ISA's

Saving wisely isn't just about putting cash aside regularly; it's about getting the best return on your money. To establish which type of ISA might be right for different saving circumstances, Lakeside Financial Adviser *James Foster* answers the key questions on this subject.

What are the main types of ISAs available?

J: Ultimately, an ISA is a tax-efficient savings account and there are several types available, the key ones being Cash ISAs, Investment ISAs (also known as Stocks and Shares ISAs) and Lifetime ISAs. There are also Junior ISAs for those under 18.

Cash ISAs are best for short-term saving, while Investment ISAs are ideal for long-term saving. Lifetime ISAs meanwhile are for saving towards your first home or retirement.

How often and how much should you pay into an ISA?

J: This will come down to client circumstance, but each year the government sets an annual ISA allowance stating how much an individual can pay into such accounts during that tax year. For 2020/2021 the limit is £20,000. It can be paid into one account in a lump sum or split into smaller sums and spread between different types of ISAs. We often encourage clients to take advantage of the full allowance each year as if you don't use it; you lose it.

What are the main benefits and drawbacks of Cash and Investment ISAs?

J: Different ISA providers will offer varying interest rates and access to the money paid in but which type to choose will depend on the individual's plans for their savings.

If saving in the short term, Cash ISAs are desirable as they offer the most instant access. The drawback with this type of account is that the interest rate can be lower than inflation and so the funds don't grow in line with the cost of living, this is known as 'inflation risk'.

For those prepared to invest for the medium to long term into an ISA, say for five years or more, an Investment ISA can offer a higher return. The trade-off here, however, is that you are swapping inflation risk for something called 'investment risk', which means the money can go up and down, but if left invested for a reasonable period, it can grow much more.

How often should ISAs be reviewed?

J: We always advise reviewing all of your finances at least once a year, or sooner if your circumstances change. This includes evaluating your ISAs so that you remain on track with the best saving strategy taking into account short, medium and long term savings goals, including pensions.

It could be that money is sitting in a Cash ISA at a low-interest rate and could be better invested elsewhere. Alternatively, I often meet new clients who are unaware of the level of risk they are taking with their Investment ISA, which might be too high, or they are unaware of the charges they are paying.

We do the work for our clients to regularly analyse their investments and, when required, take the necessary action to keep their arrangements in line with their investment risk profiles.

Please feel free to contact us for further information: *admin@lakesidefs.co.uk*

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