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News

Abolish Lifetime ISA, MPs demand

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The influential Treasury Committee has called for the 'perverse and complex' Lifetime ISA to be scrapped, just over a year since the pension-come-property savings scheme was launched.

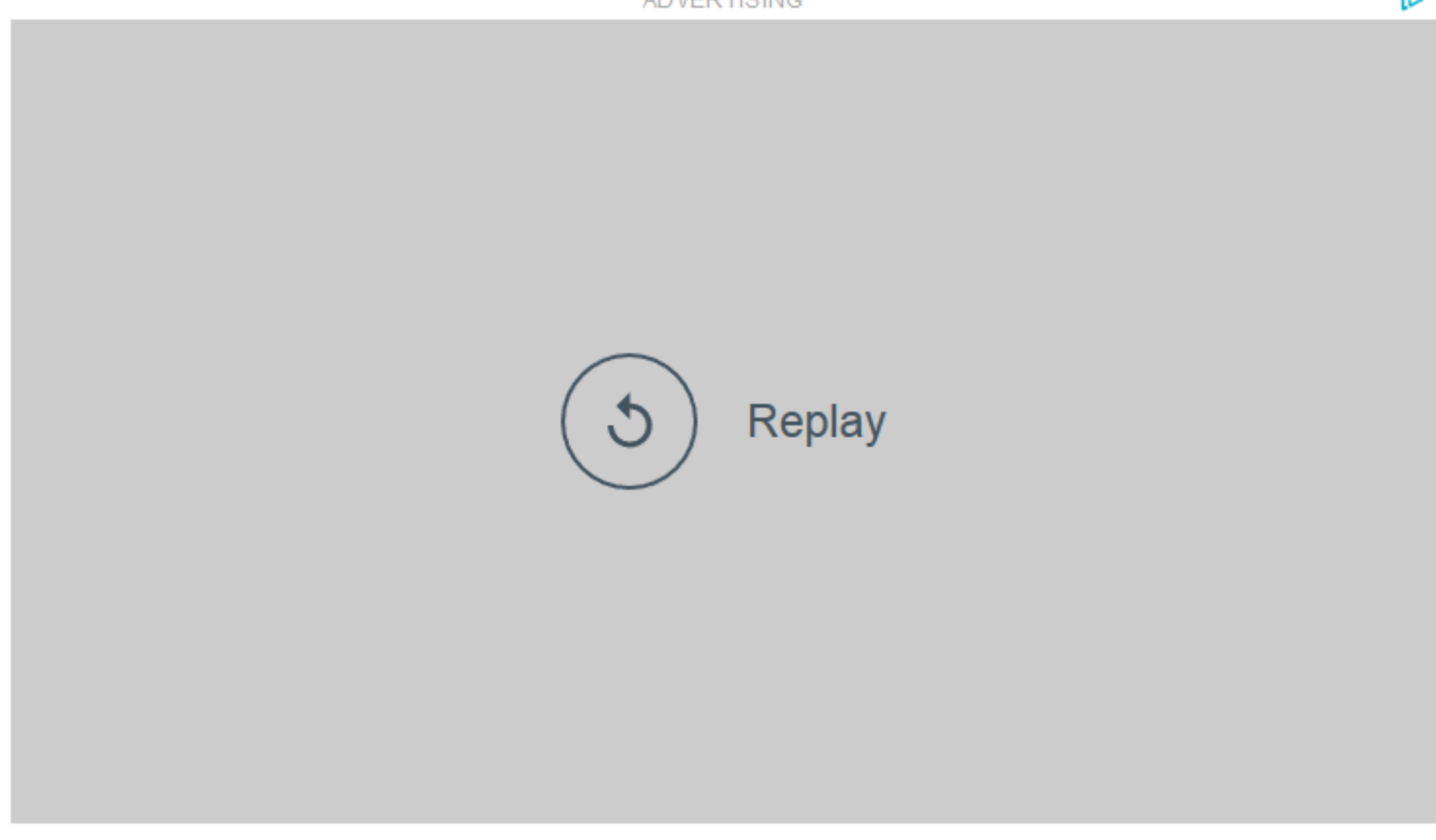


The Lifetime ISA (LISA) launched in April 2017 and allows those aged 18-39 to save up to £4,000 a year for their first home or retirement where they will receive a maximum £1,000 bonus from the government. See [YourMoney's Lifetime ISA guide](#) for more information.

Concerns centred on the fact that auto-enrolment had been picking up speed and those saving for a home could open a Help to Buy ISA, "then suddenly, we get this strange hybrid", former pension minister Steve Webb said at the time.

By giving pension savers another option, there were concerns people would choose the LISA, sacrificing valuable employer contributions and tax relief as a result.

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Another former pensions minister, Ros Altmann, also advocated the LISA's abolition, stating: "It is, in my view – and I have seen this for so many decades – another mis-selling scandal waiting to happen. That is why a lot of providers did not offer it.

"If people start relying on ISAs and LISAs for retirement, they are bound to be pretty poor in their 80s."

As part of the Treasury Committee's *Household finances: income saving and debt report*, it was found the LISA has also proven unpopular in the financial services industry and there has been limited take-up by customers.

The Committee also wants the government to clarify the 25% penalty for early access. People think just the 25% government bonus is removed, whereas in fact, 25% of the total investment is lost for access other than buying a first home costing up to £450,000 or after the age of 60.

The Committee wrote: "This inquiry has received strong criticism of the LISA over its complexity, its perverse incentives, its lack of complementarity with the pensions saving landscape and its apparent lack of popularity with the industry and pension savers. The Government should abolish it."

'Report is nonsensical'

Martin Stead, CEO of investment LISA provider, Nutmeg, said "this is a slap in the face to a generation in danger of being worse off than their parents."

"Taking away the LISA means less potential savings, less wealth, and a poorer country. We need to address the UK savings gap and get more young people to save. The LISA is proven to work. And it should stay.

"For many, putting money aside for their first home or their retirement is difficult. The LISA, with its 25% government bonus, offers a great incentive to help people aged between 18 and 39 to save or invest for their future."

Nutmeg is calling on the government to further develop the product to allow contributions up to the age of 60 and to scrap the £450,000 limit on the first property purchase.

Stead added: "This report is nonsensical. LISA is not yet two years old. The government should be investing time and money in promoting this product, not debating whether or not to keep it."

Guy French, customer and corporate strategy director of OneFamily, which won Best online LISA stocks and shares provider at the [YourMoney.com Awards](#), said one of the main issues has been the lack of awareness of the product.

"We found that around half of first-time buyers aren't aware of the LISA, and these are one of the groups of people who would greatly benefit from having one. The LISA offers great benefits to savers, and given the Help to Buy ISA is closing in just a matter of months, we urge the government to help increase awareness."

Kris Brewster, head of products at Skipton which offers a cash LISA, said: "Originally, the government aspired to see 200,000 LISA accounts opened in the first wave of activity. At Skipton, in just over one year, we have opened over 112,000 accounts for our members. We believe the LISA can make a real difference for people wanting to get on the housing ladder.

"We believe the consumer response and uptake of this product, plus the positive intentions which the savers have, demonstrate the success of the account and indicate a real consumer need for savings products which support home ownership."



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