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BRIEFING PAPER

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Savings (Government Contributions) Bill [Bill 59 2016-17]

By Tim Edmonds

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Summary

In July 2015, the Government launched a consultation on reforming pension tax relief with the aim of strengthening the incentive to save.[1] In his Budget 2016 speech, the then Chancellor of the Exchequer, George Osborne, announced no compulsory changes to the pension tax system, saying it was "clear that there was no consensus." However, the Government would introduce measures to encourage saving through:

- an increase in the annual amount an individual can save in an ISA from £15,240 to £20,000;
- a new Lifetime ISA (LISA), which could be opened by people aged between 18 and 40 from April 2017. Individuals would be able to save up to £4,000 each year and receive a government bonus of 25%. The money could be used to buy a first home worth up to £450,000 or withdrawn after age 60. Funds withdrawn for other purposes would attract a 5% charge and lose the government bonus;
- new Help-to-Save accounts for people in receipt of Universal Credit with minimum weekly household earnings equivalent to 16 hours at the National Living Wage, or those in receipt of Working Tax Credit. This would work by providing a government bonus on up to £50 of monthly savings. The bonus would be paid after two years, with an option to save for a further two years. There would be no restrictions on how the funds were used. [2]

HM Treasury provided further details in a Lifetime ISA factsheet and design note.

While there has been a general welcome for new measures to encourage and support saving, concerns have been raised about the potential for the LISA to undermine auto-enrolment. Questions include:

- the overall impact on retirement savings;
- how and whether individuals with limited resources will choose between saving in a LISA or a workplace pension;
- whether the interests of LISA savers will be protected with regulation on charges and governance comparable to pensions;
- whether LISAs will have an investment strategy appropriate for long-term saving;
- whether the choice of Help to Save accounts and LISAs will confuse inexperienced savers.

The Savings (Government Contributions) Bill was published on 6 September 2016 and is scheduled to have its Second Reading on 17 October. It applies to the whole of the UK.

The impact assessment to the Bill was published on 17 October. This briefing paper – originally published on 12 October - has been updated to reflect it (see pp 20 and 31).

[1] HM Treasury, Strengthening the incentive to save: a consultation on pensions tax relief, Cm 9102, July 2015

[2] HC Deb 16 March 2016 c966; HM Treasury, Budget 2016, HC 901, March 2016, para 1.108-12

1. Background

1.1 The savings landscape

This section looks at the distribution of savings among the population; the number and value of ISAs held by different age groups; and the prevalence of low savings. The focus is on those savings products that can be accessed with relative ease (ISAs, bonds, shares and unit trusts, among others) compared to housing and pension wealth.

The overview of savings in Great Britain provided in this section is based on the Office for National Statistics' Wealth and Assets Survey for the period July 2012 to June 2014.[3] It concentrates on the total stock of people's savings that are held in financial products, also referred to as financial wealth. It excludes property wealth, pension wealth and physical wealth (the value of possessions).

An estimated 98% of households had some money in a formal financial product in the period July 2012 to June 2014, with 96% having at least one bank current account. Half of all households with current accounts had £1,200 or less in their account and only a quarter had more than £4,000.[4]

57% of households had a savings account, 48% had an ISA and 12% owned UK shares.[5]

Looking at total financial assets (including children's accounts and informal savings), there is a huge variation in the amount of savings held between households:

- one quarter of households had less than £1,100;
- half had more than £8,500 (the median value); and
- one quarter had more than £43,400.[6]

As well as financial assets, households typically also have financial debts such as overdrafts, outstanding balances on credit cards or student loans among other things. Excluding mortgages 48% of households have some form of financial debt; of these households, the median value of that debt is £3,400 or more. Roughly 24% of all households have debts over £3,400.[7]

By deducting financial debts from financial assets we can see the net financial wealth of a household. As set out in the table below, half of households have net financial wealth above £5,900 (the median value).[8] Over a fifth (22%) of individuals live in households with negative net financial wealth (their financial debts – credit cards, overdrafts, loans etc. – are greater than their financial assets – money in the bank,

3 ONS, Wealth in Great Britain Wave 4: 2012 to 2014: Chapter 5,18 December 2015
4 All of the figures in this section are in cash terms and therefore not adjusted for inflation.
5 ONS, Wealth in Great Britain Wave 4: 2012 to 2014: Chapter 5,18 December 2015. reference table 5.1
6 Ibid, reference table 5.8
7 Ibid, table 5.13
8 Ibid, table 5.14

savings, investments etc.).[9] An equal proportion live in households with net financial wealth of at least £50,000 (see table below).

% of individuals living in households by net financial wealth bands, 2012-2014

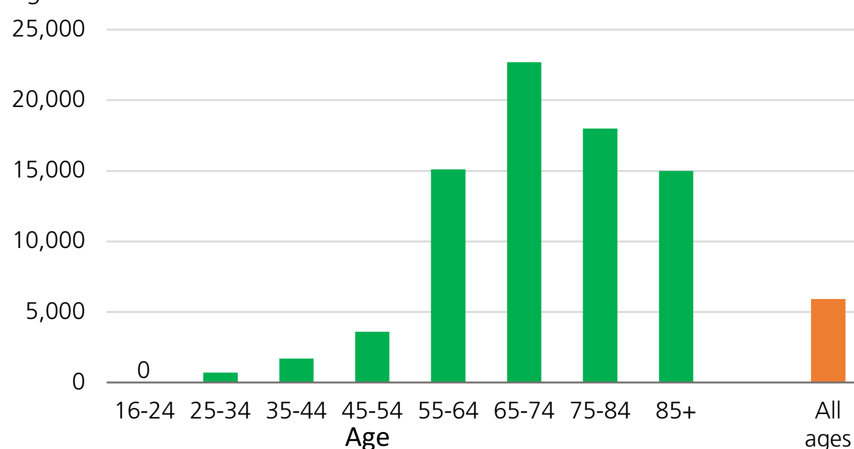
	%
Less than -£5,000	10
-£5,000 to -£499	9
-£500 to -£1	3
£0 to £499	8
£500 to £4,999	16
£5,000 to £12,499	11
£12,500 to £24,999	9
£25,000 to £49,999	10
£50,000 to £99,999	9
£100,000+	13

Soure: ONS, Wealth and Assets Survey

The chart below shows the median net financial wealth of households according to the age of that household's highest earner.[10] It clearly shows that those in older age groups have much higher net financial wealth than younger ones. We would generally expect younger people to have less wealth as they have had less time to accumulate savings.

Median net financial wealth (£) by age group, 2012-2014

Net financial wealth of household; grouped by age of person with highest income in household



Source: ONS, Wealth and Assets Survey

Half of households with its highest earner aged 16-24 have either negative or zero net financial wealth (where debts exceed assets).[11] Half

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9 Ibid, table 5.15

10 ONS, User requested data: Wealth by components and HRP age for July 2012 to June 2014, 2 March 2016

11 Net financial wealth figures are the total of all those living in the household. The household is grouped according to the age of the resident whose income is the highest of all individuals in the household.

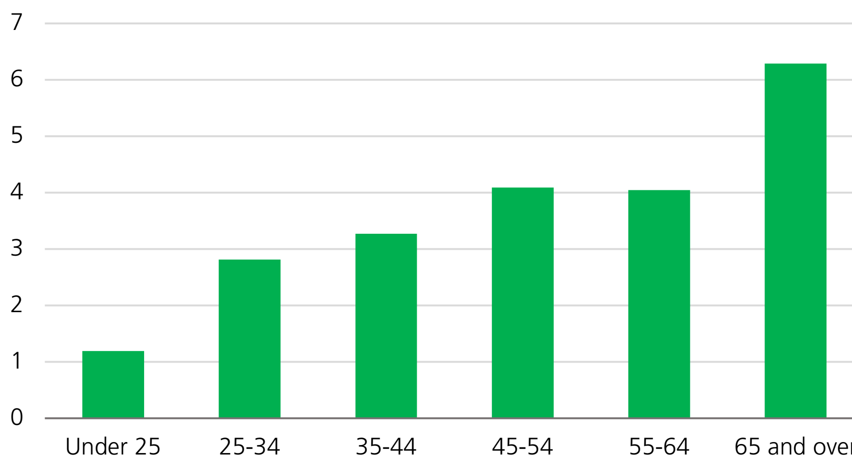
of those with its highest earner aged 25-34 have net financial wealth of £700 or less. For the 35-44 age group the equivalent figure is £1,700.

In contrast, half of households whose highest earner is aged 65-74 have net financial wealth of £22,700 or more – the highest figure of all age groups.

ISA statistics

A total of 21.7 million people held an ISA as of 2013/14 (latest available figure).[12] Slightly more women (11.1 million) than men (10.6 million) had an ISA. 10.3 million ISA subscribers were held by those aged 55 or over (nearly half of the total). 4.0 million were aged under 35 (18% of the total).[13]

Number of individuals subscribing to ISAs by age, 2013/14
Millions

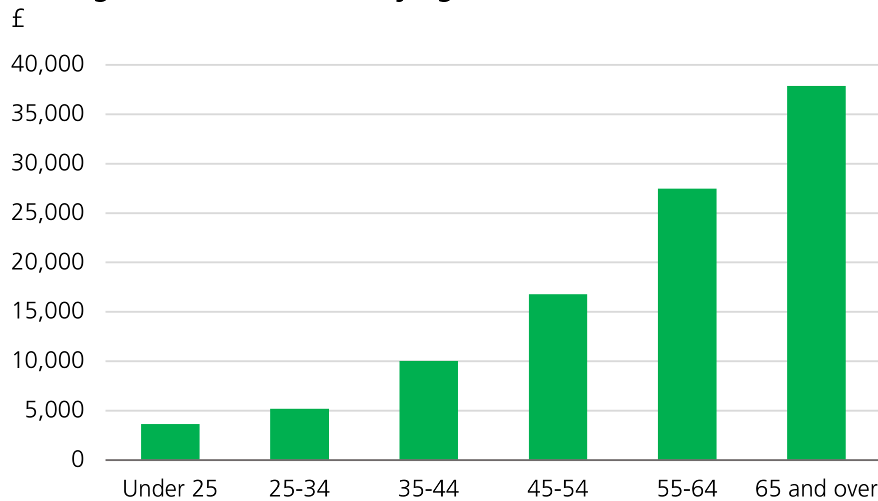


Source: HMRC, ISA Statistics, table 9.8

The amount of savings held in ISAs tends to be higher the older the individual. The average value of ISAs held by those aged 65 and older was £37,864 in 2013/14, compared to £3,650 for those aged under 25 and £5,186 for those aged 25-34.[14] That older people have more savings is not surprising as they have had more time to save.

[12] HMRC, ISA Statistics, 26 August 2016
[13] HMRC, Number of individuals subscribing to an Individual Savings Account (ISA) by age and gender, 29 April 2016
[14] HMRC, Market value of Individual Savings Accounts (ISA) funds by age and gender , 29 April 2016

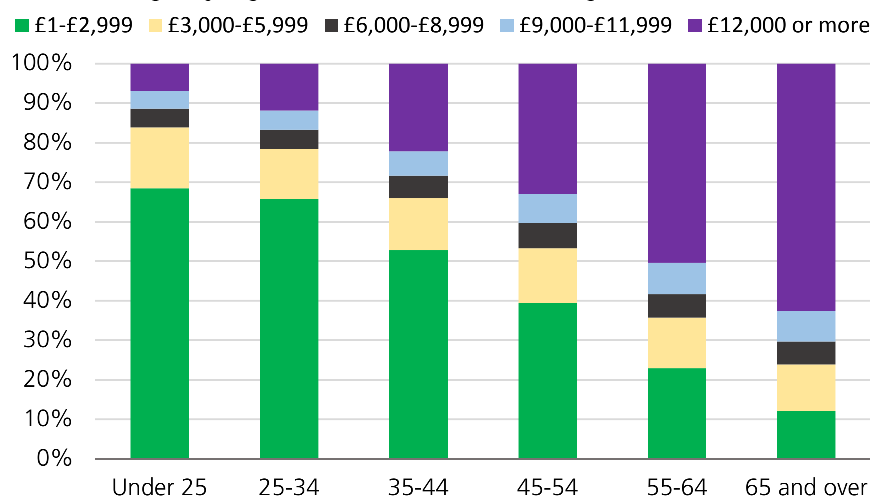
Average ISA market value by age of subscriber, end 2013/14



Source: HMRC, ISA Statistics, table 9.11

The chart below shows the distribution of ISA holdings by age group.[15] Around two-thirds of ISA subscribers aged under 35 have ISAs valued at less than £3,000. This proportion decreases among older age groups.

ISA holdings by age and market value range, end 2013/14



Source: HMRC, ISA Statistics, table 9.11

Prevalence of low savings

A large number of people do not have any savings. A survey conducted by ING Bank in October 2015 found that 28% of people said they had no savings at all.[16] A recent YouGov/The Times survey found that 38% of people would struggle to pay an emergency expense of more than £500 using money in their current or savings accounts.[17]

The Joseph Rowntree foundation *Poverty and Social Exclusion* surveys, which have been conducted at roughly ten yearly intervals since 1983,

[15] HMRC, Market value of Individual Savings Accounts (ISA) funds by age and gender , 29 April 2016
[16] ING International Survey, Savings 2016, January 2016
[17] YouGov, "One in three middle class Brits would struggle to pay a £500 bill", 8 June 2016

also asks about the ability to save. Consistently between a quarter and a third of households say they are unable to make regular savings for 'rainy days' (32% of households in the 2012 survey, 27% in 1999 and 30% in 1990).[18]

1.2 Government policy to encourage saving

For decades (centuries even) governments have had policies to encourage the population to save. Motives, which have varied, include:

- encouraging personal self-reliance;
- the needs of a specific national crisis – war bonds;
- economic theory which states that higher rates of saving in an economy leads to higher rates of investment and hence more economic growth;
- reducing government borrowing from other sources - national savings; and
- encouraging participation in society generally, through either higher levels of home ownership or wider share ownership of companies.

Over the last 25 years there has been a string of largely tax-based savings incentive schemes which have drawn on several of these motives. The Institute for Fiscal Studies (IFS) has summed these up as follows:

> The main extension of relatively tax-favoured savings came in 1988 with the introduction of personal pensions, which allowed the same tax treatment for individual-based pensions as had been available for employer-based occupational pensions (tax relief on contributions, no tax on fund income, tax on withdrawals apart from a lump sum not exceeding 25% of the accumulated fund). The other main extensions were the Personal Equity Plan (PEP) and the Tax-Exempt Special Savings Account (TESSA), introduced in 1987 and 1991 respectively. The PEP was originally a vehicle for direct holding of equities, but it was reformed to allow holdings of pooled investments such as unit trusts. The TESSA was a vehicle for holding interest-bearing savings accounts. Both PEP and TESSA benefited from almost the reverse tax treatment to that of pensions: saving into a PEP or TESSA was not given any tax relief, there was no tax on income or gains within the fund and there was no tax on withdrawals. The PEP and TESSA have now been superseded by the Individual Savings Account (ISA), which is similar in most important respects.[19]

Brief details of some of the schemes are given below.

Tax Exempt Special Savings Accounts (TESSAs)

Tax exempt special savings accounts (TESSAs) could be opened between 1 January 1991 and 5 April 1999. Anyone aged 18 or over was able to

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[18] D Gordon, J Mack et al, *The Impoverishment of the UK: PSE UK first results*, March 2013 and D Gordon, R Levitas et al, *Poverty and Social Exclusion in Britain*, 2000. Note the question was not asked in the 1983 Survey.

[19] IFS Survey of UK Tax System, November 2015

open one TESSA with an authorised bank or building society. Up to £9,000 could be saved over five years.

Interest and bonuses were tax free, provided the savings were left in the account for five years.

Personal Equity Plans (PEPs)

PEPs began on 1 January 1987 and closed to new subscriptions from 6 April 1999. They were available to UK residents aged 18 or over. Investors were exempt from income tax on dividends and interest, and from capital gains tax arising on shares, bonds and units held in a plan.

Originally, only shares in UK companies were eligible for direct investment via a PEP. Other European Community shares were included from 1 January 1992, and a range of corporate bonds, preference shares and convertibles from July 1995. Indirect investment via a unit or investment trust or, from August 1997, via an open ended investment company, was also permitted.

Individual Savings Accounts (ISAs)

ISAs were introduced on 6 April 1999, and replaced PEPs and TESSAs. ISAs, which continue to be available, are cash and/or stocks and shares accounts under which income received in the form of interest or dividends is tax-free. The accounts are also exempt from capital gains tax on any capital growth.[20] They have proved to be incredibly popular as a form of tax-free saving, particularly for higher rate tax payers. The estimated Exchequer cost of the tax relief for ISAs in 2015-16 was around £2.6 billion.[21]

Other initiatives included the Child Trust Fund and the Savings Gateway. These schemes differ from the ones listed above in the sense that they were directed more towards those at the lower end of the income scale.

Child Trust Fund

The Child Trust Fund established an endowment fund for children born from September 2002 to which government would make a contribution at birth and at the age of seven. Parents, relatives and friends of the child could make additional contributions up to a certain limit. At 18, the child would have access to the fund free of tax. The intended benefits of the scheme went beyond simple financial benefits. The scheme would, it was argued:

- help people understand the benefits of saving and investing;
- encourage parents and children to develop the savings habit and engage with financial institutions;
- ensure that in future all children had a financial asset at the start of adult life; and

[20] The rules for ISAs are set out in the *Individual Savings Account Regulations (SI 1998/1870)* which are made under powers set out in the *Income Tax (Trading and Other Income) Act 2005 (ITTOIA)* and the *Taxation of Chargeable Gains Act 1992 (TCGA 1992).*

[21] HMRC *ISA Statistics* August 2016.

- build on financial education to help people make better financial choices throughout their lives.

Although existing funds continue, or have been transferred into Junior ISAs, further government contributions to CTF accounts ceased in 2010 as a consequence of public expenditure cuts following the financial crisis.

The Savings Gateway

The Savings Gateway was initially announced in April 2001 (along with the CTF proposals).[22] It would have provided an incentive for individuals in receipt of certain state benefits to save, by providing a government bonus proportionate to how much had been saved. The scheme had been trialled in various cities and research from those trials suggested that it did provide a positive incentive to save for those who participated. However, it was never rolled out nationally and was subject to the same public expenditure cost pressures as the CTF.

1.3 Encouraging pension saving

Auto-enrolment

The Pensions Commission, set up by the Labour Government in 2002 to advise on "whether the existing system of voluntary private pensions would deliver adequate results", concluded that voluntary pension saving was in "serious decline" and that "previous government initiatives to stimulate its growth" had not succeeded.[23] It recommended the introduction of a duty on employers to automatically enrol workers into a workplace pension and, unless they opt out, make minimum contributions. In addition, it said the state pension should be reformed to provide "clear incentives and an understandable base on which private pension saving looking forward can build."[24]

The Labour Government legislated for these reforms in 2007 and 2008.[25] Reforms to the State Pension were introduced in 2010 and auto-enrolment from October 2012.[26]

Following a review, the Coalition Government decided to proceed with the implementation of automatic enrolment, with some modifications.[27] However, it thought further reform to the State Pension was needed to make it a success. It argued that there were three main problems with the existing system: complexity and uncertainty of outcomes; high levels of means-testing; and inequality of outcome.[28] The introduction of the

[22] *New proposals to tackle child poverty and open opportunities to all'*, HM Treasury press release 53/01, 26 April 2001

[23] *The Second Report of the Pensions Commission,* November 2005, p48

[24] Ibid, Executive Summary, p6

[25] *Pensions Act 2007* and *Pensions Act 2008;* Library Research Paper RP 07/05 *Pensions Bill* (January 2007) and RP 07/94 *Pensions Bill* (December 2007)

[26] For more detail, see Library Briefing Paper SN-05787 State Pension reform (January 2013) and SN-04847 Pensions: Automatic enrolment -background (September 2012)

[27] Making automatic enrolment work. A review for the Department for Work and Pensions', October 2010; HC Deb, 27 October 2010, c12WS

[28] DWP, A State Pension for the 21st Century, Cm 8052, April 2011, p13

new State Pension for future pensioners from 6 April 2016 was intended to provide a simpler platform for private pension saving.[29]

Automatic enrolment

Under the auto-enrolment reforms introduced in the Pensions Act 2008, employers must automatically enrol workers who:

- are not already in a qualifying workplace pension scheme;
- are between age 22 and State Pension age; and
- earn more than a minimum earnings threshold (£10,000 in 2016/17).[30]

Auto-enrolment must be into a scheme that meets specified criteria. Unless the worker opts out, the employer must make minimum contributions on a band of earnings. [31]

Auto-enrolment started to be introduced in October 2012, starting with large employers. It is being applied to small employers (with fewer than 50 employees) between June 2015 and April 2017, and then to new firms (set up after April 2012) by February 2018. Minimum contributions are also being phased-in, rising from 2% to 5% in April 2018 and then to 8% in April 2019. [32]

For more detail, see Library Briefing Paper SN-06417 Pensions: automatic enrolment – 2010 onwards (May 2016)

Impact

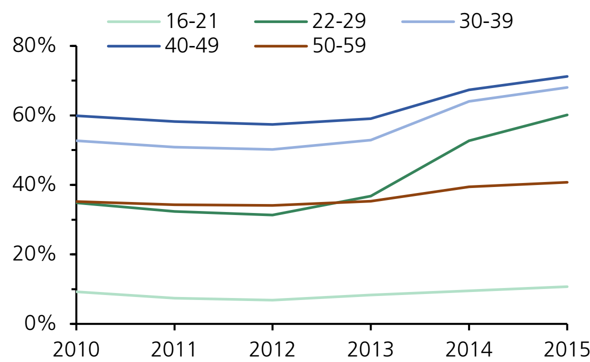
The Government expects the policy to result in around 9 million workers newly saving or saving more into workplace pensions. So far opt-out rates – at 9% - are lower than originally expected (25%).[33] They have been particularly low amongst younger people: 7% for those under 30.[34] The Government expects opt-out rates to increase to an average of 15% by the end of 2018, as minimum contribution levels rise to 8%.[35]

Since the introduction of auto-enrolment in 2012, there has been an increase in the numbers saving in a workplace pension (see below):

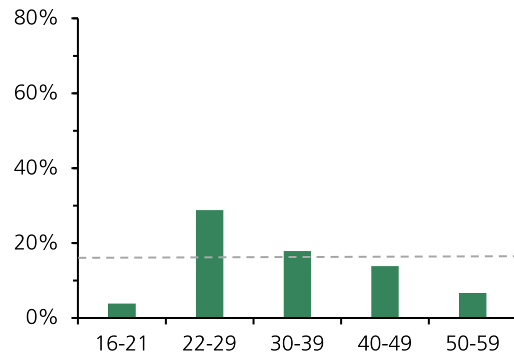
[29] HC Deb, 4 April 2011, c795
[30] *Pensions Act 2008*, s1 and 3
[31] *Pensions Act 2008*, s17 and 20; DWP, Automatic enrolment and workplace pension saving reform – factsheet, May 2011
[32] *Employers' Duties (Implementation) (Amendment) Regulations 2012 (SI 2012/1813);* Impact Assessment – Employers' Duties (Implementation) (Amendment) Regulation 2012, p18
[33] DWP, Framework for the analysis of future pension incomes, September 2013; DWP, Employer Pension Provision Survey 2015, March 2016, section 4.2.1
[34] DWP, Automatic enrolment opt-out rates: qualitative research with employers staging in 2014, November 2014
[35] Pensions Policy Institute, The future book, 2nd Edition, September 2016

Estimated proportion of employees with a workplace pension

Estimated % employees with a workplace pension by age



Estimated % increase in the proportion of employees with workplace pensions 2012 to 2015



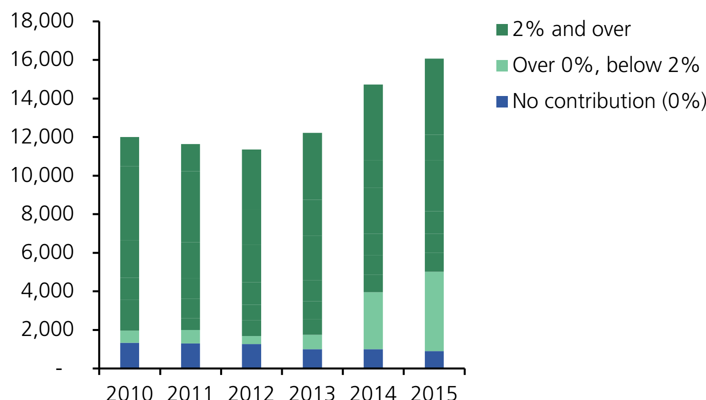
Notes Data for all current workplace pension schemes only; does not include schemes preserved or in payment. Grey dashed line shows UK average for all ages (a 16% increase 2012 – 2015). Figures are estimates based on survey data, subject to a confidence interval of up to +/- 20%.
Sources ONS Annual Survey of Hours and Earnings Pension tables; Employee Contribution Bands by Age Group and by Pension Type *(P5); ASHE: Table 6*

A possible downside of the policy is that some individuals might assume that they are doing enough by participating and contributing at the minimum, only to find out too late that they have not saved enough. The Government estimates that there are:

> […] 12.2 million people facing inadequate retirement incomes. Roughly half of these are within 20 per cent of their target amount, with the remainder facing a more significant challenge. This is a particular issue for moderate and higher earners.[36]

The Work and Pensions Committee recommended that the Government consider approaches to increasing contributions above the statutory minimum as part of its 2017 review of auto-enrolment.[37]

Number of employees with a workplace pension, by contribution rate
(Thousands)



Notes Data for all current workplace pension schemes only; does not include schemes preserved or in payment.

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[36] DWP, Framework for the analysis of future pension incomes, September 2013; DWP, Scenario analysis of future pension incomes, August 2014
[37] Work and Pensions Committee, Automatic enrolment, HC 579, May 2016, para 81

Grey dashed line shows UK average for all ages (a 16% increase 2012 – 2015).
Figures are estimates based on survey data, subject to a confidence interval of up to +/- 20%.
Source ONS Annual Survey of Hours and Earnings Pension tables; Employee Contribution Bands by Age Group and by Pension Type *(P5)*

Pensions tax relief

Contributions to private pensions are exempt from tax when they are made, but withdrawals taxed when paid out to the individual. So, the tax treatment of pensions follows an exempt-exempt-taxed (EET) model. As set out in the table below, this is different from the tax model applied to ISAs, which is a taxed–exempt-exempt (TEE) model.

EET	**TEE**
Exempt – pension contributions by individuals and employers receive tax relief and employer contributions are also exempt from NICs.	Taxed – contributions are made from taxed income.
Exempt – investment growth of funds is exempt from tax.	Exempt - investment growth of funds is exempt from tax.
Taxed – withdrawals are taxed as income, although there is generally the option to take 25% of the fund as a tax-free lump sum.	Exempt – withdrawals are not subject to tax.

Tax relief on the pension contributions of individuals is usually at their marginal rate. The main limits that apply are the lifetime allowance (LTA) and annual allowance (AA).[38] Reductions in both since 2010 have "significantly reduced" the share of pensions tax relief going to additional rate taxpayers and have reduced costs to the Exchequer by £6 billion a year.[39] Nonetheless, the cost is considerable. In 2014/15, an estimated £34.2 billion in tax relief was provided on contributions to approved pension schemes. In the same year, £13 billion in tax was collected on private pensions in payment. National Insurance (NI) relief on employer contributions cost £13.8 billion.[40]

38 *Finance Act 2004*, Part 4
39 HM Treasury, Strengthening the incentive to save: a consultation on pensions tax relief, Cm 9102, July 2015, para 1.5 and 2.6; See Library Briefing Paper SN-05901 Restricting pension tax relief (April 2016).
40 HMRC Cost of Registered Pension Schemes Tax Relief – PEN 6 (Updated February 2015)

HMRC estimates of the cost of pensions tax relief, 2014-15

		£ billion
Income tax relief on:		
	Contributions from employees	6.6
	Contributions from employers	19.5
	Contributions from self-employed	0.5
	Investment income of pension funds	7.7
Total reliefs		**34.2**
	Income tax received on private pension income	13.0
	Total	21.2
	National Insurance relief on employer contributions	13.8

Source: ONS, PEN6 - Cost of registered pension scheme tax relief

Debate on reform

Questions have long been asked about the effectiveness of pensions tax relief as an incentive to save. In 2005, the Pensions Commission said that its benefits were "poorly understood, unevenly distributed, and the cost is significant".[41] It concluded that although a single rate of relief had significant attractions in principle – as a more transparent incentive – it would be very difficult to implement, particularly for defined benefit (DB) schemes.[42]

Ten years on, the current Government launched a consultation on reforming pensions tax relief to strengthen incentives to save. It said:

> With increased longevity and the changing nature of pension provision, the government needs to make sure that the system incentivises more people to take responsibility for their pension saving so that they are able to meet their aspirations in retirement.[43]

One of the main options debated was a proposal to move from an EET model to a TEE one (sometimes referred to as the 'pensions ISA').[44] Reform along these lines had been proposed by the Centre for Policy Studies. It argued that the current tax-based incentives for pension saving were expensive, had failed to stimulate a broad-based retirement savings culture and represented a "huge subsidy" for the pensions industry. It argued that tax relief on contributions should be scrapped and replaced with a simpler incentive – a matching government contribution of 50p for every £1 saved.[45]

On the other hand, critics argued that the transition to TEE would be complex and could undermine pension saving. The Association of British Insurers, for example, said that for the foreseeable future anyone who

[41] A new pensions settlement for the 21st century: The Second Report of the Pensions Commission, November 2005, p308
[42] Ibid, p318
[43] HM Treasury, Strengthening the incentive to save: a consultation on pensions tax relief, Cm 9102, July 2015, foreword
[44] Ibid, para 3.12
[45] Centre for Policy Studies, Retirement savings incentives: the end of tax relief and a new beginning, 2014 and Centre for Policy Studies, The 2016 Budget: Pensions, 18 February 2016

already had pension savings would have a "confusing mixture of taxed and untaxed pension income when they come to retire."[46] Furthermore:

- lack of trust that future governments would not change policy again could undermine savings incentives; and
- without the brake on withdrawals the current system provides (the present tax treatment incentivises people to spread pension income over multiple years) people might be tempted to withdraw all their funds early to 'keep them safe'.

In addition, its modelling predicted that "the negative macroeconomic consequences of moving to a TEE system would be significant".[47]

In his Budget 2016 speech, the then Chancellor of the Exchequer, George Osborne, announced no compulsory changes to the pension tax system, arguing that it was "clear that there was no consensus." He did announce other measures to encourage saving including an increase in the ISA limit and the introduction of a Lifetime ISA.[48]

Analysis

In October 2016, the Office for Budget Responsibility (OBR) published an analytical paper on the private pensions and savings: the long-term effect of recent policy measures. It concluded that:

> 5.1 In recent years, the Government has made a number of significant changes to the tax treatment of private pensions and savings and introduced a variety of government top-ups on specific savings products. In doing so, it has generally shifted incentives in a way that makes pensions saving less attractive – particularly for higher earners – and non-pension savings more attractive – often in ways that can most readily be taken up by the same higher earners.

[46] ABI, Ten reasons not to move to a Pension ISA, March 2016; ABI, A Savers' Bonus, October 2015; ABI response to the consultation Strengthening the incentive to save, October 2015

[47] ABI, A Savers' Bonus, October 2015

[48] HC Deb 16 March 2016 c966; A summary of the consultation responses was published

2. The Lifetime ISA (LISA)

In Budget 2016, the then Chancellor of the Exchequer, George Osborne, announced the introduction of the Lifetime ISA (LISA) from April 2017, saying it would be a new flexible way for the next generation to save and would help the self-employed:

> We know people like ISAs—because they are simple. You save out of taxed income, everything you earn on your savings is tax-free, and it is tax-free when you withdraw it too. From April next year, I am going to increase the ISA limit from just over £15,000 to £20,000 a year for everyone.
>
> For those under 40, many of whom have not had such a good deal from the pension system, I am introducing a completely new, flexible way for the next generation to save. It is called the Lifetime ISA. Young people can put money in, get a Government bonus, and use it to either buy their first home or save for their retirement.
>
> Here is how it will work. From April 2017, anyone under the age of 40 will be able to open a Lifetime ISA and save up to £4,000 each year. For every £4 you save, the Government will give you £1. So put in £4,000 and the Government will give you £1,000. Every year. Until you are 50. You do not have to choose between saving for your first home or saving for your retirement. With the new Lifetime ISA, the Government are giving you money to do both.
>
> For the basic rate taxpayer, that is the equivalent of tax-free savings into a pension, and unlike a pension, you will not pay tax when you come to take the money out in retirement. For the self-employed, it is the kind of support they simply cannot get from the pensions system today.
>
> Unlike a pension, you can access your money anytime without the bonus and with a small charge. [49] And we are going to consult the industry on whether, like the American 401(k), you can return the money to the account to reclaim the bonus—so it is both generous and completely flexible. Those who have already taken out our enormously popular Help to Buy ISA will be able to roll it into the new Lifetime ISA—and keep the Government match. A £20,000 ISA limit for everyone. A new Lifetime ISA. A Budget that puts the next generation first.

For those on lower incomes, there would be a Help-to-Save scheme.[50]

The Government explained that funds, including the government bonus, could be:

- used to buy a first home worth up to £450,000 at any time from 12 months after opening the account; and
- for any purpose from age 60.

It would consult on whether to allow this for other specific life events.[51]

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[49] HC Deb 16 March 2016 c966

[50] 'PM announces new support to improve life chances of millions', Government press release, 14 March 2016

[51] HM Treasury, Budget 2016, HC 901, para 1.108-112

Outside of these specified circumstances, people would be able to withdraw their funds, without the bonus, and with a small charge. The Government would consult on whether, as with the American 401(k)[52], they would be able to return the money and reclaim the bonus.[53]

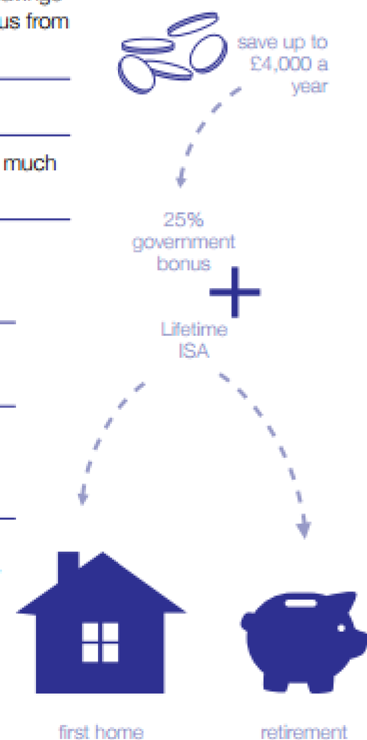
Details of the scheme are in a Lifetime ISA factsheet (September 2016):

Save up to £4,000 each year, and receive a government bonus of 25% – that's a bonus of up to £1,000 a year. You can use some or all of the money to buy your first home, or save it until you're 60 – it's up to you.

open a Lifetime ISA account between the ages of 18 and 40, and any savings you put into it before your 50th birthday will receive an added 25% bonus from the government

accounts will be available from April 2017

there is no maximum monthly contribution – you can save as little or as much as you want each month, up to £4,000 a year



use it to save for a first home

your savings can be put towards a first home worth up to £450,000 across the country

limits apply per person rather than per household – so two first time buyers can both use their savings (including the bonus) when buying together

if you have a Help to Buy: ISA you can transfer those savings into the Lifetime ISA in 2017-18, or continue saving into both – but you will only be able to use the bonus from one to buy a house

use it to save for retirement

after your 60th birthday you can take out all the savings (including the bonus) tax-free

you can withdraw the money at any other time, but you will pay a 25% charge - this recovers the government bonus and applies a small charge

[52] US workplace pension plans
[53] HC Deb 16 March 2016 c966;

Further details are in a technical note – design of the Lifetime ISA (September 2016). Developments since the proposals were published in March included:

- confirmation that individuals would be able access their Lifetime ISA Savings at the point of exchange of contracts on their first home (compared to the Help to Buy: ISA, where the bonus is paid just prior to completion).[54]
- payment of the government bonus monthly from 2018/19 onwards.[55]
- confirmation that the surrender value of the Lifetime ISA would be taken into account as capital for social security and social care means-tests.[56]

The Government was continuing to consider two other features:

> […] whether there should be the flexibility to borrow funds from the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid, and whether there should be other specific life events where individuals can have access to their Lifetime ISA without a government charge. However, the government has decided that these will not be a feature of the product when it becomes available in April 2017.[57]

Commentators welcomed the fact that individuals would be able to access their funds at the point of exchange and that the government bonus would be paid monthly from 2018.[58] A provider planning to launch a LISA product welcomed the fact that the design had been kept simple.[59] However, others were concerned that they were running out of time to design a product in time for launch in April 2017.[60]

Initial comment

The LISA was welcomed by the Centre for Policy Studies as similar to a proposal it had made in the past.[61]

The Investment Association welcomed the fact that the incentives to save in a workplace pension had been left in place and welcomed the LISA as an "exciting development."[62] However, others described it as "essentially a new pension regime through the backdoor" and thought

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[54] HM Treasury, Lifetime ISA – updated technical note, September 2016, para 1.30; HM Treasury, The new Lifetime ISA, March 2016, para 1.14
[55] HM Treasury, Lifetime ISA – updated technical note, September 2016, para 1.31; HM Treasury, The new Lifetime ISA, March 2016, para 1.12
[56] Ibid para 1.42
[57] Ibid para 1.41
[58] 'Lifetime ISA tweaked to help first-time buyers', *Financial Times,* 16 September 2016; 'Government to pay Lifetime ISA bonus monthly', *Money Marketing,* 15 September 2016
[59] Chancellor pushes through Lifetime Isa despite risk to pensions, *The Telegraph,* 7 September 2016; Government confirms Lifetime ISA launch, *Financial Times,* September 2016
[60] 'Nationwide pulls out of Lifetime ISAs', *Sunday Times,* 9 September 2016
[61] CPS Budget 2016 Reaction by Head of Economic Research Daniel Mahoney, 16 March 2016; Introducing the Lifetime ISA, CPS, August 2014
[62] Boost for millennial savers as productivity and investment underpin Budget 2016, 16 March 2016

reform of pensions tax relief would follow.[63] The Association of British Insurers said the test for success would be:

> […] whether it increases overall retirement savings and does not undermine the auto-enrolment programme; this must not be a backdoor to pension ISA. [64]

Others argued that details would be critical to the success of the scheme. The Pensions and Lifetime Savings Association said:

> The introduction of a Lifetime ISA is an interesting initiative to help younger people add to their pension and lifetime savings. We look forward to working with the Government to help make sure that the Lifetime ISA does help younger people build up their savings. An important part of this will be to make sure that savers' interests are protected by ensuring that the regulation on charges and governance of the Lifetime ISA are comparable to those for pensions, which have been reviewed to make sure they offer savers good value.[65]

Former Pensions Minister Steve Webb was concerned that it could delay saving for retirement:

> […] with the Government bonus being switched off at fifty the Lifetime ISA starts to look very unsuitable for retirement compared with a workplace pension. There is a real danger that the new product will mean that many young people will not start saving for their retirement until their thirties or beyond and will struggle to make up for lost time.[66]

However, in the *Sunday Times,* Mark Bridge said that those arguing that the LISA heralded 'the death of pensions' were missing the point:

> In my experience, most people in their 20s and 30s are much more preoccupied with getting on to the housing ladder than planning for retirement. Rightly or wrongly, they will prioritise saving towards a deposit over retirement savings, although they will continue to make the default contributions to any workplace pension. The Lisa will help hugely with their existing saving strategies and will make their goal of homeownership more attainable, even if there are knock-on increases to house prices.[67]

2.1 Expected impact

In costings published alongside Budget 2016 the Treasury said that it expected the cost of the LISA and the increase in the ISA limit to be £850 million a year by 2020-21:

> The costing of the Lifetime ISA accounts for a behavioural response whereby individuals may choose to take up this voluntary savings option. This behavioural response has been estimated by comparing the relative incentives to save into the Lifetime ISA compared to alternative pension and savings products. Administrative data on personal pension contributions

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63 Lifetime ISA is 'backdoor change to pensions' industry says, *Financial Times,* 18 March 2016

64 ABI press release 17 March 2016,

65 Pension and Lifetime Savings Association comments on Budget 2016, 16 March 2016; BBA press release 17 March 2016

66 'Lifetime ISA could force young people to 'work until they drop' – Steve Webb, Royal London press release, 18 March 2016

67 'At last a savings plan for generation Y', *Sunday Times,* 19 March 2016

> and ISA savings of the eligible population has been used to estimate the value of Lifetime ISA contributions. This leads to an Exchequer cost through 25% matching of eligible contributions. The costing of the ISA savings limit increase is calculated by estimating the value of tax on savings that individuals will move from taxable savings into ISAs as a result of this change.
>
> **Exchequer impact (£m)**
>
> **Exchequer impact (£m)**
>
> | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
> |---|---|---|---|---|---|
> | Exchequer impact | neg | -170 | -330 | -590 | -850 |
>
> **Areas of uncertainty**
>
> The main uncertainties in this costing relate to growth of the tax base and the size of the behavioural response.[68]

The Office for Budget Responsibility (OBR) broadly accepted these estimates but with a very high uncertainty rating:

> The main source of uncertainty is the behavioural impact, because the cost of the top-up is extremely sensitive to it. In particular, assumptions are made about: the number of people choosing to use the lifetime ISA; how much they choose to save; and when they choose to withdraw. There is little information that can be used to inform these assumptions and the behaviour is dependent on a variety of other factors, which amplifies the uncertainty.[69]

The Institute for Fiscal Studies (IFS) commented that there was little detail on what the Government expected in terms of cost, take-up and the extent to which there would be new saving versus shifting of existing funds.[70]

In May 2016 the Work and Pensions Committee recommended that the Government conduct urgent research "on any effect of the LISA on pension saving through [auto-enrolment]."[71] While rejecting this, the Government said it would produce an Impact Assessment and monitor progress with auto-enrolment:

> 29. The Government will undertake an Impact Assessment as part of due process in legislating for the new Lifetime ISA in the autumn. Beyond these, the Government does not currently intend to commission new research to predict the impact of the Lifetime ISA on individual behaviour in advance of implementation, but will continue to monitor the success of Automatic Enrolment in terms of workplace pension participation, opt-out rates, and contribution rates.[72]

The figures in the impact assessment published on 17 October 2016 "do not assume that any individuals opt out of workplace pensions to save into a Lifetime ISA":

> They assume that some individuals choose not to save into personal pensions and saving into a Lifetime ISA instead, where

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68 HM Government, Budget 2016: policy costings, March 2016, p9

69 OBR, Economic and Fiscal outlook, March 2016, para 4.144 and pp 217-8; See also, HM Treasury, Budget 2016 policy costings document, 16 March 2016

70 IFS Budget 2016 presentation

71 Work and Pensions Committee, Automatic enrolment, 11th report of session 2015-16, HC 579

72 Automatic enrolment: Government response to the Committee's Eleventh Report of Session 2015-16, HC 601, 22 July 2016

> this could be in their interest to do so, as set out below (e.g. self-employed basic rate taxpayers). [73]

It said the following groups were expected to save in a LISA:

- those saving for the long-term into ISAs and other non-pension savings productions;
- those saving into private pensions whose tax and employment status means that the Lifetime ISA offers an attractive retirement saving option, such as some self-employed individuals, some individuals constrained by their employer's willingness to contribute to a pension beyond their statutory obligations, and some individuals constrained by the current pension system but who wish to save more for retirement; and
- those looking to purchase their first home.

Based on those assumptions, the Government expects over 200,000 people to save into LISA accounts in 2017-18. Take-up was expected to grow over time such that by 2020-2021, over 800,000 are expected to contribute into LISAs.[74]

It acknowledges that there is a "high level of uncertainty to the costings" because it requires assumptions to be made over likely take-up and the amounts individuals will save.[75]

2.2 Comment - home ownership

Home ownership rates in England have been falling since 2003 despite the fact that it remains the tenure of choice for the majority of people. The 2014 British Social Attitudes survey found that, given a free choice, 86% of people would prefer to buy their own home rather than rent.

Younger households are facing particular difficulties in becoming home owners: the percentage of young adult householders owning their home decreased from 55% in 1996 to 30% in 2015 for 25 to 29 year olds; and from 68% to 46% for 30 to 34 year olds.

The financial crash and the subsequent fall in house prices after the end of 2007 had only a limited impact on affordability for first time buyers. Lenders have tightened their criteria for mortgage approvals and require buyers to have substantial deposits. Within this context the Department for Communities and Local Government has said:

> Our department has a driving focus to increase housing supply and make it easier for the 86% of people who say they want to own their own home, to achieve that aspiration.[76]

A number of initiatives aimed at increasing home ownership levels have been developed and introduced, of which the Lifetime ISA (LISA) is just one. Another was the Help to Buy ISA (discussed below). Full details of the various Government schemes can be found in Library Briefing Paper

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[73] HM Treasury, Impact Assessment – Savings (Government Contributions) Bill, 17 October 2010
[74] Ibid, para 10-11
[75] Ibid para 15
[76] DCLG, Single Departmental Plan, 2015-2020 (Updated 2016)

3888: Extending home ownership – Government initiatives (March 2016).

Martin Lewis, the founder of MoneySavingExpert.com, has described the Lifetime ISA as a "no brainer" for first-time buyers as it offers a 25% bonus on top of an individual's savings.[77] Comment has generally been positive but there is some concern that the product is quite complicated.[78] The LISA will be more generous than the Help to Buy ISA for individuals who can afford to save more than £2,400 a year or who plan to save for more than five years.

The Help to Buy and Lifetime ISAs

Launched in December 2015, the Help to Buy: ISA enables first-time buyers to receive a 25% bonus from the government on their savings when they buy a property at £250,000 or less (£450,000 in London). The maximum government bonus is £3,000 per person (paid on savings of £12,000). The maximum initial deposit is £1,200 with a monthly savings limit of £200 (equating to £2,400 per year) thereafter.[79]

Help to buy: ISA statistics

The total number of bonuses paid at the end of June 2016 (the most recent data available) was 15,513, with a total value of £7.4 million. This went towards 11,051 property sales (more than one bonus can be used for a single property; for example, a couple buying a house together). The average value of a property completion which used the Help to Buy: ISA was £167,250. Nearly 90% of bonuses paid so far under the scheme have gone to people aged under 35.
Source: Help to Buy ISA statistics: September 2016

For Help to Buy, the government bonus is paid when the house purchase is completed. In contrast, for the LISA, the government bonus will be paid regularly (monthly from 2018/19) and can be accessed at exchange of contracts:

> 1.30 The Lifetime ISA and the Help to Buy: ISA are different products with different purchases. The Help to Buy: ISA is a short-term savings product targeted at supporting people buying their first home. Individuals can close their account and access all of their savings, without charge, to go towards their deposit at the point of exchange of contracts on their first home. Just prior to completing the purchase of their first home, when their conveyancer is certain the transaction will go ahead, the conveyancer will apply for the 25% government bonus on the individual's behalf. The bonus is added to the deposit at this point, increasing the equity that the individual has in the property. The timing of the bonus payment at completion reflects the fact that entitlement to the bonus arises from the savings being used towards an eligible housing transaction.
>
> 1.31. The Lifetime ISA is a long-term savings product. As outlined in paragraph 1.19 the bonus is paid regularly (at the end of 2017/18, and monthly from 2018/19 on) to enable individuals to receive compound growth on the bonus, appropriate for a long-

77 Lifetime ISAs [accessed 30 September 2016]
78 BBC: The Lifetime ISA – free money or just too complicated? [accessed on 30 September 2016]
79 Gov:UK Help to Buy: ISA. How does it work?

> term savings product. As outlined in paragraph 1.18 ISA managers will not be required to hold government bonus payments separate from other Lifetime ISA funds. To enable individuals to access their own Lifetime ISA savings at exchange of contracts, as they can in the Help to Buy ISA, individuals will be able to withdraw all of their Lifetime ISA up to the value of their deposit, including any government bonus, at the point of exchange of contracts.[80]

The Help to Buy: ISA will be open for new savers until 30 November 2019, and savers will be able to claim a bonus until 1 December 2030. Savers will be able to save into both a Help to Buy: ISA and a Lifetime ISA, but will only be able to use the government bonus from one of those accounts to buy their first home. In 2017/18 only, people who have built up savings in a Help to Buy: ISA before April 2017 will be able to transfer them to a Lifetime ISA and receive a government bonus.[81] Other options would be to:

- use their Help to Buy: ISA with its government bonus to purchase their first home, and save their Lifetime ISA with its government bonus for the future.
- use their Lifetime ISA with its government bonus to purchase their first home, and withdraw the funds held in their Help to Buy: ISA to put towards this purchase without the government bonus.
- use their Help to Buy: ISA, including its government bonus, to purchase their first home and withdraw funds from their Lifetime ISA to put towards the purchase, incurring a charge.[82]

The OBR expects the LISA to have only a small, positive, effect on house prices.[83]

2.3 Comment – retirement saving

Who might gain by saving for retirement in a LISA?

The Work and Pensions Committee found that for most employees, the decision to save in a LISA instead of through a workplace pension would be detrimental to their retirement savings. The main groups who might be better off saving in a LISA were the self-employed and those who wished to supplement pension saving:

> This is because, unlike a LISA, AE attracts employer contributions. The additional amounts that would be accrued in AE compared to a LISA vary substantially. Someone earning £25,000 per year and saving 4% each year in a workplace pension for 42 years may have accrued £50,000, or almost 50%, more than they would have done saving the same money in a LISA.
>
> 57. The main groups of people who may be better off focusing their retirement savings in a LISA are those not well serviced by employer pensions. Most notably, self-employed people do not benefit from employer pension contributions. The flexibility offered by a LISA, which may be particularly valuable for the self-employed, may make it a more desirable option. We consider the

80 HM Treasury, Lifetime ISA: updated design note, September 2016
81 Ibid
82 Ibid
83 OBR, Fiscal sustainability analytical paper: Private pensions and savings: the long-term effect of recent policy measures, October 2016, para 4.22

> self-employed further in the next chapter. Employees earning under £5,824 are not eligible for employer contributions, even if they opt-in to AE, and so a LISA may similarly suitable for such people.
>
> 58. The employees principally placed to benefit from retirement saving in a LISA are those who wish to supplement pension saving. If an individual is already benefiting from maximum employer pension contributions, depending on their tax circumstances a LISA may be a more attractive saving option than more employee contributions. Similarly, people who have reached their Annual or Lifetime Allowance for pension tax relief would have access to a tax-efficient means of saving more.[84]

The Pension and Lifetime Savings Association commented that the LISA could be helpful for some self-employed people, but not the majority who are over 40:

> 13. From a tax perspective, the Lifetime ISA will be a better prospect than a pension product for those who are self-employed and paying basic rate tax. For this group, it is effectively completely tax exempt and, provided it is invested in an appropriate manner in a high quality product, it is likely to be a better option than a personal pension. However, the average age for self-employed people is approximately 47, whereas the LISA has an upper age limit of 40. That being the case, the LISA will not be suitable for the majority of people who are currently self-employed.[85]

Support for decision-making

Some organisations are concerned that the LISA will mean savers face a complex decision about the right retirement vehicle. The TUC said it could:

- encourage some younger workers who are keen to own their own home to opt-out of workplace pensions, thus leaving them without valuable employer pension contributions.
- leave savers with a complicated set of decisions about the right savings vehicle, whether pension, LISA or other savings product, based on predictions about future tax status. This confusion could prompt many to abandon saving altogether.[86]

To help with decision-making, pensions company Royal London recommended:

- a requirement for the under 40s to have access to impartial guidance before making choices about workplace pensions and Lifetime ISAs;
- a requirement that the under 40s take full advantage of the employer contribution associated with a pension before considering a Lifetime ISA[87]

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84 Ibid

85 PLSA evidence to the Work and Pensions Committee, April 2016

86 TUC, Evidence to the Work and Pensions Committee, April 2016

87 Royal London, Evidence to the Work and Pensions Committee, April 2016Royal London calls for action to protect auto-enrolment from impact of Lifetime ISA, 21 April 2016

It thought the Government's proposed new 'pensions guidance body' should "be given a clear remit to provide help for consumers at the start of their savings journey and not just in the run up to retirement."[88]

The Work and Pensions Committee concluded that those with limited disposable income would need to weigh competing priorities and many would need to decide either to save in a LISA or remain in their workplace pension. It recommended that government communications should be clear about the differences between the two:

> 59. **For some employees, notably higher earners, saving for retirement in a Lifetime ISA may complement pension saving. Those with a limited disposable income, however, will need to weigh competing priorities and many will be faced with the option to either save in a LISA or remain in their workplace pension. Whatever the attractions of the LISA, it must not be presented as a direct alternative to AE. Savings under AE carry an employer contribution, which will not be available in the LISA. Opting out of AE to save for retirement in a LISA will leave people worse off. Government messages on this issue have been mixed. While the DWP has been very clear that the LISA is not a pension product, the Treasury has proffered an alternative** view. We recommend the Government develop a communications campaign that highlights the differences between the LISA and workplace pensions. It should make it clear that the LISA is not a pension and that, for employees who have been automatically enrolled, any decision to opt-out is likely to result in a worse outcome for their retirement.[89]

In its response, the Government said it did not anticipate any revenue impact from individuals opting out of their workplace pension to save in a LISA. Beyond the Impact Assessment it would undertake as part of the legislative process, it did not intend to:

> […] commission new research to predict the impact of the Lifetime ISA on individual behaviour in advance of implementation, but will continue to monitor the success of Automatic Enrolment in terms of workplace pension participation, opt-out rates, and contribution rates.[90]

The Pensions Policy Institute (PPI) found that some other countries (such as Canada, Australia, New Zealand, the US and Singapore) allow early access from the same product used for pension saving, meaning people do not have to choose.[91]

Income in retirement

As with the debate on whether pensions should shift from an EET to TEE model (see above) commentators have expressed concerns that the fact that LISA withdrawals will be exempt from income tax could lead people to exhaust their savings too early in retirement.[92] Writing in the

[88] Ibid

[89] Work and Pensions Committee, Automatic enrolment, 11th report of session 2015-16, HC 579, para 59

[90] Automatic enrolment: Government response to the Committee's Eleventh Report of Session 2015-16, HC 601, 22 July 2016

[91] PPI, Lifetime ISAs – the international evidence, June 2016, p6

[92] TUC evidence to the Work and Pensions Select Committee, April 2016

Sunday Telegraph in July Baroness Ros Altmann, who served as Pensions Minister in David Cameron's Government, said:

> I warn you now that introducing tax-free withdrawals would destroy pensions and thwart the retirement dreams of generations to come. […] Instead, we need a lifetime pension. This would require reform of tax relief to develop a simpler system of incentives that is fairer and more effective for the majority of savers.[93]

PPI questioned what retirement income options would be available to LISA savers:

> Those who use pension saving products with early access internationally have access to products designed to help convert savings into pension income. In the UK, there are drawdown and annuity products, designed to work within the pension tax system and help people to provide themselves with an ongoing income stream with which to support retirement. LISA savers are unlikely to want to use these products as they are designed for EET savings and income from these products is taxed. LISA savers may receive less support in choosing an appropriate income product as there is less likely to be free advice and guidance on offer than for those retiring with private pension savings unless the system evolves to provide more support.[94]

Consumer protection

Because auto-enrolment entails people saving in schemes they have not chosen for themselves, the Government has introduced measures intended to ensure that they offer value for money – for example, through a cap on charges and strengthened governance arrangements.[95]

The Pensions and Lifetime Savings Association argues that for LISAs to be successful as a retirement savings product, they will need to have governance arrangements comparable to those that have been developed for workplace pensions. A good scheme should have:

> - **A high-quality default fund**. This should be appropriately diversified and with a level of investment risk suitable for its target membership;
> - **Strong governance in the member interest**. This should include governance of the default investment option. Critically, the scheme should be designed such that it operates well with minimal or no decision-making input from the scheme member.
> - **Low price**. Charges for workplace pension default funds are capped at 75 basis points. A competitive price for a master trust workplace pension product is much lower than this: circa 50 basis points. In addition, we expect trustees and Independent Governance Committees (IGCs) to focus increasingly on the level of transaction costs in their scheme ahead of the implementation of MiFID II.[96]

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93 'Lifetime ISAs could destroy your dreams', Sunday Telegraph, 24 July 2016
94 PPI, Lifetime ISAs – the international evidence, June 2016
95 Library Briefing Paper CBP-07202 Pensions 2015 (section 5.3)
96 PLSA evidence to the Work and Pensions Select Committee, April 2016

PPI commented that, given the regulatory framework, LISA savers were unlikely to benefit from the special measures which have been put in place to protect pension savers (such as the charge cap and governance in members' interests). Also if LISA providers were responsible for monitoring withdrawals, this could create an extra administrative burden and therefore higher costs.[97]

Investment strategy

The PPI points out that short and longer-term savings products do not typically have the same investment strategy:

> For an individual opening a LISA at age 18, retirement is three times further away than the average age of a first-time buyer in the UK, currently 31.
>
> A cash based investment strategy does not generally yield the optimal outcomes for long-term savings and is more suited to short-term savings ambitions.
>
> However the investment strategy employed may be influenced by the branding as an ISA. Currently just under 80% of savings contributions made into an ISA in 2014-15 were invested in cash.[98]

Looking at experience overseas, it found that schemes which allowed early access tended to have more conservative investment approaches:

> There is evidence that schemes which allow early access in the US tend to have more conservative investment approaches than those which don't. Kiwisavers (NZ) also seem to favour relatively conservative investment approaches.
>
> If this association also translates into more conservative investment behaviour for LISA savers in the UK, then they may accrue smaller pots than people making the same contributions would do in a private UK pension scheme.[99]

Modelling the potential fund accumulated by investing in either a pension (assuming a long-term investment strategy) or a LISA (which depended on the investment choices of the saver), PPI found that investment returns were the greatest component determining the final outcome.[100]

The TUC commented that it was:

> […] hard to conceive of an appropriate default investment approach that could meet both the long-term requirements of pensions saving and the short/medium-term approach required for saving for a home.[101]

The Pensions and Lifetime Savings Association said product design and governance would be critical in determining the suitability of LISAs for retirement saving:

> 20. It may be the case that LISA providers deliver a market which is entirely segmented; that is to say into property-targeted LISAs

[97] PPI, Lifetime ISAs – the international evidence, June 2016; PPI, Lifetime ISAs: pension complement or rival, May 2016
[98] PPI, Lifetime ISAs: pension complement or rival, May 2016
[99] PPI, Lifetime ISAs – the international evidence, June 2016
[100] PPI, Lifetime ISAs: pension complement or rival, May 2016
[101] TUC evidence to the Work and Pensions Select Committee, April 2016

> (presumably similar in product design to the current Help to Buy: ISA) and retirement-targeted LISAs, each with different typical asset allocations. Alternatively, unless the customer wants to make investment choices or it is an advised sale, product designers may wish to find a means to ensure that the customer has a suitable investment approach to meet their saving goal without compelling them to take investment decisions. That could potentially mean designing a product which starts a saver in cash and then automatically switches into growth assets once a customer has made a withdrawal to buy a property. It also points again to the importance of high quality governance, in the saver's interest, for LISA products.[102]

2.4 Impact on means-tested benefits

Entitlement to means-tested benefits is calculated taking into account the income and capital the claimant (and their partner) have, subject to any disregards.

Means-tested benefits have lower capital limits above which benefits are reduced and most have upper limits above which benefits cannot be paid. "Capital" includes savings and capital assets in whatever form, e.g. money held in a bank or building society account, stocks and shares and property. The value of most forms of capital is counted for benefits purposes; however some forms of capital may be disregarded. Disregards include the value of any policy of life insurance and the value of any right to receive a pension under an occupational or personal pension scheme.[103]

Means-tested benefits and capital

Means-tested benefits for people of working age have a lower capital limit of £6,000 (£10,000 for care and nursing home residents) and an upper limit of £16,000. £1 per week income is assumed for each £250 above this. For Pension Credit, the first £10,000 is ignored. £1 per week income is assumed for each £500 above this. There is no upper capital limit.

The Coalition Government decided that the existing capital rules for means-tested benefits would also apply to **Universal Credit**. This was controversial. Because capital is not taken into account directly for tax credits purposes, this meant some families entitled to tax credits would not qualify for Universal Credit.[104] The Government justified the policy on the grounds that Universal Credit was "focused on those with insufficient resources to meet their needs":

> People with substantial savings or other capital clearly have sufficient capital to meet their needs – it is right that they should draw on these resources before looking to the taxpayer for

[102] PLSA evidence to the Work and Pensions Select Committee, April 2016

[103] See, for example, *Income Support (General) Regulations (SI 1987/1967)*, Sch 10, para 23A

Universal Credit Regulations 2013 (SI 2013/376), reg 48 and Sch 10, para 9-10

[104] See Library Briefing Paper RP11-24, Welfare Reform Bill: Universal Credit provisions, March 2011, section 3.3

> support, particularly as many taxpayers themselves have savings well below these limits.[105]

Further, savings intended for a mortgage would not be disregarded:

> We have been asked whether provision can be made for people saving for a home but there are no ring-fenced deposit accounts for savings intended for a mortgage and there is no satisfactory way of confirming future intentions, which would make it impossible to frame an exemption to capital rules on this basis. The prospects for Universal Credit claimants seeking a mortgage will also be influenced by wider circumstances such as their expected income and the amount they want to borrow. For most Universal Credit claimants, following changes in lending policies subsequent to the problems caused by sub-prime practices, their income levels would not support a mortgage application.[106]

When the legislation was before Parliament, the Opposition called for savings in an ISA to be disregarded. The then Shadow Work and Pensions Minister, Stephen Timms, said:

> If that provision is not changed, in the future a large number of people will find it not only difficult but impossible to save. That runs contrary to everything that the Conservatives told us they believed about saving before the election; it is a ferocious and extraordinary attack on saving.[107]

The then Minister for Employment, Chris Grayling, responded that the Government's proposal was the "most balanced and affordable option" given the economic circumstances. The legislation provided flexibility to alter the capital rules, including provision to apply different rules in different cases. Opposition amendments to disregard savings held in an ISA were defeated on division.[108]

In September 2016, the Government announced that "the surrender value of Lifetime ISA funds" would be taken into account as individual capital in welfare and social care means-tests.[109]

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[105] DWP, *Universal Credit Policy Briefing Note 3: Treatment of Capital*, 12 September 2011

[106] Ibid

[107] PBC Deb 29 March 2011 cc197-198

[108] PBC Deb 29 March 2011 c231-4. For more detail see pp24-25 of Library Research Paper 11/24, pp11-12 of Research Paper 11/48, and pp7-8 of Standard Note SN06034.

[109] HM Treasury, Lifetime ISA – updated technical note, September 2016

3. Help-to-Save Accounts

3.1 The new scheme

Help-to-save: in brief	
Eligibility	Employed people in receipt of universal credit or working tax credit
Savings limit	£50 per month. £2,400 in total
Gov't incentive	50% contribution rate. Maximum contribution £1,200
Time limits	Gov't bonus paid after 24 months, or on terminal illness of the account holder. Savings can continue for further 24 months

In Budget 2016 the Government announced that there would be new Help-to-Save (HTS) accounts for those on low incomes.[110] Consequently, the Government published Help to Save: consultation on implementation in May 2016:

Available no later than 2018, HTS accounts would "target working families on the lowest incomes to help them build up their savings." They would be able to use the funds in any way they wished.[111]

The parameters of the scheme (not subject to consultation) were:

> **Eligibility**: individuals will be eligible to open a Help to Save account if they are in receipt of Universal Credit with minimum household earnings equivalent to 16 hours at the National Living Wage or in receipt of Working Tax Credits. This is a potential eligible population of approximately 3.5 million people. Participation in the scheme will be entirely voluntary.
>
> **Government bonus**: the government will provide a bonus on up to £50 of monthly savings. Individuals can save as frequently as they wish during the lifetime of their account, subject to the £50 monthly limit. The minimum deposit that an account holder can make will be £1 per transaction.
>
> **Account duration**: accounts will run for two years from the point the account is opened, at which point savers will be able to access the government bonus they have earned. Individuals will then be given the option to save for a further two years under the scheme and benefit from another government bonus. This means savers will be able to build up a savings pot worth up to £3,600 (£2,400 in savings and £1,200 in government bonuses).
>
> **Withdrawals**: individuals will be able to withdraw the money they have saved (but not the government bonus) at any point during the period of the account. Withdrawals may affect the amount of bonus an individual will receive when the account matures, depending upon the detail of the bonus rules.
>
> **Availability:** Help to Save will be open to new applicants for 5 years from the point it is launched. Expenditure rules: there will be no specified or required end use for the Help to Save funds.

110 Ibid
111 HM Treasury; Help to Save: consultation on implementation; May 2016

> Section 5.3 covers the government's proposed approach for Help to Save accounts to rollover into a default savings account.[112]

Much of the consultation concerned the day to day operation of the accounts, how they were made available and by whom, and the payment and calculation of the government bonus. Four of the key issues relating to the mechanics of the accounts were how to open an account; operation of the account; the two-year period; and closure of the account:

> **Account opening:** Individuals looking to open a Help to Save account will contact a provider. Eligible individuals will only be permitted to have one Help to Save account open at any time. In addition to standard regulatory checks (including compliance with 'Know Your Customer' rules), each applicant's eligibility to open an account will be checked at account opening. Once an individual has opened a Help to Save account any changes in their circumstances during the lifetime of their account – for example, ceasing to be eligible for Universal Credit or Working Tax Credits – will not affect their entitlement to continue saving under the scheme, including for a second two year period.
>
> **During the account period:** Account holders can make deposits up to the monthly limit, as well as account withdrawals, at any time during the two year lifetime of the account. Providers should ensure savers are able to check their balance and amount of government bonus they have earned, for example by providing regular account statements.
>
> **At two year maturity:** at the end of the two year period, the provider calculates the amount of government bonus owed, submits a claim to the government administrator where appropriate and credits the sum to the saver. Account holders can then choose whether to continue saving under the scheme for a further two years.
>
> **Account closure:** Account holders can choose to close their Help to Save account at any time (but may forego any bonus accrued for the relevant two year period depending on the bonus rules). Providers should inform account holders that their account will end after two years, but that they can still choose to continue to save under the scheme for a further two years. Subject to the issues set out at section 5, providers will need to put in place processes to rollover Help to Save funds into a successor saving account unless otherwise instructed by the account holder.[113]

The Government expects HTS accounts to cost £20 million in 2019-20, rising to £70 million in 2020-21:

> The main uncertainties in this costing relate to the size of the behavioural response: notably the level of take-up among customers and their average contribution levels.[114]

The impact assessment to the Bill explains that the Government expects around 500,000 people to open accounts in the first two years that accounts are available, saving on average £27.50 a month. Around 3.5

[112] HM Treasury; Help to Save: consultation on implementation; May 2016
[113] HM Treasury; Help to Save: consultation on implementation; May 2016
[114] HM Treasury, Budget 2016 policy costings, March 2016

million people are expected to be eligible for the scheme, from 2.5 million low income households.[115]

3.2 Responses to Help-to-Save

Preliminary work analysing Help-to-Save (HTS) has been done by the IFS: Who will 'Help to Save' help to save? published in August 2016. Amongst other things it found that the Government's policy costing implied a top-up of only £20 pa per eligible individual:

> The 2016 Budget included a policy designed to encourage around 3.5 million individuals in low-income working families to save more, known as 'Help to Save'. From April 2018, those in families claiming working tax credit and in working families in receipt of universal credit (except those with very low earnings) will be able to place up to £50 a month in a new savings vehicle. The government will add 50% to those contributions after two years, and then do the same for another two years' contributions, meaning a maximum government top-up of £1,200 for those who build up the full £2,400 of contributions to an account. Both members of a couple are able to have an account, so a couple that placed £4,800 in an account over two years would receive a total match of £2,400. However, the government expects the policy to cost only £70m in 2020–21, implying an average government top-up of only £20 in that year per eligible individual.

In terms of who will benefit from the scheme, the IFS took the view that HTS is poorly targeted:

> … of those individuals who would be eligible for 'Help to Save' were it in place now:
>
> - 20% live in a household that already has savings (excluding pension and housing wealth) of over £2,000;
> - 44% live in a household that already saves at least £10 a month;
> - 30% live in a household that already reports being able to afford an unexpected expense of £750.
>
> In fact, just over half (53%) of the eligible group meet at least one of these three criteria. For them, the introduction of 'Help to Save' is arguably unnecessary to achieve the stated aim of the policy (to build up an adequate 'buffer stock' of savings), and for many will represent an opportunity to receive a government subsidy for savings that already exist or that would have been put aside in any case.

The IFS also considered the various ways in which the accounts might be targeted more closely to their intended recipients – by restricting eligibility to renters, or by introducing an asset test. More fundamentally, it questioned the purpose of the scheme:

> There is also a deeper and critical question about which groups are really 'under-saving'. The key justification for giving a household extra money only if it places funds in a savings account, rather than giving it extra money regardless and letting the household decide what to do with it, is that we have reason to believe that the household is saving less than is 'appropriate'

115 HM Treasury, Impact Assessment, Savings (Government Contributions) Bill 2016, 17 October 2016

> given its circumstances. It would be helpful for future research to shed more light on which groups are really under-saving in this sense. If a household has appropriately judged that, given its income, putting more money aside would mean forgoing too much in the way of spending now, then a subsidy that is available only if the household saves more is not the best way to help it. For example, the lower share of renters with a 'rainy day fund' might partly reflect the fact that they are not responsible for expenses associated with home maintenance and so have sensibly chosen to accumulate a lower stock of savings than owner-occupiers. Distinguishing better between households who have low saving for those kinds of reasons, and households who have genuinely saved 'too little' given their circumstances, is crucial for the design of policies such as these.[116]

Other questions about the scheme concern the 'incentives competition' between it and the Lifetime ISA. Individuals eligible for HTS by definition have limited resources for saving and they will now have more explicit choices to make between medium term savings and longer term aspirations. It is likely that HTS and Lifetime ISAs might be provided by different institutions who might advertise competing advice as to which scheme is 'better'. This might cause confusion for inexperienced investors.

The charity StepChange, which is involved with debt resolution and advice, 'welcomed' HTS. Its work with poorer families and those with existing 'problem debt' showed that:

- four in ten people struggling to save experience an income shock, like a broken boiler or car repairs, at least every six months'
- 60% of those facing an income shock turn to borrowing' and
- a third of those cut back on essentials, like food, to cover the costs[117]

It found that 500,000 families could avoid 'problem debt' if they had £1,000 of savings.[118] Responding to the Government's consultation on HTS, the charity had three concerns:

- the proposed two-year time period over which a HTS account will run may disincentivise applicants. The Government should think 'very carefully' about the way the scheme is advertised in order to minimise a potential problem caused by the perception of a rigid two-year account length;
- HM Treasury should amend the eligibility criteria so that those aged under 25 who work at least 30 hours a week can apply for a HTS account; and
- HM Treasury should look closely at the debt collection and insolvency implications of the scheme. Government should protect money in HTS accounts from third-party debt orders or insolvency

[116] IFS Who will help to save help to save?, August 2016

[117] Stepchange: Overcoming the Nation's Savings Crisis: Becoming a nation of savers: Boosting lower income savingspress release

[118] The full report can be found here.

> proceedings. "At the very least any bonus accrued should be protected."[119]

The full response can be found here.

3.3 Experience of the Savings Gateway

As part of its analysis of HTS accounts the IFS commented that the policy seemed similar to the Savings Gateway programme, which had been piloted by the last Labour Government but which the Coalition Government had decided not to take forward.[120]

The last Labour Government piloted the Savings Gateway in 2002 and 2007 and legislated to introduce it nationally in the Savings Gateway Accounts Act 2009.[121] The policy intention was to:

> - promote a saving habit among working age people on lower incomes by providing an incentive to save through a government contribution for each pound saved; and
> - promote financial inclusion by encouraging people to engage with mainstream financial services.[122]

The key features of the scheme were:

- eligible savers would open an account with an approved provider;
- eligibility for Saving Gateway accounts would be "passported" from certain benefits and tax credits;
- Savings Gateway accounts would be of fixed duration; and
- at the end of the account's duration, the Government would match the amount saved pound for pound.[123]

Because the Savings Gateway had only been subject to local trials at the point when it was abandoned, what results it might have achieved nationally are largely speculative. However, in October 2003 an evaluation of the local trials was conducted by the University of Bristol and the result published in Evaluation of the CFLI and Saving Gateway Pilot Projects.[124] Some observations of the Report are shown below:

> **Scheme take–up**
>
> In total, 1,478 accounts were opened between August 2002 and the end of May 2003. If the scheme was rolled out nationally, we estimate that around 25 per cent of households could, potentially, qualify to open an account.
>
> Saving Gateway participants were mostly drawn from young families with children and lone parents in particular. Half were tenants of local authorities and housing associations. Levels of

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119 StepChange

120 IFS, Budget 2016 presentation – personal taxes and benefits

121 For more detail, see Library Research Paper RP 09-02 Savings Gateway Accounts Bill (January 2009) and RP 09/16Savings Gateway Accounts Bill: Committee Stage Report (February 2009).

122 Savings Gateway Accounts Act 2009 – Explanatory Notes, para 6

123 Library Research Paper RP 09-02 Savings Gateway Accounts Bill (January 2009), summary

124 Full report available at: http://www.hm-treasury.gov.uk./media/D6A/C0/SG_report_Oct03_162.pdf

> current account-holding were appreciably lower among Saving Gateway participants compared with the population as a whole, and around half of participants did not currently owe any money on credit commitments.
>
> **Opening a Saving Gateway**
>
> Overwhelmingly, the main reason for opening an account was to take advantage of the pound-for-pound matching. This was considered far more effective than other incentives such as tax relief or interest rates. […]
>
> Although the pilot accounts will only run for 18 months, there was a general preference for a three-year account. Many people were in favour of having limited opportunity to withdraw no money; but others, with more stretched budgets, wanted to retain the possibility of withdrawing money in an emergency.
>
> **Saving Gateway accounts**
>
> The total amount saved by account-holders had reached £150,000 by the end of August 2003. The average balance was £101. […]
>
> The average net amount saved in each account, for each month opened, was £15.78 per month. In other words, people were saving around 63 per cent of the maximum each month (76 per cent if we allow for the fact that the maximum amount can be reached by saving £20.83 in each of the 18 months). […]
>
> There have been concerns that the matched funding might encourage people either to transfer money into the Saving Gateway from existing savings accounts or that they might borrow to save. There is little evidence to support either concern. […]
>
> Overall, the Saving Gateway has mainly attracted genuinely new saving. It has encouraged some to start saving and others to increase the amounts saved and/or the regularity of saving. Moreover, it is clear that the £25 maximum has become a target for the majority of participants.[125]

In the June 2010 Budget, the Coalition Government announced that it would not take the scheme forward due to pressures on public expenditure induced by the financial crisis.[126] The IFS said this was justified, given its research:

> The IFS evaluation of this scheme found no evidence of an increase in overall savings and limited evidence of account holders reducing their spending.[127]

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[125] University of Bristol; Evaluation of the CFLI and Saving Gateway Pilot Projects; January 2003

[126] HM Treasury, Budget 2010, HC 61, June 2010

[127] IFS, Coalition Government's abolition of Savings Gateway justified by IFS research, June 2010

4. The Bill

The Savings (Government Contributions) Bill [Bill 59] was published on 6 September 2016. The Bill, Explanatory Notes and further information are available on the dedicated Bill page of the Parliament website. The provisions extend to the whole of the UK.

It is a short six-clause Bill, with two Schedules which include most of the detailed implementation.

Regarding the financial implications, the Explanatory Notes say:

> 98 The Bill will entail additional public expenditure for both the Lifetime ISA and Help-to-Save, with the main costs being the government's contributions paid to customers' savings accounts.
>
> 99 The fiscal implications of these policies were scored at Budget 2016 and published within the Budget documents. As set out in the Bill impact assessment, the cost of the Lifetime ISA is estimated to reach £830m in 2020-21 and Help-to-Save is expected to cost £70m in 2020-21.
>
> 100 A full assessment of the costs and benefits of the Bill have been set out in the accompanying impact assessment.[128]

The Government has said it will (in future) publish online a number of related documents at:

https://www.gov.uk/government/collections/the-savings-government-contributions-bill

The impact assessment was published on 17 October 2016.[129]

Earlier in October 2016, the Office for Budget Responsibility published *Fiscal sustainability analytical paper: Private pensions and savings: the long term effect of recent policy measures* which includes data on the measures discussed here.

4.1 The Bill: an outline

Clauses 1 & 2: Government contributions

These clauses establish eligible participants' rights to a government bonus. In the case of the Lifetime ISA (Clause 1) payment is made by HMRC. For Help-to-Save (HTS) accounts the paying authority is the Treasury. The Bill sets out the conditions of the accounts and the respective responsibilities of the Treasury and HMRC. One difference between the two proposals is that ISAs already exist. Thus, the Lifetime ISA provisions build on that structure, whereas HTS accounts are completely new.

ISA rules are set out in the Individual Savings Account Regulations (SI 1998/1870), which are made under powers set out in the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005) and the Taxation of Chargeable Gains Act 1992 (TCGA 1992).

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128 Savings (Government Contributions) Bill – Explanatory Notes
129 HM Treasury, The Savings (Government Contributions) Bill: Impact Assessment, 17 October 2016

Clause 3: Income tax treatment of government contributions

This clause exempts any government bonus paid under either Clauses 1 or 2 from income tax.

Clauses 4 & 5: Regulations, interpretation and amendments

Clause 4 provides how regulations made under the legislation will be treated – either affirmative or negative procedures. Clause 5 defines various terms and extends the accounts to Northern Ireland by amending the *Northern Ireland Act 1998*.

Regulations that require the affirmative procedures include,

For the Lifetime ISA:

- The determination of the government bonus;
- Recovery of wrongly paid bonuses Schedule 1;
- Exemption from charges on withdrawals from the ISA;
- The definition of 'first-time residential' or what constitutes 'a terminal illness';
- Where charges are applied – their level; and
- Increasing penalties for dishonest claims about a LISA.

For Help-to-Save accounts:

- A reduction in the maturity period of an account;
- A reduction in the monthly maximum contribution limit of an account;
- The definition of 'terminal illness' for the purposes of the accounts; and
- Changes to benefit entitlement conditions (WTC, UC and residency qualifications).

Schedule 1: Lifetime ISAs: further provision

This Schedule provides the detailed provisions of the Lifetime ISA. They will be supplemented by later regulations made under clause 4.

Part 1 defines terms.

Part 2 sets out the detailed conditions for the payment of the government bonus; the recovery of wrongly paid bonuses; and penalties for false claims.

Part 3 establishes the conditions when a withdrawal from a Lifetime ISA will and will not attract a charge. According to the Explanatory Notes, under paragraph 8 of the Schedule:

> where there is a withdrawal from a Lifetime ISA other than in circumstances that do not trigger a charge ('unlisted withdrawals'), an amount must be paid to HMRC (a 'withdrawal

> charge'). This amount will be equal to the percentage of the value of the withdrawal specified in HM Treasury regulations. It is intended that regulations will set this withdrawal charge at 25% of the withdrawn value.[130]

Withdrawals will be charge free if:

> (a) at a time after the investor has reached such age as may be specified in Treasury regulations (but see sub-paragraph (3));
>
> (b) for the purposes of a first-time residential purchase being made by the investor (but see sub-paragraph (4));
>
> (c) at a time when the investor is suffering from a terminal illness;
>
> (d) at a time after the investor's death;
>
> (e) that is by way of transfer to another Lifetime ISA.[131]

The definition of 'first time residential purchase' and 'terminal illness' are left to later regulations.

Paragraph 9 of this part sets out the responsibilities of the plan manager in providing information to HMRC about accounts and how this information should be made available. Paragraph 10 sets out the informational requirements for withdrawals and the powers of HMRC officers in this respect.

Part 4 sets out 'enforcement of information requirements', establishing further the responsibilities and liabilities of plan managers to provide full and accurate information to policy holders and the powers of officers to request such information and seize it if it is not forthcoming. Paragraph 16 sets out penalties for non-compliance.

Schedule 2: Help to Save accounts: further provision

The Schedule includes 'further provisions' for the HTS accounts. **Part 1** defines what is meant by a bonus, and assigns responsibility of them to HMRC. The accounts are defined in detail in paragraph 3:

> For the purposes of this Act, an account is a "Help-to-Save account" if—
>
> (a) it is an account for money savings,
>
> (b) a single individual is beneficially entitled to all money in the account,
>
> (c) the account is held—
>
> - (i) by the individual alone, or
> - (ii) in some other way authorised by Treasury regulations,
>
> (d) the individual is an eligible person (see paragraph 4) on the eligibility reference dates,
>
> (e) the account is provided by an authorised account provider (see paragraph 9),
>
> (f) the requirements imposed by and under paragraph 10 are met in relation to the account,

130 Explanatory Notes Schedule 1 para 37
131 Schedule 1, para 7 (1)

> (g) the account has been opened in accordance with the requirements imposed by and under paragraph 11.

Paragraphs 6 and 7 define the 'maturity period' for accounts as 48 months or when the individual becomes terminally ill. Provision is made to further regulations to alter or define these conditions.

Part 2 of the Schedule sets out the eligibility requirements – eligibility for working tax credit or universal credit – or other specified conditions to be established by later regulation. The other eligibility requirement is that the individual must meet a 'UK connection condition'. Whether an individual is considered to be in the UK will largely be established by subsequent regulation.

Part 3 sets out the conditions that 'authorised account providers' must meet. Account providers must be authorised by HMRC. There is no mention in the Schedule about authorisation by the financial regulator – the Financial Conduct Authority – although it is unlikely that an account provider could exist without their approval too. Quite what the approval process will require is left to later regulations.

Paragraph 10 sets out the required features of the accounts themselves. It sets the maximum monthly contribution limit at £50 (unless otherwise specified by regulation). However, it is left deliberately vague as to whether this is a gross figure or a net (of withdrawals) figure. Treasury regulations will clarify this in due course. The conditions for opening – or refusing to open- an account are left to later regulations.

Paragraph 12 clarifies operational details if the account provider is the Director of Savings (National Savings) – for example, sums deposited in a National Savings Help-to Save account, are not then paid into the Consolidated Fund.

Part 4 provides that Treasury regulations will set out the conditions for the calculation and payment of the government bonus and for the recovery of wrongly paid bonuses.

5. Appendix – LISA and workplace pensions – key features

	LISA	**Auto-enrolment pension**
Eligibility	Aged 18-39	Employees aged between 22 and State Pension age earning at least £10,000 pa
Contributions		
Saver	Up to £4,000	3 % (once minimum contributions are fully phased-in, from April 2019) of earnings between £5,824 and £43,000
Employer		4% of earnings between £5,824 and £43,000 (as above)
Government	Bonus 25% on contributions at year end (or monthly from 2018)	1% of qualifying earnings
Investments	Cash or stocks and shares, selected by the investor	Default fund investment strategy decided upon by trustees or independent governance committee; long-term investment mix
Withdrawals	For purchase of first home worth up to £450,000; for any reason from age 60; or in cases of terminal illness. Otherwise a 25% charge applies (equal to the government bonus plus a small charge)	For any reason from age 55. Before that a 55% charge will generally apply (except on grounds of ill-health)
Means-tested benefits	Taken into account	Disregarded
Inheritance	Subject to inheritance tax	Subject to pension tax rules, whereby if the saver dies before age 75 with savings which they have not drawn or are in a drawdown account, these can be inherited tax free. From age 75, they can be drawn down flexibly at the beneficiary's marginal rate - see CBP-7318 (October 2015).

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