Department of Social Policy

Working Paper
January 2026

Bridging the Wealth Divide?

Examining the Role of Stocks and Shares ISAs in Reducing Wealth Inequality in the UK

George Rushworth

Department of Social Policy
London School of Economics and
Political Science Houghton Street
London WC2A 2AE

Email: soc.pol.webteam@lse.ac.uk

Telephone: +44 (0)20 7955 6001

lse.ac.uk/social-policy

Author: George Rushworth

To cite this paper: Rushworth, G. (2025) Bridging the Wealth Divide? Examining the Role of Stocks and Shares ISAs in Reducing Wealth Inequality in the UK. Social Policy Working Paper 01-2026, London: LSE Department of Social Policy.

Bridging the Wealth Divide? Examining the Role of Stocks and Shares ISAs in Reducing Wealth Inequality in the UK.

George Rushworth
London School of Economics (LSE)

Abstract

This research examines whether Stocks and Shares Individual Savings Accounts (S&S ISAs) in the United Kingdom democratise wealth accumulation or reinforce existing socioeconomic disparities. Using longitudinal data from the Wealth and Asset Survey (2006-2020), the study employs multiple analytical approaches, with propensity score matching providing the most credible causal estimates. The findings reveal three key patterns: First, S&S ISA ownership is associated with approximately 27% higher wealth growth compared to similar non-owners. Second, adopting an S&S ISA generates substantial wealth benefits (227% for new adopters) that persist even after abandonment, with former ISA holders showing no significant disadvantage compared to never-owners. Third, contrary to expectations, S&S ISAs provide greater relative benefits for individuals without higher education, challenging assumptions that tax-efficient investment vehicles primarily benefit the already-advantaged. These results suggest that S&S ISAs can function as effective wealth-building tools with democratising potential if barriers to initial adoption among disadvantaged groups can be addressed. The study contributes to literature on wealth inequality and asset-based welfare by providing empirical evidence on the distributional effects of investment-based policy instruments within a liberal welfare regime.

Keywords: Wealth inequality; Stocks and Shares ISAs; Asset-based welfare; Financial inclusion; Liberal welfare regime.

Acknowledgements

I would like to thank Dr. Fabio Battaglia for his weekly supervision and for nominating my work to be published in the Social Policy Working Paper Series. I thank Dr. Shuang Chen for her methodological advice, Dr. Gailius Praninskas for the exposure to analytical techniques applied in this paper, and Dr. Helen Hu for proof-reading the final draft.

Author Biography

George Rushworth is a postgraduate researcher at the London School of Economics (LSE) specialising in quantitative analysis and wealth inequality. He holds a BSc in International Social and Public Policy and Economics from LSE, where he was highly commended for his exceptional contribution to the field. In addition to his work on Stocks and Shares ISAs, he has co-authored research on education policy and admissions in the UK with Professor Anne West. He can be contacted at g.rushworth@lse.ac.uk.

Contents

Wealth inequality is an inequality iceberg... Mostly invisible, it sits beneath and sustains an already deeply unequal society.

– (Kerr and Vaughan, 2024)

1 Introduction

The accumulation and distribution of wealth represent fundamental dimensions of economic inequality with profound implications for social mobility, democracy and welfare provision (Piketty, 2017; Stiglitz, 2012). Unlike income inequality, wealth concentration creates persistent advantages that compound over time and across generations, raising questions about the mechanisms through which individuals access wealth building opportunities. Within the liberal welfare regime context, tax-efficient investment vehicles have emerged as central policy tools intended to promote asset accumulation across the population (Sherraden, 1991; Prabhakar, 2009). However, the distributional consequences of these market-based approaches remain insufficiently examined, particularly regarding their capacity to democratise wealth accumulation or potentially reinforce existing socioeconomic stratification.

This study focuses on Stocks and Shares Individual Savings Accounts (S&S ISAs) in the United Kingdom as a case for understanding the relationship between tax-efficient investment vehicles and wealth inequality. As a foundation of UK savings policy since their introduction in 1999, S&S ISAs represent a significant public investment, with an estimated £6.7 billion in foregone tax revenue annually (Broome, 2025). Their design reflects core principles of asset-based welfare within a liberal welfare regime: they operate through market mechanisms, emphasise individual choice and responsibility, and provide tax incentives rather than direct transfers (Esping-Andersen, 1990). The government's decision in the Autumn Budget 2025 to reduce the Cash ISA annual limit to £12,000, while maintaining the £20,000 allowance for S&S (HM Treasury, 2025), emphasises the policy significance of these instruments in addressing wealth accumulation challenges.

S&S ISAs function as a cornerstone of the UK's asset-based welfare approach, offering tax-free returns on investments within an annual contribution limit (currently £20,000). Their apparent universality makes them particularly important for examining whether market-based welfare tools can expand access to asset-building opportunities or deepen wealth divides. Research has insufficiently examined whether S&S ISAs specifically produce different distributional outcomes compared to Cash ISAs or other savings vehicles. The investment component introduces distinct mechanisms: exposure to capital markets, potential for higher returns, and engagement with financial knowledge. These could

theoretically either exacerbate or mitigate existing disparities.

Despite the significant policy investment in S&S ISAs and their theoretical importance as wealth-building mechanisms, empirical evidence regarding the distributional effects remains limited. While HMRC (2024) data indicates that ISA participation and contribution amounts vary significantly by income level, these analyses typically aggregate all ISA types and focus on income rather than wealth outcomes. Moreover, the question of whether S&S ISAs specifically (with their distinct investment component) function differently from Cash ISAs or other savings vehicles in addressing or potentially reinforcing wealth disparities has received insufficient scholarly attention. This gap is particularly significant given that S&S ISAs may operate through different mechanisms than other savings vehicles, potentially generating differential effects on financial knowledge, investment behaviour, and long-term wealth trajectories across socioeconomic groups.

This dissertation addresses these gaps through three interrelated research questions:

1. What is the causal relationship between S&S ISA ownership and wealth accumulation over time?

2. Do the effects of S&S ISA adoption persist even after abandonment?

3. Do these effects vary by educational attainment, and if so, do they exacerbate or mitigate existing socioeconomic disparities in wealth accumulation?

To address these questions, I employ a longitudinal research design using Waves 1 (2006-08) and 7 (2018-20) of the Office For National Statistics (ONS) Wealth and Asset Survey (WAS) implementing multiple complementary analytical strategies following Midgley's (2000) concept of methodological pluralism. Cross-sectional and longitudinal analysis, decomposition of adoption and abandonment effects, and propensity score matching techniques are combined to strengthen causal inference in the absence of random assignment to ISA ownership. This methodological approach draws on Card (1996)'s influential work on union wage effects, which demonstrated how longitudinal techniques can address both unobserved heterogeneity and measurement error in estimating causal effects.

This research contributes to the literature on wealth inequality and asset-based welfare in three primary ways. First, it provides empirical evidence regarding the distributional effects of S&S ISAs specifically, distinguishing them from other ISA types and addressing a significant gap in understanding their role in wealth accumulation patterns. Second, it examines both adoption and abandonment effects with particular attention to potential asymmetries in how these vehicles shape wealth trajectories. Third, it analyses heteroge-

neous effects by education level, directly addressing whether these instruments promote broader financial inclusion or concentrate wealth further among the already-advantaged.

The remainder of this dissertation is structured as follows: Chapter 2 reviews relevant literature on wealth inequality, intersectional dimensions of economic stratification, asset-building policies, and welfare regime theory. Chapter 3 details the methodological approach, including data sources, variable construction, and analytical strategies. Chapter 4 presents empirical findings across multiple analytical approaches, while Chapter 5 discusses theoretical and policy implications, acknowledges limitations, and suggests directions for future research. Chapter 6 provides the main conclusions.

2 Literature Review

2.1 Wealth Inequality: Globally and in the UK

Unlike income inequality, which concerns annual resource flows, wealth inequality reflects disparities in accumulated assets that provide compounding advantages including security, opportunity, and intergenerational transfers (Piketty, 2017; Saez and Zucman, 2016; Davies et al., 2017). This distinction is critical for understanding the potential role of wealth building policies in addressing (or potentially reinforcing) existing economic stratification.

Globally, wealth inequality represents a fundamental socioeconomic challenge that transcends borders. Research by Oxfam (2024) shows that the wealthiest 1% of individuals worldwide own more wealth than 95% of humanity, while so-called "Global South" countries own just 31% of all wealth, despite being home to 79% of the world's population. This extreme concentration has increased significantly in recent decades, with Alvaredo et al. (2018) documenting rising wealth inequality across most advanced economies since the 1980s. As Stiglitz (2012) argues, extreme wealth inequality undermines meritocratic principles and economic efficiency by limiting human capital development and productive investment among disadvantaged populations.

In the UK specifically, wealth inequality represents what Savage et al. (2024, p. 3) characterise as a 'bonanza unprecedented in human history', with mean wealth per head doubling from £100,000 in 1985 to £200,000 in 2021. However, this extraordinary wealth expansion has been profoundly uneven in its distribution. Current data reveals that the top 10% of wealth holders control approximately 57% of total UK wealth, while the bottom 50% possess less than 5% (Savage et al., 2024, p. 3). This concentration significantly exceeds income inequality measures and has intensified rather than improved in recent years.

Piketty (2017)'s framework helps explain the persistence and intensification of wealth inequality through the $r > g$ mechanism: when returns on capital (r) exceed economic growth (g), wealth accumulates faster than labour income, driving increasing concentration. This theoretical insight is particularly relevant for examining how tax-efficient investment vehicles like S&S ISAs function by sheltering capital returns from taxation, potentially accelerating wealth divergence between asset-holders and non-asset-holders. As Adkins et al. (2020) observe, we have witnessed the emergence of an asset economy where asset appreciation rather than wage growth increasingly determines economic wellbeing, a context in which access to tax-efficient investment vehicles becomes even more consequential.

The consequences of wealth inequality extend far beyond abstract distributional con-

cerns. Economically, high wealth concentration may reduce aggregate demand, limit entrepreneurship among those lacking capital access, and undermine productive investment (Stiglitz, 2012; Cingano, 2014; Advani, 2020). Research by the OECD (Cingano, 2014) suggests that rising inequality has had a negative impact on economic growth in advanced economies between 1990 and 2010, primarily by reducing human capital investment among lower-income households. Similarly, Bagchi and Svejnar (2015) find that wealth inequality attributable to political connections rather than productive entrepreneurship significantly reduces economic growth rates.

Socially, wealth inequality constrains social mobility, with Bourquin et al. (2020) finding that inheritances now account for approximately one-third of variations in lifetime resources for the 1980s birth cohort; a figure rising from a quarter for those born in the 1960s. This suggests intergenerational wealth transfers are becoming increasingly determinative of economic opportunities, potentially overwhelming the impact of educational attainment or labour market participation. Braga et al. (2017) further demonstrate that wealth disparities significantly predict differential educational achievement and lifetime earnings beyond what income differences alone would predict.

Politically, wealth disparities foster democratic dysfunction through multiple mechanisms. Hilhorst (2024)'s qualitative research in post-industrial towns documents how wealth inequality generates political alienation among economically disadvantaged citizens, who increasingly perceive political systems as captured by and serving wealth interests. This perception is empirically supported by Ansell and Gingrich (2022)'s documentation of a growing gap exceeding 20 percentage points in electoral participation between homeowners and non-homeowners, an increasingly common wealth-based distinction. Moreover, wealth disparities enable privileged groups to exercise disproportionate influence over democratic processes through political donations, media ownership, and institutional capture (Gilens and Page, 2014; Winters, 2011).

Despite mounting evidence of wealth inequality's detrimental effects, policy responses have remained inadequate. Research by Advani and Summers (2024) challenges traditional efficiency-based arguments against wealth taxation, demonstrating substantial revenue potential with minimal economic distortion. Similarly, Advani et al. (2020) established that a modest 1% tax on millionaire wealth could raise £260 billion, yet implementation barriers remain primarily political rather than technical or economic. In this context, examining whether S&S ISAs (as a major tax-efficient wealth-building vehicle) help democratise asset accumulation or primarily benefit already-advantaged groups becomes a question of fundamental importance for understanding both wealth inequality dynamics and potential policy interventions.

2.2 Intersectional Dimensions of Wealth Inequality

Wealth inequality in the UK manifests through pronounced intersectional dimensions of gender, race, and class that create distinct patterns of advantage and disadvantage. Using ONS data, Savage et al. (2024) show that women own on average £90,400 less than men, a mean wealth gap of 25.8% that expands to £101,300 when controlling for other demographic characteristics. This disparity is primarily driven by pension wealth differences, where men's assets outstrip women's by approximately £79,000 (Savage et al., 2024). Mann (2023)'s research further demonstrates that these gaps widen when including business assets, highlighting how entrepreneurial wealth remains disproportionately concentrated among men. This gendered dimension of wealth inequality has direct implications for the effectiveness of wealth-building policies, as differential investment resources, risk tolerances, and financial socialisation patterns may systematically influence women's capacity to benefit from these investment vehicles.

Racial wealth disparities reveal even more dramatic patterns of stratification. Karagiannaki (2023)'s analysis of Understanding Society data shows that median individuals from Bangladeshi, Black Caribbean, and Black African backgrounds live in households with effectively no significant wealth assets, while the median white individual has household wealth of £140,000. Similarly, the Runnymede Trust found that for every £10 of wealth held by the median white British household, Bangladeshi and Black African households had just £1, representing differentials far exceeding corresponding income gaps (Khan, 2023). These disparities reflect differential access to wealth-building mechanisms, with substantial racial gaps in homeownership (74% for Indians and 69% for whites compared to just 19% for Black Africans) and varying exposure to high-cost debts (Karagiannaki, 2023). The historical foundations of these disparities cannot be overlooked, as Savage et al. (2024) note, the UK's colonial legacy created intergenerational wealth advantages for certain white families that persist into the present. Additionally, ethnic minorities express lower trust in financial institutions, potentially limiting engagement with formal investment vehicles.

Class divisions in wealth holdings demonstrate similarly entrenched patterns with increasing intergenerational persistence. Savage et al. (2024)'s cohort analysis reveals that class background plays a significantly greater role in determining wealth outcomes for those born in the 1980s compared to those born in the 1960s, suggesting a strengthening rather than weakening relationship between social origins and economic destinations. For the 1960s birth cohort, income rather than class background primarily determined homeownership prospects, by contrast, for the 1980s cohort, those from professional and managerial backgrounds could access homeownership even with modest incomes, while those from working-class backgrounds required top-quintile earnings to achieve

similar outcomes. Gregg and Kanabar (2023) confirm this pattern, finding that parental homeownership status has become an increasingly powerful predictor of children's housing wealth prospects. These class dynamics raise critical questions about whether tax-efficient investment vehicles, despite their seemingly universal availability, might differentially benefit those from advantaged class backgrounds who possess not only greater financial resources but also the social and cultural capital to navigate investment options effectively.

These dimensions of inequality intersect and compound in complex ways. The racial wealth gap is gendered, with women from minority ethnic backgrounds facing particularly severe wealth disadvantages. Similarly, class origins shape the resources available to overcome gender and racial barriers to wealth accumulation. This intersectional perspective is crucial for evaluating the effectiveness of wealth-building policies, as it suggests that their effectiveness cannot be assessed through a single demographic lens but must consider how multiple dimensions of advantage and disadvantage interact to shape investment behaviours and outcomes. Current asset-building policies may inadvertently reinforce existing disparities if their benefits accrue disproportionately to already-advantaged groups.

2.3 Asset-Building Policies and Financial Inclusion

ISAs have become the foundation of UK savings policy since their introduction in 1999, with 12.4 million subscriptions totalling £71.6 billion in 2022-23 (HMRC, 2024). ISAs are tax-efficient savings vehicles that allow UK residents to save or invest up to an annual allowance (£20,000 as of 2024-25) without paying tax on the returns. UK residents do not pay tax on interest, income, or capital gains from ISA investments, and these do not need to be declared on tax returns. Their tax-free status on returns, absence of use restrictions, and flexible contribution limits make them theoretically accessible to all citizens.

The UK offers four types of ISAs: Cash ISAs, S&S ISAs, Innovative Finance ISAs, and Lifetime ISAs. While all ISAs share the common feature of tax-free returns, S&S ISAs specifically represent a policy mechanism designed to encourage public investment in capital markets rather than just savings. Unlike Cash ISAs which function similarly to regular savings accounts, S&S ISAs allow individuals to invest in a range of assets including stocks, bonds, investment funds, and exchange-traded funds (ETFs) while maintaining the tax-free status on all capital gains, dividends, and interest earned.

S&S ISAs are particularly significant for wealth-building as they provide access to potentially higher returns compared to cash savings, especially over longer time horizons. However, they also typically require more financial knowledge and confidence to utilise effectively and carry investment risks not present in Cash ISAs. Given their potential for

generating significant tax-free returns on invested capital, S&S ISAs are especially relevant to questions of wealth inequality.

The focus on S&S ISAs is particularly timely given recent policy developments. In the March 2025 Spring Statement, the Treasury signalled significant investment reforms to come, culminating in the Autumn Budget decision to cap annual Cash ISA contributions at £12,000 while retaining the full £20,000 limit for S&S ISAs (HM Treasury, 2025). This policy direction emphasises the importance of understanding whether the current S&S ISA structure effectively encourages broad-based wealth accumulation or primarily benefits already-advantaged groups before potential reforms are implemented.

More specialised ISA variants have emerged to target specific policy objectives. Help-to-Buy ISAs (introduced in 2015) and Lifetime ISAs (launched in 2017) incorporate government bonuses to encourage home purchases and retirement saving (HMRC, 2024). The cost-benefit equation of ISA schemes raises significant distributional questions with direct relevance to this study's research focus. With an estimated £6.7 billion in foregone tax revenue in 2023-24 (Broome, 2025), ISAs represent substantial public investment. Yet, as demonstrated by government data (HMRC, 2024), ISA participation and contribution amounts vary significantly by income level. Among those with incomes of £150,000 or more, 58.5% save at the maximum ISA allowance, compared to much lower percentages among lower income groups, suggesting regressive distribution of these tax benefits. Furthermore, 48.4% of ISA holders in the highest income bracket (£150,000+) have at least £50,000 in ISA savings, compared to just 9.9% of savers with incomes below £5,000.

Evidence on tax-efficient savings vehicles' effectiveness in promoting broader financial inclusion remains mixed. While these schemes successfully encourage saving among those with disposable income, they have proven less effective for households facing income constraints. As Kempson and Finney (2009) observe, those on the lowest incomes often lack the capacity to save, regardless of tax incentives or other inducements. More recent innovations like the UK's Help to Save scheme (launched in 2018) attempt to address this limitation by offering a 50% government match specifically for low-income working households. However, Gregory et al. (2022) raise fundamental questions about whether such schemes sufficiently address the structural barriers to saving faced by those on lower incomes, particularly the trade-off between immediate consumption needs and future financial security. More generally, they observe that the design features of standard ISAs disproportionately benefit those on higher incomes who can save more substantial amounts for longer periods.

With regard to Lifetime ISAs, Hilber (2015) persuasively argues that these schemes may ultimately benefit existing property owners by inflating house prices rather than improving

accessibility for first-time buyers. This unintended consequence illustrates how apparently progressive asset-building policies can reinforce existing wealth hierarchies, a pattern that may similarly characterise other types of ISAs despite their stated universal accessibility. However, despite these theoretical concerns, we lack robust empirical evidence on the effectiveness of specific ISA types such as S&S ISAs in democratising wealth accumulation across socioeconomic groups.

2.4 Wealth as a Safety Net: The Role of ISAs in the Context of a Liberal Welfare State

The development of asset-based welfare policies represents a significant evolution in welfare provision, moving beyond traditional income support toward strategies enabling individuals to build financial reserves and wealth security. This shift, often referred to as Asset Based Welfare Theory and pioneered conceptually by Sherraden (1991), hypothesises that asset ownership provides distinctive benefits beyond consumption possibilities. Sherraden, for instance, argues that 'while income feeds people's stomachs, assets change their heads' (Sherraden, 1991, p. 6), suggesting that asset ownership generates both tangible economic security and psychological effects that influence long-term behaviour and outcomes.

To fully understand the significance of S&S ISAs as wealth-building instruments, they must be situated within the broader context of the UK's welfare regime. Esping-Andersen (1990)'s influential typology classifies welfare states according to their decommodification levels and stratification effects, identifying three distinct regime types: social democratic, conservative-corporatist, and liberal. The UK exemplifies key features of the liberal welfare regime, characterised by modest universal transfers, means-tested assistance, and a strong emphasis on market solutions to welfare provision (Esping-Andersen, 1990; Taylor-Gooby, 2004).

Within this liberal welfare paradigm, the promotion of asset-based welfare through instruments like S&S ISAs serves multiple functions. First, as Powell (2008) argues, encouraging private asset accumulation aligns with liberal welfare states' emphasis on individual responsibility for economic security. Second, in the context of welfare state retrenchment, assets increasingly function as private safety nets, substituting for declining state provision (Montgomerie and Büdenbender, 2015). Third, as noted by Prabhakar (2009), asset-based welfare offers political advantages by framing welfare provision through the market-friendly language of asset ownership rather than redistribution.

S&S ISAs embody these liberal welfare principles particularly clearly. Rather than providing direct transfers or services, they offer tax incentives designed to encourage

private market-based saving and investment. Their design prioritises choice and flexibility, emphasising individual responsibility for financial decision-making. Additionally, they operate through existing financial market mechanisms rather than creating new state infrastructure for wealth redistribution.

However, this market-oriented approach to welfare provision raises critical questions about equality of access and outcomes. As Rowlingson and McKay (2012) emphasise, market-based welfare solutions inherently advantage those already positioned to engage effectively with markets. Without robust redistributive components, policies like S&S ISAs may primarily benefit middle and higher-income groups while leaving disadvantaged populations with limited capacity to build wealth buffers against economic insecurity. This concern is particularly relevant given Esping-Andersen (1990)'s observation that liberal welfare regimes tend to produce higher levels of stratification despite their ostensible commitment to market equality.

Theoretically, these tensions highlight the central paradox of asset-based welfare within liberal regimes: the very market mechanisms intended to democratise wealth accumulation may reinforce existing inequalities without complementary redistributive measures. As Sherraden et al. (2015, p. 4) acknowledges, people cannot be capable if they do not have access to institutional structures that support economic advancement. This perspective suggests that the effectiveness of S&S ISAs should be evaluated not merely by their formal availability but by their substantive accessibility across different socioeconomic groups.

The application of welfare regime theory to S&S ISAs therefore provides a crucial analytical framework for this study. It suggests that examining these instruments' distributional effects is not merely a technical evaluation of a specific policy but rather an assessment of a central mechanism through which the UK's liberal welfare regime attempts to address economic security. The key question becomes whether market-based assets can effectively function as welfare tools for diverse populations, or whether they primarily reinforce existing patterns of advantage and disadvantage, reproducing rather than alleviating the stratification tendencies identified by Esping-Andersen (1990) as characteristic of liberal welfare regimes.

3 Methodology

This study employs a longitudinal research design to examine the relationship between ISA ownership and wealth accumulation. To strengthen causal inference in the absence of random assignment, I implement multiple complementary analytical strategies following Midgley's (2000) concept of methodological pluralism. This analytical strategy adapts Card (1996)'s seminal longitudinal framework for analysing wage structures to the context of wealth accumulation, allowing for the robust control of time-invariant heterogeneity.

3.1 Data

The study draws on the WAS, a longitudinal household survey by the ONS (2025). The analysis uses data from Wave 1 (2006-08) and Wave 7 (2018-20), providing a 14-year observation window that captures detailed information on financial product ownership, wealth measurements, and socioeconomic characteristics.

The analytic sample includes individuals present in both Waves 1 and 7 with valid wealth measurements, yielding an initial sample of 24,870 individuals. After removing observations with missing values for key variables, the final analysis sample consists of 20,124 individuals for cross-sectional analyses. The final sample size provides adequate statistical power for main analyses ($> 95\%$ power to detect effect sizes of 0.1 at $\alpha = 0.05$), though subgroup analyses may be underpowered for detecting smaller heterogeneous effects.

To address potential attrition bias from focusing only on individuals present in both waves, I conducted a comparative analysis of baseline characteristics between retained participants and those who dropped out. I found modest but significant differences in initial wealth (7.72 vs. 7.60 log points, $p < 0.05$), age, and gender (47% vs. 50% female, $p < 0.01$), but no significant differences in baseline ISA ownership, education, marital status or income. To address this non-random attrition, I implemented inverse probability weighting (IPW), combining weights from a logistic regression predicting continued participation with the survey's cross-sectional weights.

3.2 Measures

The primary outcome measure is the natural logarithm of financial wealth at Wave 7 (`lwealth7`), which includes savings, investments, and financial assets but excludes housing equity, physical possessions, and pension wealth. This transformation normalises the highly skewed wealth distribution, following standard practice in wealth research (Killewald et al., 2017). To capture wealth accumulation dynamics, I created a measure of the change

in logged wealth between Wave 1 and 7 (`dlwealth`).

The key independent variable is S&S ISA ownership at Wave 7 (`isa7`), measured as a binary indicator. For longitudinal analyses, I constructed a change in ISA status variable between waves (`disa`). To enable more nuanced analysis of ISA ownership dynamics, I created a categorical variable (`isa_pattern`) representing four possible ownership trajectories: "Never ISA" (00), "Adopter" (01), "Abandoner" (10), and "Consistent owner" (11). From this categorical variable, I created binary indicators for "adopter" and "abandoner" status to facilitate regression analysis of these transitions.

The models control for factors known to influence wealth accumulation: initial financial wealth level (`lwealth1`), age and age-squared, educational attainment (higher education), gender, marital status, income from employment and self-employment, and geographic region. To examine heterogeneous effects by education, I also constructed an interaction term (`disa_degree`) between ISA status change and higher education.

Given the semi-logarithmic model specification for wealth outcomes, coefficients on binary variables like ISA ownership can be interpreted approximately as percentage changes in wealth after applying the transformation $(e^{\beta} - 1) \times 100\%$ (Halvorsen and Palmquist, 1980). For the change in log wealth measure (`dlwealth`), coefficients directly represent differences in the percentage growth of wealth between groups over the observation period.

3.3 Analytical Strategy

To estimate the relationship between ISA ownership and wealth accumulation, I employ four complementary analytical approaches using Stata/SE 18.0. Each approach addresses different aspects of the research question and potential methodological challenges.

3.3.1 Cross-Sectional Analysis

I first use cross-sectional regression analysis to examine the association between ISA ownership and wealth levels at Wave 7, progressively adding controls including initial wealth to address potential selection effects:

$$lwealth7_i = \beta_0 + \beta_1 isa7_i + \beta_2 lwealth1_i + \beta_3 X_i + \epsilon_i \tag{1}$$

This approach establishes the basic relationship between ISA ownership and wealth levels, while controlling for initial wealth helps address concerns that ISA owners may simply be wealthier to begin with.

3.3.2 Longitudinal Analysis

I conduct longitudinal analysis of wealth changes to better account for time-invariant unobserved characteristics:

$$dlwealth = \beta_0 + \beta_1 disa + \beta_2 lwealth1 + \beta_3 X + \epsilon_i \tag{2}$$

This dynamic approach offers stronger causal evidence by focusing on changes in both ISA status and wealth over time, effectively controlling for unobserved fixed individual characteristics that might otherwise bias cross-sectional estimates. While this approach addresses selection bias from time-invariant unobserved characteristics, endogeneity concerns remain, particularly that wealth growth expectations might influence ISA adoption rather than the reverse. I mitigate this by controlling for initial wealth levels and through the complementary approaches described in subsequent sections.

3.3.3 Decomposition Analysis

I decompose ISA ownership changes to examine potentially asymmetric effects of adoption versus abandonment, strictly applying the cumulative advantage framework established by DiPrete and Eirich (2006) to test for path-dependent wealth benefits:

$$dlwealth = \beta_0 + \beta_1 adopter + \beta_2 abandoner_i + \beta_3 lwealth1 + \beta_4 X + \epsilon \tag{3}$$

I test whether $\beta_1 = -\beta_2$ to assess if adoption and abandonment effects are symmetric. This test is crucial for understanding whether the benefits of ISA ownership persist even after divestment, which has important implications for policy interventions aimed at encouraging initial engagement with investment markets.

To examine heterogeneous effects by socioeconomic status, I introduce an interaction term between ISA status change and educational attainment:

$$dlwealth = \beta_0 + \beta_1 disa + \beta_2 disa\_degree + \beta_3 degree7 + \beta_4 lwealth1 + \beta_5 X + \epsilon \tag{4}$$

This interaction allows me to test whether ISA effects vary by education level, directly addressing the research question about democratising wealth accumulation across different socioeconomic groups.

3.3.4 Propensity Score Matching

I employ propensity score matching (PSM) to further address selection bias, matching ISA owners with similar non-owners based on observable characteristics using nearest-neighbour

matching with a calliper of 0.01. The average treatment effect on the treated (ATT) provides an estimate of the ISA effect that better accounts for selection on observables. PSM is particularly valuable in this context because it reduces reliance on regression functional form assumptions and focuses the comparison on individuals with similar probabilities of ISA ownership. This method was established by Rosenbaum and Rubin (1983) and has been successfully applied in savings policy research, such as Benjamin (2003)'s analysis of 401(k) eligibility, to estimate causal effects from observational data.

To assess the quality of the matching procedure, I compare the distributions of propensity scores between treated (ISA owners) and control (non-owners) groups before and after matching. Additionally, I calculated standardised mean differences (SMD) for all matching variables. The matching procedure reduced the average SMD across all covariates from 0.42 to 0.05, with no individual covariate exceeding the 0.1 threshold after matching. This visual and statistical evidence of improved balance strengthens the credibility of the PSM estimates.

3.3.5 Comparative Analysis

To isolate the specific effect of S&S ISAs from general tax advantages or saving discipline, I conduct parallel analyses substituting Cash ISAs for S&S ISAs and estimate joint models including both ISA types:

$$dlwealth = \beta_0 + \beta_1 disa_1 + \beta_2 dcisa + \beta_3 lwealth1 + \beta_4 X + \epsilon \tag{5}$$

This comparative analysis is essential not only for isolating the specific effect of the investment component in S&S ISAs but also for providing empirical justification for this study's focus on S&S ISAs rather than Cash ISAs or other savings vehicles.

3.3.6 Robustness Checks

To assess the stability of findings, I conduct several robustness checks: re-estimating key models using inverse hyperbolic sine transformation of wealth, testing sensitivity to outliers, and implementing multiple calliper widths for propensity score models. Results confirm the robustness of the main findings. For all regression models, I compute robust standard errors clustered at the person level and incorporate WAS cross-sectional weights (R7xsperswgt), combined with IPW weights when addressing attrition.

4 Results

4.1 Descriptive Statistics

Before examining the relationship between ISA ownership and wealth accumulation through regression analyses, I first present descriptive statistics to establish patterns in the data. Table 1 provides summary statistics for all key variables used in subsequent analyses. These statistics reveal substantial changes in both wealth and ISA ownership over the 14-year observation period, with considerable variation across individuals in wealth trajectories and financial product adoption.

Table 1: Descriptive Statistics

Variable	Description	Obs	Mean	Std. Dev.	Min
lwealth7	Log financial wealth (R7)	20749	9.46	2.59	0
dlwealth	+/- in log financial wealth	20749	1.86	4.32	-13.23
isa7	S&S ISA Ownership (R7)	24870	0.11	0.30	0
isa1	S&S ISA Ownership (W1)	24870	0.06	0.23	0
adopter	Acquired S&S ISA	24870	0.09	0.30	0
abandoner	Divested S&S ISA	24870	0.05	0.22	0
lwealth1	Log financial wealth (W1)	24870	7.62	3.44	0
degree7	Bachelor's degree (W7)	24870	0.35	0.48	0
age7	Age group (W7)	24870	12.25	3.19	5
female7	Female	24870	0.50	0.50	0
married7	Married/cohabiting	24870	0.69	0.46	0
wage7	Annual gross pay (£)	24056	11823	22227	0
employed7	Employed	24870	0.50	0.50	0
cisa7	Cash ISA Ownership (R7)	24870	0.36	0.48	0
cisa1	Cash ISA Ownership (W1)	24870	0.32	0.47	0
cisa_adopter	Acquired Cash ISA	24870	0.25	0.43	0
cisa_abandoner	Divested Cash ISA	24870	0.20	0.40	0
isa_pattern	S&S ISA ownership path	24870	0.21	0.56	0

Notes: N = 24,870 for most variables; N = 20,749 for wealth variables. R7 refers to Round 7 (2018-20) and W1 refers to Wave 1 (2006-08) of the WAS. Age is coded in 5-year groups. Region variables are included in all analyses but omitted from this table for brevity.

Wealth increased substantially over the 14-year observation period, with mean logged wealth rising from 7.62 in Wave 1 to 9.46 in Round 7. This corresponds to an average increase of 1.86 log points or approximately 540% in nominal terms. However, considerable variation exists in wealth trajectories, with a standard deviation of 4.32 for change in log wealth.

S&S ISA ownership increased from 6% of respondents in Wave 1 to 11% in Round 7. During this period, 9% of respondents newly adopted an S&S ISA, while 5% abandoned their previously held S&S ISA. Only 1% of respondents maintained S&S ISA ownership

across both waves. By comparison, Cash ISA ownership was more prevalent but exhibited different dynamics: 36% of respondents held a Cash ISA in Wave 7 compared to 32% in Wave 1, with 25% newly adopting and 20% abandoning this product.

Approximately 35% of respondents held at least a bachelor's degree, and the sample had a balanced gender composition (50% female). Mean age at Round 7 was 50.2 years (with age groups coded in 5-year bands), and 69% of respondents were married or cohabiting.

4.2 Cross-Sectional Analysis

Initial cross-sectional analysis reveals a strong positive association between S&S ISA ownership and financial wealth. In the full model controlling for demographic characteristics, S&S ISA holders have approximately 508% higher wealth than non-holders ($\beta = 1.81, t = 35.38, p < 0.001$), a substantial differential that persists even after controlling for initial wealth levels ($\beta = 1.81, t = 35.32, p < 0.001$).

Table 2: Main Cross-Sectional Regression Results

Variable	(1) Cross-Sectional	(2) With Initial Wealth
isa7	1.808***	1.807***
	(0.051)	(0.051)
age7	0.37***	0.37***
	(0.053)	(0.053)
age7sq	-0.004*	-0.004*
	(0.002)	(0.002)
degree7	1.282***	1.282***
	(0.049)	(0.049)
female7	-0.125***	-0.126***
	(0.046)	(0.046)
married7	0.485***	0.486***
	(0.052)	(0.052)
wage7	0.00***	0.00***
	(0.00)	(0.00)
region7	0.036***	0.036***
	(0.007)	(0.007)
lwealth1		-0.009
		(0.007)
_cons	3.725***	3.794***
	(0.306)	(0.314)
Observations	20124	20124
R-squared	0.236	0.236

Notes: Dependent variable is log financial wealth at Wave 7 (lwealth7). Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

This relationship appears remarkably stable regardless of whether initial wealth is controlled for, suggesting the association is not primarily driven by selection effects whereby initially

wealthier individuals simply adopt ISAs at higher rates. The minimal change in the ISA coefficient after controlling for initial wealth (from 1.808 to 1.807) indicates that S&S ISA ownership has explanatory power for current wealth beyond what can be attributed to initial wealth advantages. Table 2 presents the full regression results, showing the consistent ISA effect across model specifications.

4.3 Longitudinal Analysis

Longitudinal models examining wealth changes provide stronger evidence by accounting for time-invariant unobserved characteristics. Without controlling for initial wealth, changing S&S ISA status is associated with a 285% increase in wealth ($\beta = 2.85, t = 32.86, p < 0.001$). After controlling for initial wealth (which shows a strong negative coefficient, $\beta = -0.99, t = -142.17, p < 0.001$, indicating regression to the mean) the S&S ISA effect remains substantial and significant at 134% ($\beta = 1.34, t = 25.50, p < 0.001$).

Table 3: Main Longitudinal Regression Results

Variable	(3) Longitudinal	(4) With Initial Wealth
age7	0.021***	0.221***
	(0.013)	(0.008)
female7	-0.14*	-0.239***
	(0.079)	(0.047)
married7	0.608***	0.728***
	(0.088)	(0.054)
lwealth1		-0.991***
		(0.007)
disa	2.85***	1.342***
	(0.087)	(0.053)
_cons	-1.571***	5.75***
	(0.188)	(0.128)
Observations	20749	20749
R-squared	0.087	0.673

*Notes: Dependent variable is change in log financial wealth between Waves 1 and 7 (dlwealth). Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*

The strength of this longitudinal evidence is notable for several reasons. First, by focusing on changes in both ISA status and wealth, the model effectively controls for unobserved time-invariant individual characteristics. Second, the substantial ISA effect persists even after accounting for regression to the mean. Finally, the R-squared increases dramatically from 0.087 to 0.673 after controlling for initial wealth, indicating a substantially improved model fit.

4.4 Decomposition Analysis

Decomposing ISA status changes into adoption and abandonment reveals striking asymmetric effects. After controlling for initial wealth, adopting an S&S ISA is associated with a 222% increase in wealth ($\beta = 2.22, t = 43.51, p < 0.001$), while abandoning an S&S ISA shows a near-zero and non-significant effect ($\beta = -0.03, t = -0.27, p = 0.788$). A formal test strongly rejects the symmetry hypothesis ($F = 325.77, p < 0.001$), confirming that the benefits of adoption are not mirrored by equivalent negative effects from abandonment.

This asymmetry has profound implications for understanding the dynamics of wealth accumulation through S&S ISAs. It suggests that the benefits of ISA adoption may persist even after divestment, potentially through acquired financial knowledge, improved investment habits, or the accumulated capital during the ownership period. This finding aligns with DiPrete and Eirich (2006)'s cumulative advantage framework, where initial advantages can generate lasting benefits.

Table 4: Decomposition Analysis of ISA Adoption and Abandonment

dlwealth	**Coef.**	**St.Err.**	**P-value**
adopter	2.219***	0.051	0.000
abandoner	-0.028	0.105	0.788
lwealth1	-1.007***	0.007	0.000
age7	0.214***	0.008	0.000
female7	-0.229***	0.047	0.000
married7	0.704***	0.054	0.000
constant	5.834***	0.127	0.000
R-squared		0.680	
Observations		20749	
Test of Symmetry (F)		325.77 (p=0.000)	

Notes: Test of symmetry confirms effects of adoption and abandonment are asymmetric. *** $p < 0.01$.

4.5 Heterogenous Effects by Education

Analysis of heterogeneous effects by education reveals important patterns relevant to the democratisation of wealth accumulation. The interaction between ISA status change and degree education is negative and significant ($\beta = -0.25, t = -2.59, p = 0.010$), indicating that the wealth benefits of S&S ISAs are smaller for degree-educated individuals than for those without university degrees.

This finding has substantial policy implications. It suggests that S&S ISAs may be particularly beneficial for individuals with less formal education, potentially providing

a structured investment vehicle that compensates for less financial knowledge or access to other wealth-building opportunities. Rather than exacerbating existing educational disparities in wealth accumulation, S&S ISAs appear to have an equalising effect, offering greater relative benefits to socioeconomically disadvantaged groups.

Table 5: Heterogenous Effects of ISA Ownership by Education

dlwealth	**Coef.**	**St. Err.**	**P-value**
disa	1.225***	0.073	0.000
disa_degree	-0.252**	0.097	0.010
degree7	1.564***	0.048	0.000
lwealth1	-0.992***	0.007	0.000
age7	0.260***	0.008	0.000
female7	-0.232***	0.046	0.000
married7	0.585***	0.052	0.000
constant	4.873***	0.128	0.000
R-squared		0.700	

Notes: The interaction term 'disa_degree' represents the differential effect of ISA status change for university educated individuals. A negative coefficient indicates the effect is smaller for graduates. *** $p < 0.01$, ** $p < 0.05$.

4.6 Propensity Score Matching

Propensity score matching (PSM) strengthens causal inference by comparing S&S ISA owners with similar non-owners based on observable characteristics. The PSM results provide additional evidence regarding the effects of S&S ISAs on wealth accumulation, offering more conservative estimates than the regression analyses.

For wealth levels, matched S&S ISA holders have approximately 26.9% higher wealth than similar non-holders, a statistically significant effect ($ATT = 0.269, t = 2.31$). Similarly, for wealth changes, the effect is about 26.7% and also statistically significant ($ATT = 0.267, t = 2.02$). This more conservative estimate compared to regression models represents my most credible assessment of S&S ISAs' effect on wealth accumulation.

The PSM analysis of adopters and abandoners strongly confirms the asymmetric pattern observed in the regression models. New adopters show substantially higher wealth growth of approximately 227% compared to similar never-owners ($ATT = 2.27, t = 17.39$), while abandoners show no significant difference from never-owners ($ATT = 0.087, t = 0.62$). This provides compelling evidence that the benefits of S&S ISA adoption persist even after abandonment.

Table 6: Propensity Score Matching Results

Comparison	**ATT**	**t-statistic**
ISA holders vs. non-holders (wealth levels)	0.269*	2.31
ISA holders vs. non-holders (wealth change)	0.267*	2.02
ISA adopters vs. never-owners	2.271***	17.39
ISA abandoners vs. never-owners	0.087	0.62

Notes: ATT = Average Treatment Effect on the Treated. *** $p < 0.01$, * $p < 0.1$.

5 Discussion

This study examined whether S&S ISAs democratise wealth accumulation across socioeconomic groups or primarily benefit the already-advantaged. Through multiple analytical approaches, I found robust evidence that S&S ISAs have significant positive effects on wealth accumulation, with distinctive patterns that have important theoretical and policy implications.

5.1 Key Findings and Theoretical Implications

The findings reveal three critical patterns regarding S&S ISAs and wealth accumulation. First, S&S ISA ownership is strongly associated with increased wealth levels and growth, with longitudinal models suggesting a 134% higher wealth growth for individuals who changed their ISA status compared to those who did not. Second, decomposition analysis revealed striking asymmetric effects: adopting an S&S ISA is associated with substantially higher wealth growth while abandoning one shows no significant negative effect, suggesting persistent benefits even after divestment. Third, heterogeneous effects analysis indicated greater relative benefits for individuals without higher education, contrary to expectations that tax-efficient investment vehicles primarily benefit the already-advantaged.

While regression analyses suggest substantial effects, my PSM approach provides the most credible causal estimates. The PSM results indicate a more conservative but still significant effect: S&S ISA ownership is associated with approximately 26.7% higher wealth growth compared to similar non-owners. This substantial differential offers micro-level empirical support for Piketty (2017)'s macro-observation that returns on capital (r) significantly outpace general economic growth, acting as a primary driver of divergence. This more modest estimate strengthens my confidence that S&S ISAs genuinely contribute to wealth accumulation rather than merely reflecting pre-existing advantages of adopters. Particularly striking is the PSM confirmation of asymmetric effects, with new adopters showing 227% higher wealth growth compared to similar never-owners, while abandoners show no significant difference. This provides compelling evidence that benefits persist beyond the period of ownership, validating the existence of a 'cumulative advantage' mechanism (DiPrete and Eirich, 2006) where initial asset acquisition alters long-term wealth trajectories independent of continued holding.

These findings can be interpreted through the theoretical lens of asset-based welfare within liberal welfare regimes outlined in Section 2.4. Sherraden (1991, p. 6)'s foundational claim that 'while income feeds people's stomachs, assets change their heads' appears supported by the persistent benefits observed among ISA abandoners. This suggests that exposure to investment markets through structured vehicles like S&S ISAs may generate lasting

changes in financial behaviour and knowledge that extend beyond the immediate tax advantages.

This persistence mechanism provides empirical support for the emergence of an asset economy, as described by Adkins et al. (2020), where the logic of accumulation diverges significantly from that of income. Once individuals cross the threshold into asset ownership, they appear to secure a foothold that provides ongoing advantages distinct from their labour market status. The fact that wealth benefits do not dissipate upon ISA abandonment suggests that the 'asset effect' is sticky; former owners may retain accumulated capital or acquired financial behaviours that continue to generate returns, insulating them from the precarity experienced by non-owners. This persistence supports Montgomerie and Büdenbender (2015)'s argument that assets function as private safety nets, however, my findings suggest this safety net remains effective even after the specific vehicle is discarded.

The evidence that S&S ISAs provide greater relative benefits for less-educated individuals challenges a core critique of asset-based welfare within liberal welfare regimes. As Rowlingson and McKay (2012) argued, market-based welfare solutions tend to advantage those already positioned to engage effectively with markets. However, my findings suggest that S&S ISAs, despite operating through market mechanisms, may partially counteract rather than reinforce educational disparities in wealth accumulation. This finding stands in contrast to Gregory et al. (2022)'s observation that ISAs typically function as regressive instruments benefiting those with the highest savings capacity. While high-income earners undoubtedly capture the bulk of total tax relief, my results indicate that for the specific sub-population of lower-educated individuals who *do* adopt S&S ISAs, the relative marginal gain in wealth accumulation is profound. This suggests that while barriers to entry remain high, the vehicle itself does not inherently penalise the disadvantaged; rather, it offers a potent, albeit under-utilised, mechanism for closing the gap between the educationally credentialed and the non-credentialed.

Nevertheless, these findings must be interpreted within the broader context of the UK's liberal welfare regime. As Esping-Andersen (1990) observed, liberal welfare states tend to produce higher levels of stratification despite their ostensible commitment to market equality. While S&S ISAs appear to have equalising effects across educational groups among those who adopt them, they remain embedded in a system where initial access to disposable income for investment represents a significant barrier.

5.2 Policy Implications

These findings have several important implications for policy development, particularly following the UK government's decision to reduce the annual Cash ISA limit while

preserving the higher £20,000 threshold for S&S to incentivise stock market participation (HM Treasury, 2025). The substantial wealth-building effects observed, particularly for less-educated individuals, suggest that these instruments possess significant democratising potential if barriers to initial adoption can be overcome. This challenges the common assumption that tax-efficient investment vehicles primarily benefit the already-advantaged and implies that progressive outcomes are achievable through well-designed asset-based policies. Given that current participation remains low, with just 11% of respondents holding S&S ISAs by Round 7, there is substantial scope for expanding access to these wealth-building tools.

Crucially, the causal evidence regarding the asymmetric effects of adoption and abandonment offers specific guidance for policy design. The finding that adoption generates substantial wealth benefits (227%) that persist even after divestment suggests that initial engagement with investment markets triggers lasting changes in financial behaviour or knowledge. This persistence, confirmed through rigorous propensity score matching, strongly supports interventions focused on facilitating that first point of entry, such as auto-enrolment features or targeted education campaigns, rather than solely focusing on long-term retention.

However, the significant fiscal cost of these schemes—estimated at £6.7 billion in foregone tax revenue annually (Broome, 2025)—raises critical questions about distributional equity. While S&S ISAs demonstrate equalising effects among those who adopt them, broader participation patterns remain highly uneven across income levels. This disparity suggests a need for complementary interventions that specifically address the structural barriers faced by lower-income groups, such as minimum contribution requirements, knowledge gaps, or risk aversion. Rather than simply replacing traditional welfare provision with market-based alternatives, these results point toward hybrid approaches that combine structured investment opportunities with progressive features designed to ensure broad accessibility. As Sherraden et al. (2015, p. 4) emphasised, people cannot be capable without access to institutional structures that support economic advancement, a principle that applies directly to the design and implementation of market-based welfare tools like ISAs.

5.3 Limitations and Future Research

Several limitations must be acknowledged, particularly regarding the study's ability to make definitive causal claims. Despite employing multiple analytical strategies to strengthen causal inference, the observational nature of this research means that unobserved confounders, such as risk preferences or financial literacy, may simultaneously influence ISA adoption and wealth accumulation trajectories. While the propensity score matching approach addresses selection on observables, it cannot account for these unobserved

differences that may persist between matched groups.

Data availability constraints also restrict the granularity of the analysis regarding investment behaviour. A significant limitation is that the study observes ISA status at only two time points (Wave 1 and Wave 7), providing no information about precisely when individuals adopted or abandoned their S&S ISAs. This prevents the analysis of duration effects and masks potentially important variations in how long individuals held their ISAs. Furthermore, the public End User License dataset does not provide the specific asset composition within S&S ISAs (e.g., the ratio of equities to bonds). Consequently, I was unable to control for risk exposure or distinguish between 'safe' and 'aggressive' investment strategies, which likely contributes to the variation in wealth outcomes observed.

Finally, there are limitations concerning the scope of measurement and demographic heterogeneity. The 14-year observation period, while substantial, may not capture full lifecycle effects, and as noted by Advani et al. (2021), standard survey measures likely underestimate actual wealth concentration due to limitations in capturing ultra-wealthy households. Additionally, the inability to access restricted ethnicity data prevented the examination of heterogeneous effects across ethnic groups, a significant limitation given the pronounced racial wealth disparities documented in the literature review. It is also important to note that the wealth values used are nominal and have not been adjusted for inflation. While the comparative nature of the study mitigates the impact of inflationary trends on relative differences, the absolute wealth growth figures presented, such as the 540% nominal increase in mean wealth, should be interpreted with caution as they do not reflect real-terms purchasing power.

Future research should address these limitations through several approaches. First, employing quasi-experimental methods such as regression discontinuity designs around ISA policy changes could strengthen causal inference. Second, using data with more frequent observations and detailed investment information would allow study of timing effects and the impact of specific investment strategies within S&S ISAs. Third, examining mechanisms through which S&S ISAs generate persistent benefits, particularly for less-educated individuals, would enhance theoretical understanding and inform policy design.

6 Conclusion

This study provides evidence that S&S ISAs can function as effective wealth-building tools with potential democratising effects across educational groups, challenging assumptions that tax-efficient investment vehicles primarily benefit the already-advantaged. The persistent benefits among abandoners and stronger relative effects for less-educated individuals suggest that exposure to structured investment opportunities may generate lasting advantages beyond immediate tax benefits.

My most rigorous causal evidence, derived from propensity score matching, confirms that S&S ISAs can function as effective wealth-building tools with potential democratising effects across educational groups. The 26.7% higher wealth growth among matched S&S ISA holders represents a substantial return on investment that challenges assumptions about tax-efficient investment vehicles primarily benefiting the already-advantaged. Particularly important is my finding that these benefits persist even after abandonment, suggesting that exposure to structured investment opportunities generates lasting advantages beyond immediate tax benefits.

However, these democratising effects must be understood within the context of a liberal welfare regime that creates substantial initial barriers to participation for lower-income groups. The tension between market-based welfare provision and equality of access identified by Esping-Andersen (1990) and others remains evident, despite the promising patterns observed among those who gain access to S&S ISAs. These findings suggest that effectively democratising wealth accumulation through vehicles like S&S ISAs requires not only maintaining their tax efficiencies but also implementing complementary policies that specifically address barriers to initial adoption faced by disadvantaged groups. This balanced approach recognises both the potential and limitations of asset-based welfare within liberal welfare regimes, offering a pathway toward more inclusive wealth-building opportunities.

References

Adam Corlett, Arun Advani, & Andy Summers. (2020). Who gains? The importance of accounting for capital gains. Resolution Foundation.

Adkins, L., Konings, M., & Cooper, M. (2020). The asset economy: Property ownership and the new logic of inequality. Polity Press.

Advani, A., Bangham, G., & Leslie, J. (2021). The UK's Wealth Distribution and Characteristics of High-Wealth Households. Warwick Economics.

Advani, A., Chamberlain, E., & Summers, A. (2020). A wealth tax for the UK. Wealth Tax Commission.

Advani, A., & Summers, A. (2024). Measuring and taxing top incomes and wealth. Oxford Open Economics, 3(Supplement_1), i1113-11129.

Alvaredo, F., Atkinson, A. B., & Morelli, S. (2018). Top wealth shares in the UK over more than a century. Journal of Public Economics, 162, 26-47.

Ansell, B., & Gingrich, J. (2022). Political inequality. The IFS.

Bagchi, S., & Svejnar, J. (2015). Does wealth inequality matter for growth? The effect of billionaire wealth, income distribution, and poverty. Journal of Comparative Economics, 43(3), 505-530.

Benjamin, D. J. (2003). Does 401(k) eligibility increase saving? Evidence from propensity score subclassification. *Journal of Public Economics*, 87(5-6), 1259-1290.

Bourquin, P., Joyce, R., & Sturrock, D. (2020). Inheritances and inequality within generations. Institute for Fiscal Studies.

Braga, B., McKernan, S.-M., Ratcliffe, C., & Baum, S. (2017). Wealth Inequality Is a Barrier to Education and Social Mobility. Urban Institute.

Broome, M. (2025). Ineffective Savings Accounts. Resolution Foundation.

Card, D. (1996). The Effect of Unions on the Structure of Wages: A Longitudinal Analysis. Econometrica, 64(4), 957.

Cingano, F. (2014). Trends in Income Inequality and its Impact on Economic Growth. OECD Social, Employment and Migration Working Papers.

Davies, J. B., Fortin, N. M., & Lemieux, T. (2017). Wealth inequality: Theory, measurement and decomposition. The Canadian Journal of Economics, 50(5), 1224-1261.

DiPrete, T. A., & Eirich, G. M. (2006). Cumulative Advantage as a Mechanism for Inequality. Annual Review of Sociology, 32(1), 271-297.

Esping-Andersen, G. (1990). The three worlds of welfare capitalism. Polity Press.

Gilens, M., & Page, B. I. (2014). Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens. Perspectives on Politics, 12(3), 564-581.

Gregg, P., & Kanabar, R. (2023). Intergenerational wealth transmission in Great Britain. Review of Income and Wealth, 69(4), 807-837.

Gregory, J., Lymer, A., & Rowlingson, K. (2022). Personal Savings for Those on Lower Incomes: Towards a New Framework for Assessing the Role of the State in Relation to Savings Schemes. Social Policy and Society, 21(3), 336-351.

Halvorsen, R., & Palmquist, R. (1980). The Interpretation of Dummy Variables in Semilogarithmic Equations. The American Economic Review, 70(3), 474-475.

Hilber, C. (2015). Help-to-Buy ISAs will end up feathering nests of the wealthy - here's how. LSE.

Hilhorst, S. (2024). Afterlives of legitimacy: A political ethnography of two post-industrial towns in England. London School of Economics and Political Science (LSE).

HMRC. (2024). Commentary for Annual savings statistics: September 2024.

HM Treasury. (2025). Autumn Budget 2025. HM Treasury.

Karagiannaki, E. (2023). The scale and drivers of ethnic wealth gaps across the wealth distribution in the UK: evidence from Understanding Society. The London School of Economics.

Kempson, E., & Finney, A. (2009). Saving in lower-income households. University of Bristol.

Kerr, S. & Michael Vaughan. (2024). Changing the narrative on wealth inequality. Joseph Rowntree Foundation.

Khan, O. (2023). The Colour of Money. The Runnymede Trust.

Killewald, A., Pfeffer, F. T., & Schachner, J. N. (2017). Wealth Inequality and Accumulation. Annual Review of Sociology, 43(1), 379-404.

Mann, E. C. (2023). Wealth matters: A UK policy perspective. London School of Economics and Political Science (LSE).

Midgley, G. (2000). Systemic Intervention. Springer US.

Montgomerie, J., & Büdenbender, M. (2015). Round the Houses: Homeownership and Failures of Asset-Based Welfare in the United Kingdom. New Political Economy, 20(3), 386-405.

Office For National Statistics. (2025). Wealth and Assets Survey, Waves 1-5 and Rounds 5-8, 2006-2022. UK Data Service.

Oxfam. (2024). The world's richest 1% own more than 95% of the world population.

Piketty, T. (2017). Capital in the twenty-first century. Harvard University Press.

Powell, M. A. (Ed.). (2008). Modernising the welfare state: The Blair legacy. Policy Press.

Prabhakar, R. (2009). What is the future for asset-based welfare? Public Policy Research, 16(1), 51-56.

Rosenbaum, P. R., & Rubin, D. B. (1983). The central role of the propensity score in observational studies for causal effects. Biometrika, 70(1), 41-55.

Rowlingson, K., & McKay, S. (2012). Wealth and the wealthy: Exploring and tackling inequalities between rich and poor. The Policy Press.

Saez, E., & Zucman, G. (2016). Wealth Inequality in the United States since 1913. The Quarterly Journal of Economics, 131(2), 519-578.

Savage, M., et al. (2024). Why wealth inequality matters. The London School of Economics.

Sherraden, M. S., et al. (2015). Financial Capability and Asset Building for All. American Academy of Social Work and Social Welfare.

Sherraden, M. W. (1991). Assets and the poor: A new American welfare policy. Sharpe.

Stiglitz, J. E. (2012). The price of inequality. Penguin.

Taylor-Gooby, P. (Ed.). (2004). New Risks, New Welfare. Oxford University Press.

Winters, J. A. (2011). Oligarchy. Cambridge University Press.

A Appendix: Cash ISAs Analysis

This appendix presents parallel analyses for Cash ISAs to validate the main study's focus on S&S ISAs. The analyses demonstrate substantial differences in wealth-building effects between these two tax-efficient product types.

A.1 Descriptive Statistics

Cash ISA ownership was considerably more prevalent than S&S ISA ownership, with 36% of respondents holding a Cash ISA in Wave 7 (2018-20) compared to just 11% for S&S ISAs. Cash ISA ownership increased from 32% in Wave 1 to 36% in Round 7. During this period, 25% of respondents newly adopted a Cash ISA, while 20% abandoned their previously held Cash ISA. Approximately 12% maintained Cash ISA ownership across both waves, considerably higher than the 1% for S&S ISAs, reflecting both higher initial adoption rates and greater persistence of Cash ISA ownership.

A.2 Cross-Sectional Analysis

Initial cross-sectional analysis reveals a strong positive association between Cash ISA ownership and financial wealth. In the full model controlling for demographic characteristics, Cash ISA holders have approximately 326% higher wealth than non-holders ($\beta = 1.450, t = 45.41, p < 0.001$), which is substantial but notably lower than the 508% observed for S&S ISAs. This relationship appears remarkably stable regardless of whether initial wealth is controlled for.

Table 7: Main Cross-Sectional Regression Results (Cash ISAs)

Variable	(1) Cross-Sectional	(2) With Initial Wealth
cisa7	1.450***	1.450***
	(0.032)	(0.032)
age7	0.533***	0.533***
	(0.037)	(0.037)
lwealth1		-0.007
		(0.004)
Observations	20124	20124
R-squared	0.286	0.286

A.3 Longitudinal Analysis

Longitudinal models examining wealth changes provide stronger evidence. Without controlling for initial wealth, changing Cash ISA status is associated with a 238% increase in wealth ($\beta = 2.382, t = 58.90, p < 0.001$). After controlling for initial wealth (which shows a strong negative coefficient, $\beta = -0.950, t = -190.59, p < 0.001$), the Cash ISA effect remains substantial and significant at 95.5% ($\beta = 0.955, t = 37.44, p < 0.001$). While significant, this is notably smaller than the 134% effect observed for S&S ISAs.

Table 8: Main Longitudinal Regression Results (Cash ISAs)

Variable	(3) Longitudinal	(4) With Initial Wealth
dcisa	2.382***	0.955***
	(0.040)	(0.026)
lwealth1		-0.950***
		(0.005)
Observations	20749	20749
R-squared	0.178	0.701

A.4 Decomposition Analysis

Decomposing Cash ISA status changes reveals markedly different patterns compared to S&S ISAs. Adopting a Cash ISA is associated with a 129% increase in wealth ($\beta = 1.291$), while abandoning a Cash ISA shows a significant negative effect of -52.7% ($\beta = -0.527$). This pattern differs from S&S ISAs, where abandonment showed no significant negative effect.

Table 9: Decomposition Analysis (Cash ISAs)

dlwealth	Coef.	St.Err.	P-value
adopter	1.291***	0.039	0.000
abandoner	-0.527***	0.045	0.000
lwealth1	-0.958***	0.005	0.000

Notes: Unlike S&S ISAs, Cash ISA abandonment does show a significant wealth penalty. *** $p < 0.01$.

A.5 Heterogenous Effects by Education

The interaction between Cash ISA status change and degree education is negative and significant ($\beta = -0.502$), indicating that the wealth benefits are smaller for degree-educated

individuals. However, the base effect for Cash ISAs ($\beta = 1.037$) is smaller than for S&S ISAs ($\beta = 1.225$).

Table 10: Heterogenous Effects (Cash ISAs)

dlwealth	Coef.	St.Err.
dcisa	1.037***	0.030
dcisa_degree	-0.502***	0.048
degree7	1.544***	0.034

A.6 Propensity Score Matching

The PSM results for Cash ISAs reveal dramatically different patterns compared to S&S ISAs. For wealth levels, there is no significant difference between matched Cash ISA holders and non-holders ($ATT = -0.017, t = -0.27$). Similarly, for wealth changes, there is virtually no effect ($ATT = -0.0004, t = -0.00$).

Table 11: Propensity Score Matching Results (Cash ISAs)

Comparison	ATT	t-statistic
ISA holders vs. non-holders (wealth levels)	-0.017	-0.27
ISA holders vs. non-holders (wealth change)	-0.000	-0.00
ISA adopters vs. never-owners	1.763***	15.96
ISA abandoners vs. never-owners	0.026	0.25