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FACTSHEET

Millennials look to build long-term wealth

Giving up on cash altogether, disillusioned by today's dismal savings rates

The number of people in their 20s and early 30s choosing to invest in a Stocks & Shares Individual Savings Account (ISA) prior to the coronavirus pandemic outbreak increased according to the latest HM Revenue & Customs annual ISA data[1].

Research shows that Generation Z and Millennials are now more likely to invest than Baby Boomers. Many have given up on cash altogether, disillusioned by today's dismal savings rates. An ISA is a tax-efficient investment vehicle in which you can hold a range of investments, including equities.

DIFFERENT TYPES OF INVESTMENT OPTIONS

The different types of investment that can be held in a Stocks & Shares ISA include: unit trusts, investment trusts, exchange-traded funds, individual stocks and shares, corporate and government bonds, and OEICs (Open-Ended Investment Companies).

The data shows that under-25s are now the fastest-growing demographic in terms of Stocks & Shares ISA subscriptions, followed by those aged between 25 and 34. Subscriptions across both age brackets jumped 92.3% from 131,000 to 252,000 between the 2016/17 and 2017/18 tax years.

MORE SUBSCRIBE TO A STOCKS & SHARES ISA

The number of under-25s with both a Stocks & Shares ISA and a Cash ISA also increased by 138% from 13,000 to 31,000 over the same period. The number of people aged between 25 and 34 subscribing to a Stocks & Shares ISA leapt 71% from 109,000 to 186,000 between the 2016/17 and 2017/18 tax years.

By comparison, analysis found that the number of people aged between 35 and 44, as well as those aged 65 and over, who subscribed to a Stocks & Shares ISA increased by just 4% and 5% respectively over the same period.

LESS OF AN APPETITE FOR INVESTMENT RISK

The analysis also indicated that the figures for people aged between 45 and 54, as well as those aged between 55 and 64, subscribing to a Stocks & Shares ISA actually fell over the course of the year, indicating that these age groups had less of an appetite for investment risk.

The introduction of the Lifetime ISA, which gives subscribers a 25% government top-up on their savings (up to a maximum of £1,000 a year), is at least partly responsible for the uplift in the number of under-35s trying their hand at investing. Those aged between 18 to 39 can open a Lifetime ISA and save up to £4,000 annually, tax-efficiently, up to including the day before their 50th birthday.

YOU CAN'T CARRY ANY UNUSED AMOUNT OVER

Since ISAs were launched 21 years ago, savers have accrued billions of pounds in these tax-efficient wrappers. The 2020/21 Stocks & Shares ISA allowance is £20,000 for individuals aged 18 and over. All savings held inside the ISA's tax-efficient wrapper are exempt from Capital Gains Tax, dividend tax and Income Tax.

Bear in mind that the amount you can contribute into an ISA is limited by the type of ISA you have. The tax year runs from 6 April one year to 5 April the next, and you can't carry any unused amount over to a new tax year – so it's either use it or lose it. The ISA allowance simply resets back to the annual allowance again on 6 April. ■

MAKING THE MOST OF THE 2020/21 £20,000 ISA ALLOWANCE?

Depending on your financial goals and plans for the future, if you are looking to put your money away for the medium to long term (five years or more), then a Stocks and Shares ISA is a tax-efficient way to invest. To find out more about your investment options, please contact us.

Source data:
[1] https://www.gov.uk/government/statistics/individual-savings-account-statistics