Is the Lifetime ISA fit for purpose in 2025: Committee Call for Evidence

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Supporting the financial journey through life

Our ambition is to improve the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA is a **not-for-profit membership organisation** and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. **We have over 270 member firms** involved in the supply and distribution of **savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, FinTechs, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

Our work, your influence

With a focus on three strategic pillars of work to best support the consumer and UK financial services, TISA has become a major industry delivery organisation for consumer focused and digital industry infrastructure initiatives. Our three pillars of work remain at the forefront of everything we do:

- **STRATEGIC:**
  Build **strategic policy initiatives that influence policy makers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments.

- **TECHNICAL:**
  Provide **expert technical support to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering ISAs, Consumer Duty, client assets, responsible & sustainable investing, operational resilience, vulnerable customers, governance, conduct & culture, plus a range of other areas.

- **DIGITAL:**
  To transform our industry architecture by building **digital transformation initiatives** that are driving ground-breaking innovation. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives, with projects including **Digital ID** and **Open Savings, Investments & Pensions (OSIP)**. This reflects TISA's commitment to open standards and independent governance.

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Response Summary

TISA welcomes the opportunity to respond to the Committee's Call to Evidence on the future of the Lifetime ISA and whether it remains fit for purpose in 2025.

TISA has been involved with the Lifetime ISA since its inception in April 2017 where we worked closely with HMR Revenue & Customs (HMRC) on helping finalise the new ISA guidance and then rolling out Lifetime ISA training to the industry.

Since this time, we have had a significant amount of correspondence and discussions with member firms who offer the Lifetime ISA meaning that we've seen, first hand, some of the issues and concerns that they have.

We've provided feedback and proposals to the government over recent years, including our recent Budget submissions, and some of these views/proposals will be reflected in our responses below.

In summary, we still believe that the Lifetime ISA is a suitable and worthwhile addition to the ISA family for both house purchase and retirement goals, but we believe that it would benefit from several changes/amendments which are outlined below.

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Call to Evidence Questions

1. Is the Lifetime ISA fit for purpose in its current design, including as a combined product for house purchase and pension saving?

We believe that, as a general product, the Lifetime ISA (LISA) is still fit for purpose but requires several changes that will be outlined in subsequent questions. For many savers, it is the only product they have used for house buying reasons and saving for big financial goals although some evidence also suggests that there is still a lack of awareness of the LISA in the target market so this is another factor for the government to consider if the objective is to increase usage of the LISA among potential first time buyers and retirement savers.

Evidence from some LISA providers suggest that many savers see the LISA as having improved their financial habits and made them more confident about achieving their financial goals.

Some providers have chosen not to offer a LISA due to concerns that individuals who are eligible for Auto Enrolment would select this product instead of their workplace pension. This clearly results in detriment as the member would lose the benefit of their employer pension contribution and potentially other additional benefits such as higher rate tax relief. However, investing in a LISA can be complimentary to a workplace pension, for instance where an individual has taken advantage of the maximum employer contribution and is a basic rate tax payer and still wishes to contribute more, a LISA provides the option to retain the equivalent of pension tax relief through the government bonus on contributions and removes the potential tax deduction when it is withdrawn (currently age 60).

To help support firms meet challenges such as this without crossing the Advice/Guidance boundary, the FCA are consulting on implementing a Targeted Support regime which aims to help bridge the growing advice gap, providing consumers with more meaningful support to make informed financial decisions, delivered in an accessible and cost-effective manner. This should enable firms to collect sufficient information on individuals to provide appropriate product and investment recommendations.

Although covered in later questions, we wanted to highlight the importance of the withdrawal charge and its impact on whether the LISA is fit for purpose. We would support the argument that the current 25% withdrawal charge could result in outcomes which leave a question mark over the LISA's suitability especially taking account of the FCA's consumer duty outcomes.

The LISA creates potential challenges including consumers facing a 6.25% exit charge if they need to exit due to reasons other than house purchase or age 60 (which could include reasons of financial hardship), where house purchase falls through for whatever reason, or simply in trying to explain the charge and restrictions to those individuals who have opened the product for house purchase reasons.

So, yes, we do support the continued use of the LISA for both house purchase and retirement savings but highlight the comments made above and in subsequent questions.

2. How well do consumers transition between using the Lifetime ISA as a product for house purchase, to then a product for pension saving?

Feedback from the industry suggests that this is difficult to answer at this relatively early stage in the life of the LISA.

It will be at least 12 years before a LISA customer reaches age 60 and becomes eligible to make charge free withdrawals for retirement purposes.

Evidence and internal surveys from some LISA providers, however, does support the fact that some customers, having already used their LISA for property purchase reasons, are planning to continue using the LISA for retirement purposes also.

Going forward, it may be helpful to try and acquire additional evidence into how LISA customers transition from house purchase to retirement goals by analysing any changes in investment risk for longer term (retirement) planning or even transfers to other LISA managers who may offer more suitable investment options for retirement planning purposes.

3. Given its policy purposes, is the Lifetime ISA value for money for the Government?

We believe that it is. Many individuals and households still have low levels of financial resilience, and the LISA can help boost those levels – particularly for the self-employed and there is currently nothing else on the market which provides a financial incentive to help first time house purchase.

4. Is the Lifetime ISA a suitable pension savings product?

Generally speaking, yes, the LISA provides a further option in the retirement space, especially for the self-employed.

We believe that the age cut-off from 40 is inappropriate as the average age of self-employed person is 48 and people generally don't start to engage with later life saving until after age 39.

TISA strongly supports the increase in the current age limits, permitting a LISA to be opened and subscriptions being eligible for government bonus up to age 55. We believe that this would make the LISA significantly more suitable and attractive to the self-employed in particular who don't have access to an employer pension.

We also refer to our comments in Question 1 regarding use of a LISA as a complimentary product to a pension.

5. Should the Lifetime ISA be abolished?

Our very brief answer to this question is, no, it shouldn't be abolished.

6. Should the Lifetime ISA be reformed to remove the withdrawal penalty?

We appreciate the stated government objective of having a suitable penalty in place to incentivise LISA customers to retain the funds in their LISA for house purchase or retirement purposes, but we feel that the 6.25% penalty can be extremely harsh, as already outlined in Question 1, especially when individuals require emergency funds for unforeseen circumstances. We accept that, in an ideal world, individuals will maintain access instant/easy access products when planning for emergencies, but this isn't always easy, especially during the recent and potentially ongoing cost of living crisis.

For that reason, we would strongly support a reduction in the withdrawal charge from 25% to 20% ie. repayment of the government bonus. Evidence suggests that when the charge was temporarily reduced to 20% during COVID, there was no significant change of behaviours by LISA customers and no significant spike in LISA withdrawals.

Feedback from various surveys suggest that the withdrawal penalty is still a key deterrent for people considering opening a LISA.

If the full reduction in the withdrawal charge from 25% to 20% for all withdrawals cannot be accepted by government, we would strongly support the option of permitting a set number of permissible charge free withdrawals up to a certain maximum amount per tax year (maybe 2 withdrawals per tax year of no more than £2,000 to provide a possible suggestion) although we accept a strong desire from the industry to keep the product as simple as possible.

7. Should the Lifetime ISA be restricted to those with no access to a workplace pension?

We weren't clear on the reasoning for including this question, but we would strongly argue against such a change as it would be extremely complex and significantly restrict the target market.

We, again, refer to our feedback in Question 1 regarding the use of a LISA as a complimentary product to a pension.

8. Should the Lifetime ISA house price cap be raised in line with inflation, or removed?

We accept the argument that £450,000 is already a significant sum, especially in certain parts of the country, but there are also certain parts of London and the Southeast where first time buyers may struggle to purchase a suitable property under this level.

The limit hasn't increased since inception in April 2017 during which time there have been some significant increases in house prices nationwide (Nationwide BS figures show an average increase of 26% since 2017).

We would strongly support, therefore, both a rebasing of the cap to take account of house price increases since 2017 in addition to a yearly increase in line with average property price increases.

Regarding the removal of the limit altogether, as this would still only account for a tiny minority of purchases and would simplify the scheme, we would also support such a change albeit we acknowledge that such a change could be viewed as being targeted at the more wealthy which may not be the target market that the scheme was initially set up to help. Additionally, the £4,000 annual subscription cap places a limit on the amount that can be invested and subsequently used towards a house purchase.

Also, despite the Help to Buy: ISA only running for another 5 years (2030) and not being part of this Call to Evidence, we feel that any limits agreed for the LISA should also be applied to the Help to Buy: ISA. Even without changes to the current £450,000 LISA limit, we feel that the LISA limit should apply equally to the Help to Buy: ISA which only has a current limit of £250,000 outside of London.

9. Should the annual Lifetime ISA limit be raised from £4,000?

Similarly to the £450,000 house price cap, the £4,000 annual limit has not been increased since inception in April 2017.

We would, therefore, support an increase to the annual limit which could make the LISA a more attractive product to some people although we note that the current limit has already been set in secondary legislation up until 2030 and expect this is viewed as the minimal annual limit.

We also accept the view that having a higher annual limit could make the LISA more attractive and commercially viable to those providers that currently don't offer a LISA.

We believe that any increases, whether from periodic reviews or automatic annual increases, should result in a relatively round figure for administrative purposes (eg. £4,500, £5,000 etc).

Some evidence suggests that many individuals are saving considerably more than the current £4,000 annual limit in both a LISA and via other types of accounts in order to build up sufficient deposit savings which supports the benefit of an increase to the current annual limit.

10. Should the Lifetime ISA be reformed in any other way?

To maintain the savings habit and to increase the opportunities for young people to buy their first home, we would strongly support the ability to move funds from a matured JISA at age 18 directly into a LISA. Currently, the individual could choose to transfer up to £4,000 into a LISA within current limits once they reach the age of 18 but we feel that offering the automatic transfer option in excess of £4,000 would significantly benefit young people albeit we acknowledge that permitting more than £4,000 to be eligible to receive the government bonus would be a cost to the government. This is similar to the 'special' rules that applied in the first year of the LISA (2017/18) where funds from a Help to Buy: ISA could be transferred into a LISA without counting towards the annual £4,000 limit.

Since the LISA was first launched in 2017, TISA worked closely with HMRC in helping finalise the LISA guidance and roll out LISA training to the industry. Early feedback to TISA suggested that the LISA was simply too complex, and we believe this may be one of the key reasons that many authorised ISA managers chose not to enter the LISA market.

One of the suggested reasons as to the complexity of the LISA was the fact that the annual £4,000 limit is part of an individual's annual £20,000 ISA limit and the interaction of the two becomes extremely complicated, especially when transferring funds from other ISAs into a LISA.

Although there appears to be mixed views within the industry as to whether it may be advantageous to legislate for a separate LISA allowance, outside of the annual £20,000 allowance, we feel that such a change warrants further investigation and consultation. A key requirement of any such change would be that there would be no impact on the £20,000 annual limit for other ISA types.