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## Beware the pitfalls of the Lifetime Isa: As the Help-to-Buy Isa closes, experts warn about the alternative

- The Lifetime Isa has failed to prove all that popular with hopeful homeowners
- It's open to anyone aged 18 to 39. You can save £4,000 a year until you are 50
- You earn an annual 25% bonus if you use savings as a deposit for a first home
- Banks and building societies are bracing themselves for a jump in applications
- However it can also be used for retirement saving, which complicates matters

By SYLVIA MORRIS and FIONA PARKER FOR THE DAILY MAIL

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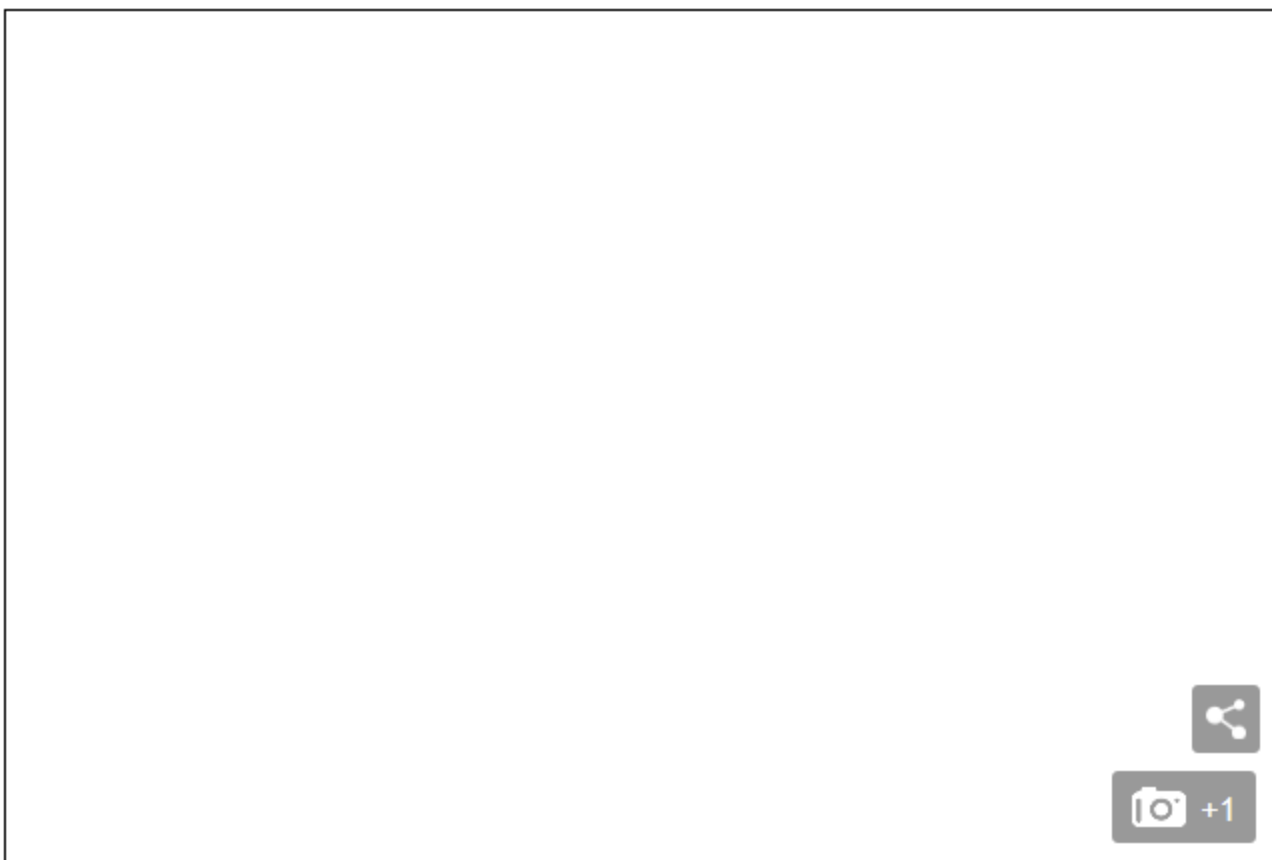
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Britain's biggest building society was hit with a barrage of 300,000 applications for Help-to-Buy Isas last week.

Nationwide opened 43 per cent of the 700,000 accounts it has on its books in the final week before its Isa was taken off the market on Saturday. Santander, Lloyds, USBC and Virgin Money also saw an uplift in applications.

HSBC and Virgin Money also saw an uptick in applications.

There is now just one savings scheme offering first-time homebuyers a lucrative tax-free bonus: the Lifetime Isa, or 'Lisa'.



**Savings boost: With the Help-to-Buy Isa closed to new savers, there is now just one savings scheme offering first-time homebuyers a lucrative tax-free bonus: the Lifetime Isa, or 'Lisa'**

So far, the deal has failed to prove all that popular with hopeful homeowners. But after the Help-to-Buy Isa closed to new savers, banks and building societies are bracing themselves for a jump in applications. Yet just 14 of around 500 Isa providers offer the plan.

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Many are concerned about the account's punishing exit fees, which saw young savers **lose more than £1 million in just two years** after cashing in early.

Insiders say they fear facing mis-selling charges because the Lisa is so complicated.

One of the biggest problems is that it muddles saving for a deposit for a first home with longer-term retirement needs.

The Lisa was launched in April 2017 to help people save for their first home and later life. Plans are open to anyone aged 18 to 39 and you can save up to £4,000 a year until you are 50.

On top of this you earn an annual 25 per cent bonus if you use the savings as a deposit for your first home (worth no more than £450,000) or for retirement at 60. So if you save the maximum £128,000 over 32 years you will receive an extra £32,000.

But if you use your savings for anything other than a first home or retirement you face a hefty 25 per cent exit fee — which can leave you with less than you put in.



For example, if you take out £1,250 — £1,000 plus the £250 bonus — you will end up with £937.50 after the £312.50 exit fee.

This means you have effectively lost the entire £250 Government bonus and £62.50 (6.25 per cent) of your own money.

An astonishing 1,500 savers paid an average of £695 to the taxman as punishment for withdrawing money between April 2017 and April 2019 — a total of £1.05 million.

Former pensions minister Baroness (Ros) Altmann says: 'It is wrong to confuse pensions and house purchase and it damages the Isa brand to add unnecessary complexity to what began as

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| Provider   | Rate (APRC)  | Type              |
|--|--------------|-------------------|
|  Newcastle Building Society | 2.59% (5.2%) | Fixed to 28/02/22 |
|  Bath Building Society      | 2.69% (5.0%) | Fixed for 3 years |

a simple savings product.

'I fear the Lifetime Isa is a dangerous product if used for retirement savings unless someone has had proper advice to make sure it is suitable for them.

'There is a huge mis-selling and mis-buying risk, no controls on charges, complicated restrictions and a massive exit penalty. Ideally, this should be [solely] a first-time buyer Isa product.'

Savers can choose either a cash or stocks and shares version of the Lifetime Isa

A handful of providers offer the cash version, best suited for saving for a deposit for a home. Skipton BS pays interest of 1 per cent, Nottingham BS 1.25 per cent, Newcastle BS 1.1 per cent, Paragon Bank 1.15 per cent and Moneybox, through its app, 1.4 per cent.

Among those offering the shares version — more suitable for retirement savings — are investment platforms AJ Bell, Hargreaves Lansdown and Nutmeg.

So far only 166,000 opened a plan in the first year against 200,000 expected by the Government. None of the big banks offer accounts.

Nationwide says it has no plans to offer one as it has concerns over the exit penalty.

Skipton BS says nine out of ten of its 154,000 plan holders are saving for a house deposit rather than retirement.

Jen Lloyd, Lifetime Isa manager at the society says: 'The cash Lifetime Isa is a valuable way for young savers to achieve home ownership.'

AJ Bell says the shares version can appeal to those with incomes over £210,000.

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|   |                               |                                    |
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