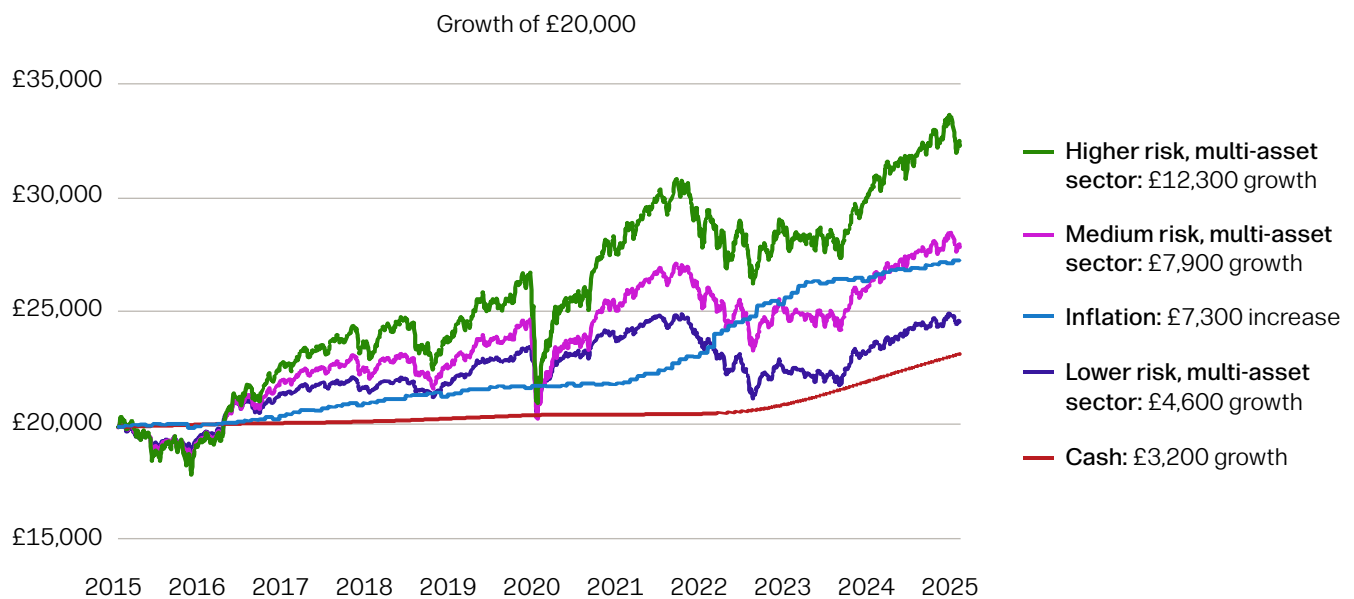
Stocks and shares ISAs

Potential benefits

1. Any returns you make on your investments are free from any personal liability to income tax or capital gains tax, in the same way interest is with a cash ISA.
2. A stocks and shares ISA allows you to invest in different types of investments, including individual company shares and a range of fund types.
3. Over the long term, investing your savings in a stocks and shares ISA has historically offered greater potential than cash to grow faster than inflation.

As can be seen in the chart below, the three multi-asset sectors (representative of multi-asset funds at three different risk levels) performed as expected over the 10-year period – the higher the risk, the greater the return.

Growth of an investment of £20,000 over ten years



These figures are simulated past performance. For illustrative purposes only. Past performance isn't a reliable indicator of future performance. The value of investments may go down as well as up and you may get back less than you invest.

Source: Financial Express, figures in £s on a bid-to-bid basis, data from 31 March 2015 to 31 March 2025. Based on monthly returns. Higher risk is the IA Mixed Investment 40-85% sector; Medium risk is the IA Mixed Investment 20-60% sector; Lower risk is the IA Mixed Investment 0-35% sector; Cash represented by the Bank of England base rate, and inflation by the UK CPI. Figures rounded to nearest £100. Cash and inflation figures do not include the impact of investment charges, while multi-asset sector figures do.

You'll also notice that the higher the risk, the more volatile performance is - in other words, the bigger the downs and ups. But, if you have a long-term investment period, ideally with no specific point at which you have to withdraw all the money, then this approach may be more suitable for you.

Possible downsides

1. A stocks and shares ISA involves putting your money at risk. It doesn't provide the same security of capital as putting your money in a bank account or cash ISA. There's no guarantee that investment funds will meet their objectives and the value of your investment can fall as well as rise and you may get back less than you invest.
2. The risk of market fluctuations means it isn't suitable for short-term investing. You should be prepared to invest for at least five years (ideally longer) with no set finish date.
3. Charges apply for whichever ISA provider you're using, and for the funds you're investing in. These charges will reduce the total investment gains so make sure you understand all the charges before investing.
4. Generally, it can take several days to withdraw your money from a stocks and shares ISA, whereas money from a cash ISA can be in your bank account either the same day or the next working day.



The long and short of it...

There are clearly benefits and downsides to putting your savings in any sort of ISA. The key things you need to think about are what your financial goal is, how long you wish to save for and what your attitude to investment risk is.



Always keep a certain amount in cash to cover short term needs

As cash won't fluctuate in value like investments and is easier to access, it is sensible to keep a certain amount of your savings in cash. This provides some certainty for short-term savings needs and can provide a safety net for a rainy day if any unexpected events occur.



Focus on the long-term

If you're saving for long-term goals, such as for your retirement or children's university fees (anything over five years), then you need to make sure your savings have the best chance of helping you achieve these. To do this you may need to take on more investment risk, which a stocks and shares ISA may help you achieve.



Work out your attitude to investment risk

Determining your attitude to risk will help you choose the right investment for you. This is essentially the degree of uncertainty you're willing to accept to achieve potentially greater returns.

Your investment choice

Cash is an essential part of saving. But, if you have long-term goals and need your savings to grow faster than the rate of inflation, you may want to discuss a stocks and shares ISA with your adviser, choosing an investment that carries a level of risk and growth potential that matches your needs.

Important information

Please remember that the value of an investment can fall as well as rise, isn't guaranteed and you may get back less than you invest.

Please see MoneyHelper for more information on ISAs [moneyhelper.org.uk](https://www.moneyhelper.org.uk)

Please see fund factsheets or Key Information Documents for details of fund-specific risks for stocks and shares ISAs, which should be available from your adviser or the provider websites.

To find out more about Aegon's investment options, please go to aegon.co.uk/investments/customers

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