Financial Wellbeing: Savings

General savings account:

One of the most common ways of saving is via a savings account. The first £1,000 of interest is tax free. If you are paying higher rate tax, you can only earn £500 interest tax free, while 45% taxpayers have no tax-exempt savings allowance at all.

Individual savings account (ISA):

Annual allowance: £20,000 per tax year (2025/26)

An Individual Savings Account (ISA) is a way to save money without paying any tax on the interest, the gains, or the growth; unlike a regular bank account or general investment account. There are 2 main types of ISA available to adults who are resident and pay taxes in the UK – Cash ISA and Stocks & Shares ISAs. A cash ISA, like the name suggests, holds your money effectively in a bank account and you benefit from the interest rate applicable.

Stocks & Shares ISAs on the other hand, provide the opportunity to invest on the likes of a stock market. Here the gains can be significant, but you may also suffer losses depending on the underlying performance of the investment held, meaning this is a riskier option than a Cash ISA.

With regards to investment term, cash ISAs currently offer very low interest rates and therefore may not be suitable for the longer-term investor. However, should you think you may need access to your savings within a few years of investing, the lack of fluctuation may be more suitable.

A Stocks & Shares ISAs is more suitable for a long-term investor, perhaps 5 years or more. This will generally allow short-term ups and downs to iron out and tends to lead to longer term gains. It would be unlikely that you would see suitability in taking a Stocks & Shares ISA if there is a clear need for the funds over the short-term.

Lifetime ISA (LISA)

You can use the LISA to buy your first home or save for later life. You must be 18 or over but under 40 to open a Lifetime ISA. You can put in up to £4,000 each year, until you're 50. The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

NB: Previously, you could open and save into a Help to Buy ISA, however this closed to new accounts on 30th November 2019.

How much can you save?	£4,000 per tax year
Can you put lump sums in?	Yes
What is the Government bonus?	25% (ie, £1,000 each tax year assuming max investment of £4,000)
When can you access the money to put towards your first home?	After the ISA has been open for 12 months
Can I withdraw money if not buying a house?	Yes, for retirement, but if earlier, you won't get a bonus and will pay a penalty
Can my partner open one as well?	If the person you're buying with has a Lifetime ISA too, they can also use their savings and government bonus (as long as it is also their first property they are purchasing).

Time frame:
LISA rules state you must keep the account open for a minimum of 1 year, otherwise you will incur a withdrawal charge. Incurring this withdrawal charge may mean that you get back less than you paid in to your lifetime ISA.

Purpose:
You can withdraw money from your LISA if you're: buying your first home, aged 60 or over, or terminally ill, with less than 12 months to live. You'll be charged if you withdraw cash or assets for any other reason. Incurring this lifetime ISA government withdrawal charge may mean that you get back less than you paid in to your lifetime ISA.

Property value:
The LISA can be used on purchases up to £450k anywhere in UK.

Age:
If you are aged between 18-39 then a LISA is a viable option (as long as you keep account open for a year). As long as you open it by age 39, you can still contribute to your LISA until age 50.

Existing Investments:
You can open a Lifetime ISA alongside any other ISAs you may hold (cash, stocks and shares, help to buy or innovative finance). But be careful not to exceed the overall annual ISA subscription limit of £20,000, which a LISA counts towards.

DAM Community Hub

Please note, the information contained in this article is for informational purposes only and should not be construed as individual advice. This information is relevant to 2021-22 tax-year. Your capital invested can go down as well as up, you may not get back the original amount invested. If you save in to a lifetime ISA instead of enrolling in, or contributing to a qualifying scheme, occupational pension scheme, or personal pension scheme, you may lose the benefit of contributions by an employer (if any) to that scheme; and your current and future entitlement to means tested benefits (if any) may be affected. If you would like further guidance on the above topic, or to speak to one of our qualified advisers, please visit our website at www.damgoodcommunity.com or contact us on info@damgoodpensions.com

www.damgoodpensions.com