HOUSE OF LORDS

# Library Note

## Savings (Government Contributions) Bill (HL Bill 85 of 2016–17)

The Savings (Government Contributions) Bill is a government bill. The Bill has been classified by the Speaker of the House of Commons as a money bill. Following completion of its passage through the House of Commons, the Bill received its first reading in the House of Lords on 13 December 2016. Second reading in the House of Lords and all remaining stages are scheduled for 12 January 2017.

The Bill makes provision for the two new government-supported savings account schemes: Lifetime Individual Savings Accounts ('Lifetime ISA' or 'LISA'), and Help-to-Save accounts, both of which were announced by the Government earlier in 2016. The Bill would make provision for:

- **A Lifetime ISA.** This would enable those aged 18 to 40 to open an individual savings account to which they can contribute up to £4,000 each year (up to age 50), and receive a government bonus of 25 percent on those contributions. The Lifetime ISA account holders would be able to access their funds in full to buy their first home (worth up to £450,000) at any time from twelve months after first saving into the account. The funds can also be withdrawn from age 60 tax-free for any other purpose, or at any point if terminally ill. Funds withdrawn in other circumstances would be subject to a 25 percent charge, which would return the government bonus element (including any interest or growth on that bonus) and apply an additional charge to ensure the product is used for long-term saving.
- **The Help-to-Save scheme.** Working people who are in receipt of Universal Credit and who have a minimum weekly household earnings equivalent to 16 hours at the national living wage or Working Tax Credit would be eligible. The scheme would provide a 50 percent government bonus on up to £50 of monthly savings into a Help-to-Save account. The bonus would be paid after two years; savers would be able to continue to save for a further two years. People could therefore save up to £2,400 and receive government bonuses up to £1,200.

During its passage through the House of Commons, opposition parties were sympathetic to the aims of the Bill; namely to encourage and incentivise saving. However, among criticisms by the Labour Party was that the Lifetime ISAs might lead people to opt out of automatic enrolment to workplace pensions and pension savings—both of which Labour contended would always provide better savings for people than the Lifetime ISA. Labour tabled a number of amendments to the Bill, including six at report stage which were designed to ensure Lifetime ISAs would not have a negative impact on the success of automatic enrolment. The Scottish National Party shared Labour's concerns and tabled amendments to provide that people would receive advice on the suitability of the Lifetime ISA and Help-to-Save products for each person's individual circumstance, at the point of application. The SNP also tabled amendments to remove the Lifetime ISA from the Bill entirely. A number of divisions took place on these, and others, both at committee and report. However, the Bill was amended only by a small number of government amendments. This House of Lords Library briefing provides an overview of the key policy background and provisions in the Bill, and a summary of the Bill's proceedings in the House of Commons.

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# 1. Policy Background to the Bill

On 8 July 2015, the Government launched a consultation with a view to "strengthening the incentive to save" for individuals, in light of what it claimed was a continued prevalence of "undersaving" in the UK for retirement.[1] The consultation sought views on whether it would be of benefit to reform pensions tax relief in the context of the incentive to save.[2] The summary of consultation responses was published on 16 March 2016, the same day on which the then Chancellor of the Exchequer, George Osborne, delivered his Budget Statement in which he announced that there would be no compulsory changes to the pension tax system, as it was "clear that there was no consensus" on the matter.[3] However, Mr Osborne, announced that the Government would introduce measures to encourage saving through a new 'Lifetime ISA'.[4] In addition, he confirmed an earlier announcement by the then Prime Minister, David Cameron, that the Government would also introduce saving measures through Help-to-Save accounts.[5]

Following Theresa May taking office as Prime Minister on 13 July 2016, and subsequent Cabinet changes, the Government confirmed that it still intended to implement both schemes. On 5 September 2016, Jane Ellison, Financial Secretary to the Treasury, responded to a written question which asked about the Government's plans for the Lifetime ISA. She replied that:

> The Queen's Speech for the 2016–17 session announced the Government's intention to legislate for the Lifetime ISA. The legislation which will enact this measure will be introduced to Parliament in due course. The Government will continue to talk to industry and interested parties about the Lifetime ISA while the Bill is being considered by the House, leading up to its planned launch.[6]

The intended operation of each scheme is detailed below.

## 1.1 Help-to-Save

Help-to-Save is intended for working families on low incomes with the aim of helping them build up their savings.[7] The scheme is intended to function as follows:

- The scheme will be open to around 3.5 million individuals who either receive Universal Credit and have minimum weekly household earnings equivalent to 16 hours at the national living wage, or receive Working Tax Credit.

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[1] HM Treasury, *Strengthening the Incentive to Save: Summary of Responses to the Consultation on Pensions Tax Relief*, 16 March 2016. For information on the distribution of savings among the population; the number and value of ISAs held by different age groups; the prevalence of low savings; as well as details on current government schemes and initial responses to the proposed new schemes, see: House of Commons Library, *Savings (Government Contributions) Bill*, 17 October 2016.
[2] HM Treasury, 'Strengthening the Incentive to Save: Consultation on Pensions Tax Relief', updated March 2016.
[3] HC *Hansard*, 16 March 2016, col 966.
[4] ibid.
[5] In his speech on life chances on 11 January 2016, the then Prime Minister, David Cameron, set out the Government's intention to bring forward a new Help-to-Save scheme to encourage people on low incomes to build up a "rainy day fund" (Prime Minister's Office, 'Prime Minister's Speech on Life Chances', 11 January 2016). Further details of the scheme were announced by the Prime Minister on 14 March 2016, including the Government's intention to consult shortly after Budget 2016 on the framework for implementation and policy design of the scheme.
[6] House of Commons, 'Written Question: Individual Savings Accounts', 5 September 2016, 43996
[7] ibid.

- Help-to-Save will work by providing a 50 percent government bonus on up to £50 of monthly savings into a Help-to-Save account. The bonus will be paid after two years, with savers able to continue saving for a further two years, meaning people can save up to £2,400 and benefit from total government bonuses worth up to £1,200. Help-to-Save accounts will be available no later than April 2018.

- Account providers will claim the Help-to-Save bonus from HMRC [HM Revenue and Customs] and pay this to the account holder. Account holders will be able to use the government bonus in any way they wish, and can withdraw their savings, including any bonus paid, at any time.[8]

## 1.2 Lifetime Individual Savings Accounts (Lifetime ISA)

The Lifetime ISA is intended to help young people save flexibly for the long-term.[9] The scheme is intended to function as follows:

- Lifetime ISA would follow the ISA (Individual Savings Account) model—that is, where contributions are made out of post-tax income but investment growth on savings and future withdrawals are tax-free.

- From April 2017, UK residents and Crown Employees and their spouses or civil partners, from the age of 18 and under the age of 40, will be able to open a Lifetime ISA with an approved account provider (plan manager) and pay in up to the annual Lifetime ISA limit (£4,000) each tax year. The government will then add a 25 percent bonus to the amount paid into the Lifetime ISA. This means that individuals who save the maximum will receive a £1,000 bonus each year from the government.

- Savers will be able to make Lifetime ISA contributions and receive a bonus from the age of 18 until the age of 50. The Lifetime ISA plan manager will claim the bonus from HMRC and pay this into the individual's Lifetime ISA.

- Subject to certain conditions, Lifetime ISA savings, including the government bonus, can be used to buy a first home worth up to £450,000 at any time from twelve months after first saving into the account. The funds, including the government bonus, can also be withdrawn from the Lifetime ISA from age 60 tax-free for any other purpose. Lifetime ISA holders can also access their savings and government bonus if they become terminally ill.

- Account holders will also be able to make withdrawals at any time for other purposes, but with a 25 percent government charge applied to the amount of withdrawal. This returns the government bonus element (including any interest or growth on that bonus) to the government with a small additional charge applied, intended to reflect the long-term nature of the product. The government charge will usually be collected and paid to HMRC by the Lifetime ISA plan manager.

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[8] Explanatory Notes, pp 3–4.

[9] ibid. 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 and the Taxation of Chargeable Gains Act 1992.

- Account holders will be able to transfer their Lifetime ISA between plan managers. During the 2017/18 tax year only, savers who already have a Help to Buy ISA will be able to transfer any funds (including interest) built up before 6 April 2017 into a Lifetime ISA without these amounts counting towards the Lifetime ISA contribution limit.[10] They will receive a 25 percent government bonus on the full value of the transferred funds. From 2018/19 any transfers from a Help to Buy ISA will count towards the Lifetime ISA contribution limit.[11]

## 2. Overview of the Bill

The Bill contains six clauses and two schedules. The schedules of the Bill provide much of the detail on the proposed implementation of the two schemes, which will be set out in regulations. The provisions of the Bill extend to the whole of the United Kingdom.[12]

### Financial Implications

The Government has estimated that the additional public expenditure for the Lifetime ISA was to reach £830 million in 2020/21, and Help-to-Save was expected to cost £70 million in 2020/21.[13] The main costs would be the Government's contributions paid to customers' savings accounts.

### Clauses 1–6[14]

- Clause 1 provides that bonus payments from the Government would be made by HMRC for Lifetime ISAs.

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[10] The Help to Buy ISA is a government scheme launched in December 2015, which enables first-time buyers to receive a 25 percent bonus from the government on their savings when they buy a property at £250,000 or less (£450,000 in London). The scheme's website notes that "the bonus must be included with the funds consolidated at the completion of the property transaction. The bonus cannot be used for the deposit due at the exchange of contracts, to pay for solicitor's, estate agent's fees or any other indirect costs associated with buying a home". See more at: HM Government, 'Help to Buy: How Does It Work?', accessed 22 December 2016.

[11] Explanatory Notes, pp 3–4. ISAs are cash and/or stocks and shares accounts whereby contributions are made from taxed income and withdrawals are not subject to tax. The tax treatment of ISAs follows a Taxed–Exempt-Exempt (TEE) model. The TEE model differs from the tax model applied to pension tax relief. Pensions tax relief describes the process whereby contributions by individuals and employers to pensions are exempt from tax, but withdrawals are taxed as income when paid out to the individual. Employers' contributions are also exempt from NICs; and there is generally the option to take 25 percent of the fund as a tax-free lump-sum on withdrawal. The tax treatment of pensions follows an Exempt-Exempt-Taxed (EET) model. In both models, the investment growth of funds is exempt from tax, see: House of Commons Library, *Savings (Government Contributions) Bill [Bill 59 2016–17]*, 17 October 2016.

[12] Explanatory Notes, p 5. The Speaker of the House of Commons has certified the Bill as a money bill. This means that, according to the Speaker of the House of Commons, the Bill is concerned only with national taxation, public money or loans. Under the Parliament Acts, money bills passed by the Commons are given one month to pass through the Lords stages. If the Lords do not pass the Bill within a month, the Bill may be given royal assent without approval from the Lords. However, in previous instances where a money bill has not been passed within the prescribed time—for example, due to recess periods falling within the month—the Bill has typically been subsequently speedily passed by usual procedure. It is, in theory, possible for Members of the Lords to amend a money bill. However, the House of Commons is not required to consider amendments made. Robert Rogers (Lord Lisvane) and Rhodri Walters have suggested that in current practice it is "inconceivable" that any amendment would be attempted, see: Robert Rogers and Rhodri Walters, *How Parliament Works: Seventh Edition*, 2015, p 210.

[13] A full assessment of the costs and benefits of the Bill has been set out by HM Treasury, see: *Savings (Government Contributions) Bill: Impact Assessment*, 17 October 2016.

[14] Explanatory Notes, pp 5–6.

- Clause 2 provides that bonus payments from the Government would be made by the Treasury for the Help-to-Buy scheme.

- Clause 3 would exempt any government bonus paid under either clauses 1 or 2 from income tax.

- Clause 4 makes provision for regulations made under the legislation as to whether they would be treated with the affirmative or negative procedure. Regulations that would require the affirmative procedure for the Lifetime ISA would include:[15]

  - 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.
  - Increasing penalties for dishonest claims about a Lifetime ISA.

  Regulations that would require the affirmative procedure for Help-to-Save accounts include:[16]

  - 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.
  - Changes to benefit entitlement conditions (WTC [Working Tax Credit], UC [Universal Credit] and residency qualifications).

- Clause 5 defines terms and extends the accounts to Northern Ireland by amending the Northern Ireland Act 1998.

- Clause 6 provides that this Act would come into force on the day after it is passed (with the exclusion of accounts opened before such date as may be specified in Treasury regulations).

## Schedules 1 and 2

Schedule 1 is made up of six parts with further provisions on to the Lifetime ISA.[17] Among its provisions, it would establish the conditions when a withdrawal from a Lifetime ISA would and would not attract a charge.

In summary, withdrawals would be charge free if:

  - At a time after the investor has reached such age as may be specified in Treasury regulations.

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[15] House of Commons Library, *Savings (Government Contributions) Bill*, 17 October 2016, p 37.
[16] ibid.
[17] During the House of Commons committee stage of the Bill, Jane Ellison, Financial Secretary to the Treasury, gave an overview of the details provided for schedule 1, and the regulations made under it, see: HC *Hansard*, 27 October 2016, cols 82–4.

- For the purposes of a first-time residential purchase being made by the investor.
- At a time when the investor is suffering from a terminal illness.
- At a time after the investor's death.
- That is by way of transfer to another Lifetime ISA.

The definition of 'first time residential purchase' and 'terminal illness' would be provided for in regulations.

Schedule 2 is made up of 5 parts and provides further provisions with regard to Help-to-Save.

## 3. Proceedings in the House of Commons

### 3.1 Second Reading

The Savings (Government Contributions) Bill received its second reading in the House of Commons on 17 October 2016, where is passed without division. The key issues raised are summarised below.

Jane Ellison, Financial Secretary to the Treasury, set out the Government's view as to why the measures in the Bill were important. She suggested that the Bill would support more people as they save up for the future and provide them with new options to do so:

> The Lifetime ISA will provide a new option for young people who are looking to save for the long term. We want to make sure that they have a choice in how they save. For some, the pensions system alone is the way forward and we have done a lot to improve it, such as through automatic enrolment and initiatives such as the pensions dashboard. In our consultation last year on pension tax relief, we heard that the pensions system on its own is too inflexible for young people, so the Lifetime ISA complements that system while giving people a new option that has been designed with flexibility in mind.[18]
>
> […] The Bill also introduces Help-to-Save, which is about finding a better way to support families who are just about managing but are struggling to build up their savings. All Members will be aware of the research carried out by a number of bodies, particularly the excellent Centre for Social Justice, which estimates that three million low-income households have no savings at all. That is not a nice position for anyone to be in: living without having any kind of financial safety net in place and knowing that if they lose their job, they have barely got enough money to pay next month's rent.[19]

Ms Ellison also explained that the Government had announced the schemes would be provided for by a single provider, National Savings & Investments (NS&I).[20]

Speaking on behalf of the Opposition, Rebecca Long-Bailey, Shadow Chief Secretary to the Treasury, stated that Labour had "serious concerns" about the policies in the Bill, but that it did "support the overarching aim of encouraging people to save at a time when they are not doing so".[21] With regard to the Help-to-Save scheme, she questioned the maximum figure of a £50 contribution to the scheme.

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[18] HC *Hansard*, 17 October 2016, col 606.
[19] ibid, col 607.
[20] ibid, cols 607–8.
[21] HC *Hansard*, 17 October 2016, col 615.

She felt this was an unrealistically high amount:

> We wholeheartedly support moves to encourage saving for a rainy day, but in many cases the idea that those on Universal Credit and Working Tax Credit have a spare £50 at the end of the month is extremely optimistic. People can barely make ends meet.[22]

With regard to the Lifetime ISA, Ms Long-Bailey told of Labour's concerns that the Lifetime ISA could draw people away from saving in traditional pension products, rather than it being additional to a main pension plan:

> The Opposition support the idea of incentivising people to save for the future, especially for retirement income, but we are concerned that the scheme could create a diversion from saving in traditional pension products, rather than being an add-on to one's main pension plan. Even a former Pensions Minister stated that the Lifetime ISA "could even destroy pensions".[23]

Ms Long Bailey also expressed concerns regarding the impact that the Lifetime ISA could have on pension savings, and, more specifically, their auto-enrolment scheme. She noted:

> The Work and Pensions Committee has outlined its concerns about the threat to automatic enrolment in workplace pensions, the roll-out of which is having a great deal of success. The Committee was particularly worried about the risk of people opting out of a workplace pension in order to save in a Lifetime ISA, thinking that it will be more a beneficial pension savings product when it is not. The Committee highlighted extreme ambiguity about whether the Lifetime ISA is intended to be a pension replacement.[24]

She contended that there was "significant room for improvement in the Bill".

Gareth Thomas (Labour MP for Harrow West) noted that the Bill did not include a requirement that any employer should offer payroll deduction services. He suggested that could "help all savers" and "especially those on low and middle incomes".[25] In that way, people could, if they wanted, have money deducted from their pay at source by their employer which could then go into savings. He also questioned why credit unions would not be able to provide the Help-to-Save scheme:

> I understand and see the logic of the Government's need to have a help to save implementer with national coverage. […] What I fail to understand is why credit unions cannot be allowed to offer the service to communities in their areas alongside NS&I. I hope that the Government will reconsider that point.[26]

Mr Thomas also took issue with the Government for having decided that it would make its bonus payment after two years, as opposed to twelve months. He contended that "exactly the sort of person we would want to benefit from a scheme" would "struggle to make ends meet" in the intervening period before receiving their bonus. The two years, he said, "would be a significant disincentive" to setting even small amounts of money aside in a savings account.[27]

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[22] HC *Hansard*, 17 October 2016, col 611.
[23] ibid, col 612.
[24] ibid, col 613.
[25] ibid, col 614.
[26] ibid, col 628.
[27] ibid, col 627.

Ian Blackford, SNP Spokesperson for Pensions, raised a number concerns about both schemes. On the Lifetime ISA he argued that it was "unfair" that people who invested in a Lifetime ISA would be making the investment out of taxed income, when, if they saved into an auto-enrolment pension, they would otherwise receive tax relief "up front". He also expressed concern that Lifetime ISA could negatively impact auto-enrolment and thereby reverse the progress made in encouraging people to save for later life.

On Help-to-Save, Mr Blackford suggested that the two-year qualifying period was lengthy for people on very low incomes. He also raised concerns that credit unions would be "excluded" from offering Help-to-Save products.[28]

Mr Blackford summarised the SNP position that it was "supportive of any initiative that promotes savings for later life" but argued that the Lifetime ISA would only benefit those who could afford to save to the levels demanded by the Government to get the bonus. With Help-to-Save he contended that the Government had not targeted those who were struggling to plan for emergencies or later life:

> Individuals eligible for Help-to-Save have only limited resources for saving by definition, and they will now have more difficult choices to make between medium-term savings and longer-term aspirations.[29]

Jonathan Edwards, Shadow Plaid Cymru Spokesperson for Foreign Intervention, raised questions as to whether the Lifetime ISA would introduce an added complexity to the savings market, in particular for young people in needing to choose "whether to go for a pension or a Lifetime ISA", which, he argued, "could be one of the most important financial decisions in a person's life". He probed the Minister on the matter of increasing investment in independent advice and financial literacy "so that young people are able to make informed financial decisions".[30]

Richard Graham (Conservative MP for Gloucester), a member of the Work and Pensions Committee, commented on the Lifetime ISA's impact on auto-enrolment. He explained that "auto-enrolment has not been going for very long" and had not yet finished being rolled out to smaller companies. As such, he expressed concern that the Lifetime ISA was going to be introduced before auto-enrolment had finished being rolled out. He contended that it risked "undermining the success of auto-enrolment so far" as it was as yet uncertain how smaller companies would respond to auto-enrolment.[31]

The Economic Secretary, Simon Kirby, responded to the points made during the second reading debate. With regard to credit union involvement he said that the Government recognised that many credit unions were interested in offering accounts, but it "was not clear that a multiple provider model would guarantee national coverage for the scheme". He added that the Government would "continue to explore further options for credit unions to support delivery of the scheme".[32]

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[28] HC *Hansard*, 17 October 2016, col 607.
[29] ibid, col 623.
[30] ibid, col 606.
[31] ibid, col 631.
[32] ibid, col 638.

With regard to criticisms that the Bill would encourage people to invest in the Lifetime ISA "rather than" in a pension, he argued that the Government was "offering people a choice" and that "these two schemes are complementary and serve very different purposes".[33]

With regard to the two-year period prior to receiving a Help-to-Save bonus, Mr Kirby stated:

> This is the period of time needed to encourage account holders to develop a regular savings habit—a habit all too lacking in many people, especially younger people. I reiterate that the amount is up to £50 a month. People may not be able to afford that amount, but any regular saving is something that all of us should encourage.

He also said that the suggestion of payroll deduction was "very sensible and measured":

> There is no reason why payroll deduction cannot take place. I cannot make a commitment to him today, but I can confirm that I am happy to see whether there is more that we can do in that area.[34]

## 3.2 Committee Stage

The Bill was considered by public bill committee from 25 October to 1 November 2016. The Committee sat on five occasions, taking evidence from think-tanks, consumer groups, and trade associations in its first two sittings.[35] A number of amendments were proposed by opposition parties, seven of these were pushed to a vote and all were defeated. These are summarised briefly below.

**Division 1: Eligibility for under 25s:** Dr Eilidh Whiteford, Shadow SNP Westminster Group Leader for Social Justice and Welfare, proposed an amendment to ensure that any individual under 25 would qualify for a Help-to-Save account provided they met other specified criteria. The Committee divided and the amendment was defeated 9 votes to 3.

**Division 2: Average Monthly Payment:** Ian Blackford, Shadow SNP Spokesperson for Pensions, moved amendments to allow the Help-to-Save scheme to provide a government-provided bonus where the average monthly payment was under £50, in order to help those whose ability to save fluctuated. Jane Ellison, Financial Secretary to the Treasury, argued that "would add complexity" to the scheme for savers and account providers.[36] She contended that it was "vital" that the account rules were kept as simple as possible to ensure that the scheme was easy to understand and accessible to the target group. The amendment was defeated on division by 7 votes to 2.

**Division 3: Bankruptcy**: Ian Blackford moved an amendment to provide that, where a bankruptcy order was made against a person with a Help-to-Save account, any bonus paid into the Help-to-Save account would not form part of a debtor's estate during insolvency proceedings. It also provided that any bonus paid into a Help-to-Save account would not be liable to be taken as repayment via third party debt orders. Mr Blackford argued that this would

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[33] HC *Hansard*, 17 October 2016, cols 638.
[34] ibid, cols 639.
[35] See the Bill's Parliament website page: 'House of Commons Public Bill Committee on the Savings (Government Contributions) Bill 2016–17', accessed 20 December 2016.
[36] Public Bill Committee, *Savings (Government Contributions) Bill*, 27 October 2016, session 2016–17, 4th sitting, col 93.

"ensure that those subject to a bankruptcy order would not be stripped of their assets".[37] Jane Ellison responded that although it had been argued that a special case could be made for ring-fencing the government bonus to avoid taxpayers' money being used to repay debts, the scheme rules would mean that account holders would be entitled to a bonus on the highest balance achieved in the account, so "that represents an asset for the account holder, and it should be treated as such in any insolvency proceedings".[38] Mr Blackford's amendment was defeated on division by 8 votes to 2.

**Division 4: Time Required to Qualify for Bonus:** Dr Eilidh Whiteford, Shadow SNP Westminster Group Leader for Social Justice and Welfare, moved an amendment to reduce the amount of time needed to qualify for a bonus on Help-to-Save to six months, compared to two years as currently provided for in the Bill. According to Dr Whiteford, this would better reflect "the reality of the timeframe in which people on lower incomes are likely to have to dip into their savings to cover unexpected costs".[39] Jane Ellison responded that research by US academics on individual development accounts—a similar savings scheme in the US that also provided match funding to help people on low incomes to save—concluded that 19 to 24 months is the optimal time period to embed a savings habit. Paying the bonus at two years and on account maturity would strike "the right balance".[40] The amendment was defeated on division by 8 votes to 3.

**Division 5: Delay in Commencement Date:** Ian Blackford, Shadow SNP Spokesperson for Pensions, moved an amendment to delay the implementation of the Lifetime ISA and Help-to-Buy scheme until the day after an independent pensions and savings commission had been established. He contended that:

> We have voiced our legitimate concerns that the Bill risks undermining pension savings and redirecting consumers to products that will not confer the greater level of benefits that pension savings offer. We need to pause and consider what we are seeking to achieve with pensions and other savings products, while making sure that we build confidence in pension savings in particular.[41]

Jane Ellison responded that the Government wanted the new products to be introduced as soon as possible, and that "a delay would not be fair to the people who could have benefitted from them".[42]

**Division 6: Independent Financial Advice:** Peter Dowd, Shadow Financial Secretary to the Treasury, moved new clause 2, which would have placed a duty on the Secretary of State to make regulations to ensure all applicants for a Lifetime ISA receive independent financial advice. The advice would be offered automatically through an opt-in service, and the service provider would sign a declaration outlining the advice that the applicant received. On 27 October 2016, Mr Dowd had stated that Labour "believe that it is only right that anyone considering a Lifetime ISA is given the opportunity to see its benefits, compared with those of other schemes on the

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[37] Public Bill Committee, *Savings (Government Contributions) Bill*, 27 October 2016, session 2016–17, 4th sitting, col 96.
[38] ibid, col 97.
[39] ibid, col 98.
[40] ibid, col 100.
[41] Public Bill Committee, *Savings (Government Contributions) Bill*, 1 November 2016, session 2016–17, 5th sitting, col 103.
[42] ibid, col 106.

market", thereby providing an informed choice.[43] Jane Ellison explained that the Government wanted people to have the information they need to make important financial decisions and would achieve that through the government website as well as working with the Money Advice Service and its successor. The amendment was defeated on division 10 votes to 6.[44]

**Division 7: Advice for Applicants:** Ian Blackford, Shadow SNP Spokesperson for Pensions, moved an amendment to require advice for those seeking Lifetime ISA or Help-to-Save products which would also include information on auto-enrolment and workplace pensions.[45] He argued that the complexities in the system and in products and the lack of independent advice were confusing and could lead to fewer people saving. Jane Ellison responded that information would be available, and the Financial Conduct Authority would set the regulatory framework for providers offering the Lifetime ISA, including setting out any suitability tests that should apply. Mr Blackford's amendment was defeated on division by 10 votes to 6.

## 3.3 Report Stage

Report stage of the Bill occurred on 12 December 2016, followed immediately by third reading. During report stage, the Bill was only amended by three minor government amendments. A number of amendments were proposed by the opposition parties, though discussion of these was brief. Some of these amendments were put to a division: those relating to implementing a review of Lifetime ISAs on workplace pensions automatic enrolment; the involvement of credit unions in offering Help-to-Save; and a proposal to remove Lifetime ISAs from the Bill. All three proposals were defeated. Proceedings on these are summarised below.

### Review of Lifetime ISAs on Workplace Pensions Automatic Enrolment

New clause 2 moved by the Shadow Financial Secretary to the Treasury, Peter Dowd, sought to place a duty on HMRC to annually review the impact of Lifetime ISAs on automatic enrolment to workplace pensions and pension savings. Speaking to the amendment, Peter Dowd, said that:

> Auto-enrolment is one of the few success stories in the pension landscape, and it is widely acknowledged in all sectors to be right. We fear that, intentionally or not, the Government's policy may put the wider landscape in jeopardy and be a dangerous path to follow. Pensions' history suggests that this will only be recognised in years to come. We want the Government to review the situation and the impact on the auto-enrolment scheme annually to ensure that the introduction of Lifetime ISAs does not have a negative impact on the success of automatic enrolment.[46]

Mr Dowd added that there were six Labour amendments tabled at report, all of which were "designed collectively to address the concern […] that the lifetime individual savings account poses a threat to traditional pension savings and, most significantly, to auto-enrolment".[47] Mr Dowd noted this concern had been shared by the pensions industry, the trade union movement, committees of the House of Commons and the Office for Budget Responsibility.

[43] Public Bill Committee, *Savings (Government Contributions) Bill*, 27 October 2016, session 2016–17, 4th sitting, col 66.
[44] Public Bill Committee, *Savings (Government Contributions) Bill*, 1 November 2016, session 2016–17, 5th sitting, col 110.
[45] ibid, col 111.
[46] HC *Hansard*, 12 December 2016, col 538.
[47] ibid.

He added that Labour had "huge reservations about any move by the Government away from a collective pension system towards an individualised payments system", and described it as a "very slippery slope".[48]

Responding on behalf of the Government, Jane Ellison, Financial Secretary to the Treasury, said that she wished to "once again stress" the Government's "absolute commitment" to automatic enrolment, but said that an annual review as proposed by new clause 2 was unnecessary. She contended:

> The Lifetime ISA—the Treasury is clear on this—is designed to be a complement to automatic enrolment and workplace pensions, not a replacement. Our costings do not assume that people will opt out of their workplace pension in order to pay into a Lifetime ISA. Encouragingly, the figures show that the opt out rate so is very low so far.[49]

Ms Ellison further explained that the Government had already conducted an impact assessment (1 September 2016), published alongside the Bill, and had published a cumulative distribution analysis (March 2016) of all the policies to be implemented during the 2015–20 Parliament—including of the Lifetime ISA and Help-to-Save. She emphasised that "it is important to look at the cumulative impact of tax and spending decisions, rather than the impact of individual measures in isolation".[50] She added, however, that "[a]s with all Government policies" ministers would "of course, keep the Lifetime ISA under review to ensure that it is meeting its objectives".[51] She added that the Government regularly publish a wide range of detail about the take-up of Government-supported savings accounts such as ISAs, and intended to take a similar approach to the Lifetime ISA.

New clause 2 was defeated by 277 votes to 230.[52]

### Credit Union Involvement

Amendment 2, moved by Gareth Thomas (Labour MP for Harrow West), sought to allow credit unions to offer the Help-to-Save product. Mr Thomas declared an interest as a member of the M4Money credit union and as chair of the all-party group on mutuals. Mr Thomas said that he had raised concerns at second reading that credit unions would not be allowed to offer the Help-to-Save product. He explained:

> I have no objection to the choice of National Savings & Investments (NS&I) as that national provider of choice. What I cannot see is any valid reason why credit unions cannot be allowed to complement the NS&I offer.[53]

Mr Thomas noted that the Minister had claimed during committee that a multiple provider model for Help-to-Save would not offer value for money, yet, as far as he was aware, the Government had "produced no costings to justify that claim".[54] Mr Thomas' arguments were

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[48] HC *Hansard*, 12 December 2016, col 542.
[49] ibid, cols 552–3.
[50] ibid, col 552.
[51] ibid.
[52] ibid, cols 556–9.
[53] ibid, col 532.
[54] ibid.

centred on three main points. First, that credit unions were "no threat" to NS&I.[55] Second, that credit unions would be "more uniquely exposed to low and middle income financial services markets".[56] Third, that credit unions provided "affordable loans", routinely requiring those borrowing money from them to save as they repay their loan, which, he argued, would encourage saving for the longer term.[57] Mr Thomas also noted that the Government already had "significant interest" and funding in credit unions and, and that the Bill could assist "claimed aims of increasing support for credit unions and creating a more diverse banking market".[58]

Stella Creasy (Labour MP for Walthamstow) also spoke in support the amendment. She argued that, if the Government want to encourage saving, it is "absolutely vital that instead of excluding the credit union movement, they embrace it".[59] She added:

> A quarter of people in this country have no savings at all, so we need to ask ourselves which movement always has its doors open to every citizen, and how we can help it to bridge that gap. That means looking to the credit union movement. […] It is crucial that we see credit unions as being not just about borrowing, but about saving.[60]

Responding on behalf of the Government, Jane Ellison contended that the Bill would not prevent the provider model from expanding to credit unions in future, but reiterated that NS&I as a single provider would best ensure national coverage of the scheme:

> We have chosen to appoint NS&I as the single provider of Help-to-Save accounts, as it provides the most cost-effective way of ensuring national coverage for the scheme. […] [W]e acknowledge the important role that credit unions play in local communities, but it became clear during this summer's consultation that a multiple provider model reliant on financial providers, including credit unions, offering accounts on a voluntary basis would not have guaranteed the UK-wide coverage that we wanted. By appointing NS&I as the scheme provider, we can achieve that nationwide account provision. It also means that we can work with a single provider to ensure that accounts are easily accessible by all the eligible people. That removes a significant administrative and compliance cost that would be associated with a range of different providers.
>
> However, I want to stress […] that the Bill does allow HMRC to approve a credit union to be an authorised account provider, if we decide to adopt a multiple provider model of account provision in future. NS&I has been adopted in regulations as the provider at this stage, but nothing in the Bill would preclude expanding the provider model in future.[61]

Ms Ellison added that officials have been in constructive discussions with the credit union movement throughout the passage of the Bill to ensure that the final design of Help-to-Save met the needs of the target audience and would be discussing the issue further with the Association of British Credit Unions.[62]

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[55] HC *Hansard*, 12 December 2016, col 532.
[56] ibid, col 533.
[57] ibid.
[58] ibid, cols 533–4.
[59] ibid, cols 536–7.
[60] ibid.
[61] ibid, col 550.
[62] ibid.

Mr Thomas maintained that it was "clear that NS&I will be a good national provider, but it is unclear why credit unions cannot be given the opportunity to offer the product at the same time".[63]

He therefore moved amendment 2 to a division, where it was defeated by 279 votes to 227.[64]

**Proposed Removal of Lifetime ISAs**

At report stage, Ian Blackford, Shadow SNP Spokesperson for Pensions, moved amendment 15, which would have the effect of removing Lifetime ISAs from the Bill completely. Mr Blackford said that Lifetime ISA was the SNP's "primary problem" with the Bill, arguing that no one investing in an ISA would be better off than investing in a pension. Further, Mr Blackford contended that if the Bill passed it could create circumstances in which young people might be sold a Lifetime ISA "when their interests would be better served" by investing in a pension.[65] Mr Blackford argued that the long-term cost of forgoing annual employer contributions worth 3 percent of a salary by saving into a Lifetime ISA would be "substantial".[66] For a basic tax rate taxpayer, Mr Blackford argued that the impact would be savings of roughly one third less in a Lifetime ISA over a pension by the age of 60.[67] He added:

> Savings into a Lifetime ISA are made out of after-tax income; pension contributions are tax exempt and tend to receive employer contributions. Saving through pensions remains the most attractive method of saving for retirement. While anything that encourages saving for later life has to be welcomed, the danger is that the Government will derail auto-enrolment. […] The Bill risks seducing young people away from investing in a pension by encouraging investment in a Lifetime ISA.[68]

Mr Blackford explained that auto-enrolment was "still in its infancy" and "has to be our priority for savings".[69] He explained:

> While the UK Government rely on low opt-out rates from auto-enrolment to justify their claim that the Lifetime ISA would not risk pension savings, we are not convinced. The Bill is a missed opportunity to focus on strengthening pension saving, rather than tinker with the savings landscape.[70] [...] The Government say that the LISA is a complementary product, not an alternative to pension saving, but they have given no real thought to the difficulties facing consumers in understanding their options and, for those who have savings, whether they are in the best product for their needs. Pensions are already confusing and complex; the Lifetime ISA as it stands adds to that complexity.[71]

[63] HC *Hansard*, 12 December 2016, col 554.
[64] ibid, cols 563–6.
[65] ibid, col 543.
[66] ibid.
[67] ibid, col 542.
[68] ibid.
[69] ibid, col 543.
[70] ibid, col 542.
[71] ibid, col 543.

Mr Blackford welcomed the Financial Conduct Authority's proposed protections on advice but stated there must be a formal mechanism to assist those seeking to increase saving, particularly where they were looking for a retirement product.[72] He also noted that providers had said that "they may not be ready" for the implementation date of April 2017.

For the Government, Jane Ellison responded:

> I have been clear that the regulation of providers is the role of the independent Financial Conduct Authority, which regulates ISA providers and will likewise set the framework for the Lifetime ISA. It is consulting on its approach at the moment. […] The risk of mandating that people receive independent advice is that it makes investing in these products prohibitively expensive for many people.[73]

Ms Ellison reiterated that the Government wanted to ensure that people had the information that they needed to make important financial decisions and would "provide clear information on gov.uk", and would work with the Money Advice Service and its successor "to ensure that they make appropriate and impartial information available".[74] On amendment 15, Ms Ellison noted she had "no intention" of accepting amendments which would effectively cancel the Lifetime ISA from the Bill, reiterating that it was a product that would "help many people save".[75]

Amendment 15 was defeated by 285 votes to 45.[76]

## Government Amendments

Jane Ellison, Financial Secretary to the Treasury, moved amendments 3, 4 and 5 on behalf of the Government. Amendment 3 sought to introduce a new paragraph to schedule 1 to allow HMRC and the administrator of the Help to Buy ISA to share information about bonus payments and charge-free withdrawals. Individuals would be able to save into both a Help to Buy ISA and a Lifetime ISA, but would only be able to use the bonus from one of the schemes to help in purchasing their first home. Ms Ellison contended that amendment 3 would mean that "those rules can be policed" along with appropriate safeguards and sanctions in relation to the use of account holders' information.[77] Amendments 4 and 5 concerned residency conditions for Help-to-Save. The amendments sought to provide for regulations to the effect that the monthly payment limit for Help-to-Save could be set at nil in certain cases. This would be in order to ensure that an individual could not make payments to an account when they were not in the UK, or did not have the appropriate connection to the UK, and could not thereby earn additional government bonus.[78] All three government amendments were agreed to without division.

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[72] HC *Hansard*, 12 December 2016, col 545.
[73] ibid, col 549.
[74] ibid.
[75] ibid, col 553.
[76] ibid, cols 560–1.
[77] ibid, col 548.
[78] ibid.

## 3.4 Third Reading

Speaking at third reading, the Financial Secretary to the Treasury, Jane Ellison, reiterated the Government's position on the Lifetime ISA, and welcomed what she perceived to be cross-party support for the Help-to-Save scheme:

> [T]he Lifetime ISA provides a new option for young people looking to save for the long term. It is a positive move for savers that complements pensions and is yet another way in which we are supporting people who are doing the right thing and putting money aside.
>
> Help-to-Save has received cross-party support in the House. We know why this is so important. Research from the Centre for Social Justice estimates that three million low-income households have no savings at all, so we can be in no doubt that moving forward with this account is a hugely important step.[79]

Ms Ellison noted the "thoughtful and constructive challenge" which the Bill had received during consideration in the House of Commons, but added that "the Bill is fundamentally about people who are trying to save for the future so I have no hesitation—indeed, I take great pleasure—in commending it to the House".[80]

Speaking for the Opposition, Peter Dowd, said that "[n]o one has any objection to helping people to save; it is a question of how to do it. We are not convinced that the Bill will help people to save".[81] He contended that:

> I am not sure that Help-to-Save does the business for those on a low income. It comes in the wake of major cuts to tax credits and only puts a little drop back into a very big ocean.[82]

Mr Dowd added that Labour "nevertheless" accepted that people need Help-to-Save for the future, and all the information that had been provided "sets the scene for continued future debates".[83]

Speaking on behalf of the SNP, Ian Blackford said that "we will repent of this legislation in due course",[84] and argued that:

> There is no need for this legislation for ordinary people; they will not benefit from the [Lifetime] ISA. I put it to the House that this will reward those who have already maxed out their pension schemes […] We know that those with the opportunity to invest in a pension will always be better off. As I said on second reading, the Government have wilfully created circumstances in which young people in this country will be mis-sold [Lifetime] ISAs.[85]

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[79] HC *Hansard*, 12 December 2016, col 567.
[80] ibid, col 567.
[81] ibid.
[82] ibid, cols 567–8.
[83] ibid.
[84] ibid.
[85] ibid.

Mr Blackford suggested that legislation should have instead been provided to address the problem that those who were self-employed have as they "do not have the opportunities and advantages of auto-enrolment".[86] Mr Blackford noted that there would be an opportunity to return to the issue when auto-enrolment was reviewed next year.

Gareth Thomas (Labour MP for Harrow West) welcomed the Minister's commitment to continue to engage with credit unions. He suggested that following the passing of the Bill, a requirement could be placed on the NS&I to publish on a postcode basis where people were taking up the Help-to-Save product:

> With a national provider […] it would be relatively easy to disaggregate the data on who is taking advantage of the Help-to-Save product and to publish them in an anonymised form. […] I raise that issue in the context of work that the Treasury is doing with the British Bankers Association to encourage banks to publish data about what financial services products are being offered to whom and who is taking advantage of them.[87]

Mr Thomas said he hoped the issue would be explored in "a little more detail" by Members in the House of Lords.

[86] HC Hansard, 12 December 2016, cols 567–8.
[87] ibid, col 569.

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