House of Commons

Treasury Committee

Oral evidence: Lifetime ISA, HC 607

Wednesday 26 February 2025

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Bobby Dean; John Glen; John Grady; Dame Siobhain McDonagh; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1 - 123

Witnesses

I: Martin Lewis, Founder and Executive Chair, Money Saving Expert; Funmi Olufunwa, Finance Expert and Founder, Hoops Finance; Michael Johnson, Research Fellow.

II : Anne Fairweather, Head of Government Affairs and Public Policy, Hargreaves Lansdown; Charlotte Harrison, Chief Executive of Home Financing, Skipton Building Society; Richard Stone, Chief Executive, Association of Investment Companies; Brian Byrnes, Head of Personal Finance, Moneybox.

Examination of witnesses

Witnesses: Martin Lewis, Funmi Olufunwa and Michael Johnson.

Q1 **Chair:** Welcome to the Treasury Select Committee on Wednesday 26 February 2025. Today, we are delighted to be looking at the issue of the lifetime ISA, which was introduced under a previous Government and has now been going for a number of years. We think that it is time to have a review of how well this interesting hybrid product is working. It is a product for first-time buyers, to help them purchase their own homes, but also, to a degree, a pension product, so it straddles quite a lot of interesting areas.

We are really delighted to have a fantastic first panel representing the issues of consumers, with some experts with great expertise in this area. I am delighted to welcome Martin Lewis, the founder and executive chair of Money Saving Expert, who does not need an introduction. Thank you for sparing the time from your busy life. Likewise to Funmi Olufunwa, who is a finance expert and founder of Hoops Finance, welcome to you

and thanks for giving your time too. And welcome to Michael Johnson, who is a research fellow, but was also one of the architects of the initial version of this product. I think that, from your evidence, Mr Johnson, what has turned out as the lifetime ISA is not exactly what you originally proposed.

I wanted to kick off with a simple question that I touched on at the beginning. This is a hybrid product that has a complexity of design because it is trying to do two things at once. Do you think that that is a problem? If so, what could you do with the current product to try to resolve that?

Martin Lewis: The lifetime ISA has been a very successful product for first-time buyers, but has some major holes, and I am sure we will come later to getting rid of the withdrawal penalty, which is one of the core ones. The idea that you can get £1,000 a year free towards your first home has been very useful. In this age where we have the need for a deposit—a 5% deposit, although preferably a 10% deposit, which is why the lifetime ISA is so useful—it has been beneficial.

The pension-linked element or, more accurately, the retirement savings-linked element, is a problem. It caused the unintended consequence that there are no major providers that offer lifetime ISAs. You cannot get it from a high street bank. You cannot get it from any main provider. You are talking fintech and modern, innovative finance organisations. While that is very good in its own right, the lack of availability and marketing from mainstream financial providers means that it has not had the take-up it should.

The very simple reason they will not do it is that they think they are going to be done for mis-selling. They will be done for mis-selling because, if you ask me who should use a lifetime ISA for retirement, I would say no employee unless they have maxed out their auto-enrolment, because that smacks the pants off the lifetime ISA for retirement savings, and no higher or top-rate taxpayer, because the tax benefits on pensions are way better than the lifetime ISA. It is roughly equal between a lifetime ISA and a self-employed person on basic rate tax.

For all those reasons, you can see why, when the huge majority of the population should always be saving first in a pension, with all the mis-selling campaigns—and, hey, I have been at the forefront of making sure that, if they are irresponsible, we pursue them to try to take that money back—the banks have gone, "We do not want to touch this, because we are going to get people telling us they used it for retirement savings and in 20 years they will say, 'You should have told me to get a pension.'" That has been a real problem.

I do not have a specific issue with the duality of the product. I understand why it was brought in and the idea, but there has to be a way to limit the liability and make sure there is proper communication at the

point of sale, so that we could bring in some of the big financial institutions. I do not know whether you have any of them giving evidence. It would be useful because we need to know what it is that would turn the corner to enable you to say, "Yes, we will offer lifetime ISAs."

In reality, the lifetime ISA is almost invariably a product that first-time buyers get for their savings. I got a question this morning on social media from someone asking me—they have kept it open—"Can I now use it for retirement savings afterwards?", to which I said, "Yes, but if you are an employee, I strongly suggest you look at going to your pension first, because that is likely to be better for you." That confusion and difficulty of conversation, and complexity of product, is not helpful for something that is meant to be mainstream. Overall, there should not be a problem, but it has been structured in a way that creates a problem.

Q2 **Chair:** Funmi Olufunwa, you have set up an organisation because of financial literacy issues. Mr Lewis has very clearly set out some of the challenges of someone selling this product to somebody. What are your views on this hybrid product?

Funmi Olufunwa: I would agree with everything that Martin has said. I would add that, when we are looking at it from the retirement income perspective, there is a concern that there is a cash element or cash version of this. We all know that, if we are looking at long-term savings and doing that with cash, there is an impact of inflation. By allowing that to happen or providing a product for that, is there a risk that we are almost saying, "This is a good thing to do"? When we are looking at it from that perspective, it does not work as well. As Martin has said, there are other things that are better for that.

People should have choice. I do not think that they should be forced to do things or use products that they do not want to, but, for that particular element of it, it does not work as well as other things could.

Q3 **Chair:** I am going ask you one more question because of the background. You talk about the financial literacy issue, and we have a lot of talk about lazy capital, but there is a big impact on this compared with a pension because of the rate of increase. Do you think that people understand that, from your experience at Hoops Finance? Do they understand the difference between leaving something in a cash savings investment versus a stocks and shares investment?

Funmi Olufunwa: No, I do not think that enough people fully understand the impact of that. I do not think that enough people understand the impact of inflation. I do not think that enough people understand about investing. We have a huge issue of lack of financial literacy, and that is why I set up my organisation. If we are going to have a product such as this and we want people to make informed choices, we need that to underlie those choices.

Michael Johnson: I disagree fundamentally with something that Mr Lewis has said, because it is factually wrong. The majority of people in this country are basic rate taxpayers while working and will become basic rate taxpayers in retirement. If one has a choice between a lifetime ISA and a pension product with identical investments in the two, the lifetime ISA will produce, unambiguously, a 17.6% better return, full stop.

That is because of the differences in tax treatment. Up front, the tax relief and the bonus are economically equivalent, and this is the first point about communication challenge. A 25% bonus on a lifetime ISA is the same as 20% tax relief. At the rear end, when one is drawing down and withdrawing funds, the lifetime ISA is entirely free of tax. Of the pension pot, 25% is tax-free; the other 75% will be taxed at 20% for the vast majority of people who are basic rate taxpayers. That results in a 17.6% better return for holding a lifetime ISA.

Mr Lewis referred to mis-selling. Yes, there is a great scope for mis-selling, but it is not perhaps the way that we think of it. The second major difference between those two product arenas is of course to do with the free option concerning early access for the purchase of the first home. I wanted to make this crystal clear. The lifetime ISA is an economically better product than a pension pot for the vast majority of the population, full stop.

Q4 **Chair:** As you have mentioned Mr Lewis, it would be helpful if I could hear Mr Lewis' perspective on what you have just said.

Martin Lewis: If my duck had legs and barked it would also be a dog. That is the equivalence that you have just given. The majority of basic rate taxpayers are employees and therefore have a matched contribution through auto-enrolment. There are also many people who are not. We are not talking about the majority of the country. We are talking about a minority who are self-employed basic rate taxpayers. You said "under equivalent investments." There are not the equivalent investments generally in lifetime ISA products as there are into pensions. If the product worked well, you, Mr Johnson, would have a legitimate argument, but the product does not.

It is not me who is saying that it is mis-sold. There is a very practical, obvious example of the risk. The fact is that no big banks offer this product because they are worried about being done for mis-selling.

Michael Johnson: Apart from NatWest.

Martin Lewis: I would love you to persuade them and you would sound wonderful doing so, but I work in the real world, not on paper. In the real world, they do not offer the product, so it is a false equivalence.

Chair: There is a lot of interest in this suddenly.

Q5 **John Glen:** Can I try to zone in on the possible differences? Mr Lewis has spoken about the fact that, under the auto-enrolment regime, you have

this 3% employer contribution. Does that not mean that, in fact, it is not like-for-like? The pensions provision is much more underpinned with a sophisticated provision of non-cash products. In practice, though it might not be desirable, for the reasons that Mr Lewis gave around the market risk around the LISA provision, the reality is that the pensions environment is much more sophisticated, and with that additional 3%. Mr Lewis is right with respect to the lack of equivalence of the two products.

Michael Johnson: Introducing the workplace arena, the assumption that we are all making here is that, within the automatic enrolment framework, there is automatically a contribution from employer and employee going to the pension pot. Yes, but there is absolutely no reason why we could not include the lifetime ISA in that same regime, as was originally proposed in the papers I put to the Chancellor in 2014.

Q6 **John Glen:** Your extensive written evidence points out the fact that the LISA, as it evolved with the penalty and those other rules, is not what you put up.

Michael Johnson: No, absolutely not. There are four major differences. It would be very helpful to air them.

Q7 **John Glen:** We need to get on the record the fact that, in reality, with auto-enrolment, and you have the employer contribution alongside the other, it does not really make them equivalent. It is very misleading to say that, surely.

Michael Johnson: I disagree. In reality, many people have both products. It is not the question of A or B.

Q8 **John Glen:** Is it not really a better supplementary vehicle for basic rate taxpayers?

Michael Johnson: It is a complementary vehicle.

Q9 **Chair:** It is for those who have enough money.

Michael Johnson: Let us be clear. Something that profoundly influenced the catalyst for even writing about something called lifetime ISA was how people behave in reality. In 2012 to 2014, when this initial thinking was put together, if one talked to the under-35s, they prioritised first home ownership above everything else. It is perhaps a pleasant coincidence that last month Standard Life produced the result of a major survey about behaviours, so we are talking about real-world behaviours. It concluded that, up to the age of mid-30s, first home ownership ranks way above any other objective for the saver.

In designing the lifetime ISA and presenting it to the Chancellor as I did, I was taking that fundamentally into consideration. Yes, we have a chameleon product but, crucially, the saver is in control. The saver can decide: "Is this a relatively short-term savings product for me to be able to afford what I primarily am interested in, which is home ownership? If so, I can go down that route. Alternatively, I can think of it as a pension

pot and leave it alone until I am 60. I can accumulate those bonuses and then I will have a considerably better return on that pot relative to, for example, a SIPP."

Q10 **Chair:** There are issues where people cannot use it for the first and end up being trapped in the second, but we will come to that in a moment. Ms Olufunwa, as there has been a lot of heat here, would you like to comment on that particular point of disagreement between Mr Lewis and Mr Johnson?

Funmi Olufunwa: Mr Johnson has extensive knowledge in this area. I still believe though that, if you are looking at the two—either using a pension and contributing towards a pension or using the lifetime ISA for your later income in retirement—it would be better for the majority of people if they were using the non-cash version. When you are looking at the two, a pension would be better. If you are looking at the retirement income, I still think that we need to go back to directing people, I guess, towards the stocks and shares version.

Q11 **John Grady:** My question to each of the panel has rather a yes/no answer, I hope. That minor disagreement we have seen between Mr Lewis and Mr Johnson turns on a range of modelling features: tax in, tax out, whether you get employer matching contributions, your investment choice, whether that investment choice is available and whether you can actually go to a provider and get a worldwide tracker for the 40 years or whatever. If a busy mum or dad with a young kid was watching both of you have this discussion, would it not illustrate the essential truth here that it is all too jolly complicated for individual savers?

Martin Lewis: Yes, clearly. That is why the idea of doing some type of academic research to defend the legacy of something you came up with 20 years ago that has not worked like that in practice is complete nonsense.

Q12 **John Grady:** Can I have a yes/no answer from Ms Olufunwa as well?

Funmi Olufunwa: In the work I do, when I do my finance workshops, the two top topics that people want to talk about or try to understand better are pensions and how to get on the property ladder. When it comes to pensions, a lot of people do not understand how they work. They do not necessarily appreciate how their workplace pension works. They do not necessarily appreciate that there is a difference between the state pension and the workplace pension. They can also, if they want to, take out their own personal pension. There is so much that is not understood and a lot of complexity when it comes to these types of products. To your point, I guess a busy parent would be like, "This is quite confusing."

Michael Johnson: Yes.

Q13 **Rachel Blake:** Mr Lewis, you said that this product had been successful for first-time buyers. Has it been any more or less successful than any

other comparable products?

Martin Lewis: There is only one comparable product, which is the help to buy ISA. I have a whole graph I do on my show when I compare the two, because both are still available right now. The basic summary is that the help to buy ISA is far more flexible because you can put money in and take money out when you like. You could use it much more quickly, but the bonus is much bigger on the lifetime ISA. The lifetime ISA also allows you to buy a bigger house, of up to £450,000. The help to buy ISA is only £250,000 outside London.

The one other difference that was really important, which any changes made should maintain, is that the help to buy ISA was paid at exchange. That was a big problem. The lifetime ISA is paid at completion, which is correct.

The problem with the lifetime ISA that we all need to recognise is the penalty for withdrawal. I have no problem with the withdrawal penalty in its own right. I have a problem with it for first-time buyers buying a house. We have a succession of young people who are saving in the vehicle they have been encouraged to save in by the state, who are then trying to use their savings to buy a first-time property, but due to house price inflation their property has just tripped above the £450,000 level. Then not only do they not get the £1,000 a year bonus they were intended to get, which I understand is legitimate as a threshold, but they are fined by the state effectively 6.25% of their own money in order to withdraw that money to get the cash out.

The problem with that is not just for the individuals who it affects. When I do television programmes on the lifetime ISA, I have to warn people about that. When I warn them about that, because you have to have the caveat that you should only save in this if you are definitely going to buy a property under £450,000, instantly we have a huge drop-out in the number of people who get it. The sentiment that that creates is very negative. Generally, in every other way, the lifetime ISA is potentially superior, but not in that way. That needs to change.

Chair: We are going to come to that.

Q14 **Rachel Blake:** The Government are spending £500 million on this. Is this the best thing that they could do? There are other things that the Government can do with that money. I am interested in whether it is the right thing that they should be doing.

Martin Lewis: Let us look purely at first-time buyers. I am far less bothered about the retirement element; 2e do not have many people who seem to use that, and I do not get many questions about it from the public. Focused on that, because we have it in place and it is there, it would be a good use of the money if it were fixed and improved. If you ask me, if we were drawing it up from a blank slate, whether I would go there, I have not done the work on something equivalent, but we are not

on a blank slate. I live in the practical world. We have a LISA, it has a brand and people use it. Lots of people who have succeeded on it talk about it in a positive sense.

My big concern is that, as we push towards more people buying homes and try to free that up, everything we do to pump money in the housing market has some counterproductivity, because it increases house prices, so there is a level of defeat. I have a concern that both the current and past Governments have consistently used the narrative of pushing people to buy houses with a 5% deposit. A 5% deposit means that you get an expensive mortgage. I would try to push people up to 10%. The lifetime ISA is quite a useful vehicle to give people the opportunity to go one step further up to 10% to decrease the cost of the mortgage and give them a little more financial security in the long run.

I cannot give you an answer, because I have not done a full study of what we could do better, because I have been looking at this product in its own right. From where we are now, if we fixed some of the major holes, this could work really well and Mr Johnson's legacy would live on well.

Q15 **Bobby Dean:** I am going to disclose at the beginning that I am a lifetime ISA user. I used it to help save for my first flat, but I will admit that there is now 70p sitting in that account and it has been that way for a number of years. Funmi, is my experience common? Have a lot of people done that, so essentially emptied their accounts out to buy their first home and left them, or are you seeing different patterns of behaviour? What percentage of people are making use of it after purchasing their home?

Funmi Olufunwa: The majority of people who I talk to about using the lifetime ISA are doing it to buy their first home. For the people who have money in the lifetime ISA who have already bought their first home, it is because they were not able to use the LISA. Maybe they were buying a home that exceeded the £450,000 cap, so they made a choice. Do they lose the bonus and some of their own money, and take the money out and use that, or do they leave it in there? Some people have been fortunate to still be able to buy the property without the LISA money, so they have left it in there. A small minority of the people I speak to have intentionally used the lifetime ISA for retirement savings, but that is the small minority. For the vast majority, it is because they want to use it to buy property.

Martin Lewis: From my experience I would say exactly the same. I do not have data on it. I can poll on it by tomorrow morning if you want me to.

Bobby Dean: Yes, please.

Martin Lewis: Can I get my phone out now?

Q16 **Bobby Dean:** We will have it minuted, I am sure. Mr Johnson, everybody has this impression of the products behaving in this way. Most people are

going for the first-time buyer use. I appreciate that you are putting forward good arguments for why somebody might want to use it as a retirement product, but would it not be more straightforward for us to split the product and have one solely focused on the first-time buyer purchases and maybe a very similar product that you can market in a different way to the pensions market? Would that not be the best way forward?

Michael Johnson: We have far too many products out there already. May I debunk a myth, which is the impact that the lifetime ISA is having on property prices? If one actually gets some data and crunches it, last year the lifetime ISA drawings contributed less than 1% of the capital that was spent by first-time buyers. I suggest to you that that has minimal impact on the price of housing.

On the question that you have just asked concerning behaviours subsequently, maybe once one has bought a home, it is too early to tell. Let us be clear. This thing has only been going since 2017. In the early years, there is going to be next to nothing in it anyway. Maybe it is a question that we ought to revisit in a decade's time.

Q17 **Bobby Dean:** To come back to my core question, is your primary argument that there are too many products out there already, so we do not want to add another retirement product in, even if you think that this product has more value than others? Is that your core argument for not splitting up the product?

Michael Johnson: It is not my core argument. My core argument is to go right back to the beginning and state clearly why the lifetime ISA was launched. It was partly to put a foot into the water to test ultimately scrapping all pensions tax relief.

Martin Lewis: Was it to shift the liability later?

Michael Johnson: No, it was nothing to do with that. It is to do with the fundamental question that we, as a society, accept that income tax is progressive and therefore tax relief is regressive. The distribution of tax relief, which we all look at every year, I am sure, is hugely skewed to those who least need it. The lifetime ISA, by introducing a bonus that is disconnected from taxpaying status, was absolutely the first step to doing away with all pensions tax relief and, ultimately, the merger of the ISA and pension worlds. That is why it was launched, among other reasons. Brexit then intervened.

Q18 **Bobby Dean:** My colleague might pick up on that, but I have one final broader question and it speaks a bit to the value-for-money element, as Ms Blake was explaining. Is one of the benefits of this product the actual behaviour and the saving habits that it generates? I am going to reflect on my own experience. Trying to save for a home is hard, but if you have a product that makes you think twice about withdrawing from your savings and incentivises you with that bonus element, it keeps you locked

into that savings habit a bit stronger than other products would do.

Michael Johnson: Absolutely, yes. Sorry to interrupt, but this is a very important point about behaviour. The fundamental point and behavioural aspect of the lifetime ISA is that the saver can choose. Let me step back. If I am a 30-year-old thinking about the pension or ISA worlds, if I put money into a pension I know for certain that I cannot get it until I am 57. Therefore, that is a barrier to saving within that framework. Lifetime ISA was presented with the argument that you can always change your mind. Therefore, I totally agree with Mr Lewis that the penalty is a nonsense and was absolutely not the plan.

Q19 **Bobby Dean:** We will come back to the penalty element. I guess I will ask the rest of the panel this question. There is potential that the Government could design a different product that maybe offers a similar financial incentive. Is there anything unique about this product that you think should be retained in whatever the Government might come up with if they decide to abolish the LISA?

Martin Lewis: Conceptually, the idea from the time was this lifelong savings product. That was the theory, but it was given two nodes: for a house or for a pension. It was not given more flexibility, which I think I remember being discussed at the time with the Chancellor. It was maybe not what you came up with, but clearly there were other ideas going on in Parliament. Shifting the liability later down the path was also something that the Chancellor at the time was quite interested in doing, if I remember rightly.

The idea of a lifelong savings product was within this. Of course, we have that within ISAs generally. An ISA is something that you put money in. You are allowed to put a certain amount in each tax year and then it stays tax-free year after year after year to bring the savings habit. This is an ISA on steroids, if you like, because you get the £1,000 bonus on top, so it encourages young people to get straight into the savings habit. That is beneficial.

Where I do not think it works particularly, or has not worked in practice—I understand all the reasons why it should have worked—is the continuity once people take their money out for a first-time property. I think that there are a lot of people with 70p in there. I suspect that there are very few people with much more than 70p in there once they have bought their first-time house. I will do some polling on that, but intuitively I would be surprised if that was anything more than 10% or 15% of people.

Q20 **Dame Harriett Baldwin:** I should declare that I was a Treasury Minister at the time that this was announced in the Budget. It is very interesting for me to look now, 10 years on, and see what has and has not worked, and what could be improved. I wanted to draw out a little bit more on the withdrawal penalties. We heard very clearly from Mr Lewis his case for not being penalised if you happen to just go over the £450,000. I assume

that both the other panellists agree with that. You would like to see that reform to the withdrawal penalty, would you, Mr Johnson?

Michael Johnson: The proposal I put was that the withdrawal charge was 20%—that is, no penalty. Therefore, the introduction of a penalty, which of course is implicit, not explicit—and there is great miscommunication around this subject—was an unpleasant surprise when it was launched.

Q21 **Dame Harriett Baldwin:** There is agreement from all three of our panellists that you would like to see that modification. There was experience during the pandemic of a 20% withdrawal penalty. Are you in favour of reverting to that? Is that effectively what you are saying.

Martin Lewis: Absolutely, yes. Because I know that there are people watching, I will say that the key is that many people think that, if you add 25% and take off 25%, you get back to where you started. You do not. You end up with 6.25% less than where you started. If you add 25% and then have a 20% withdrawal penalty, roughly you get back to where you started. When we say "no penalty", we mean a 20% penalty, which means you just do not get the bonus, because of the way the scheme is structured.

Q22 **Chair:** It is the covid model, basically.

Michael Johnson: Can I be clear about language? You do not mean a 20% penalty. You mean a 20% withdrawal charge.

Martin Lewis: In the real world, it is a penalty. I do not work in your academic world. I communicate to proper people about their understanding of how the products work.

Chair: It is very clear where that stands.

Martin Lewis: You knew what I was talking about. You did not need to pick it up, mate.

Chair: Can we do this through the Chair, Mr Lewis?

Martin Lewis: Where do we have to go now? The nuanced question, which is one of design, is when you charge 20% and when you would charge a 25% penalty. Under the current system, it is always a 25% penalty. You could drop it so that, whenever you withdraw your money from a lifetime ISA, you have a 20% penalty, so effectively you get back what you put in plus the interest that you had. That would give it lifelong flexibility. You just would not get the bonus.

I would like to see that, and that may well be a useful trial experiment to see whether it would turn into a lifelong savings product. The urgent and immediate action is to make sure that, when someone is buying a house for the first time, the very worst-case scenario is that there is a 20% penalty. That could be done through solicitors.

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Q23 **Dame Harriett Baldwin:** You have made that point very clearly to the Committee. Ms Olufunwa, would you make any other modifications to the withdrawal penalty?

Funmi Olufunwa: No, I would not, in that I would agree that we should basically put people back in the position that they were in, so they are not losing any of their own money. People are broadly supportive of this. If they are buying a property, for example, and it goes over the cap—we can discuss what the cap should or should not be—they appreciate that, "Okay, fair enough, I don't get the bonus." What really frustrates people, and what they think is so unfair, is that they end up losing their own money.

People are doing the right thing. They are doing the things that we have told them to do. They want to save for a property. They are doing that and then they feel that the rug is being pulled out from underneath them through no fault of their own because they personally cannot control house prices.

Q24 **Dame Harriett Baldwin:** Is the withdrawal penalty itself, if you can try to just focus on that aspect, acting as a deterrent to people opening these accounts in the first place?

Funmi Olufunwa: Yes, it absolutely is. I speak to people about this, and I have written down some of the words that people have used. We talk about data and figures, but the centre of all this is people's lives. They want to buy homes. They want to buy somewhere that they can live, and safety and security for their family. They want to start and grow families. There is a real human element to this. When I talk to people, they are really frustrated. They feel that it is really unfair. They cannot believe that the state is doing this to them.

Q25 **Dame Harriett Baldwin:** The withdrawal penalty is the biggest deterrent, is it?

Funmi Olufunwa: It is one of the biggest deterrents, because people say—I have written down some words—that they fearful. Someone actually said that it feels like a bit of a scam. One person said, "It is terrifying. I am trying to make this decision and it feels like a massive decision. I am putting all of my money into this product, but I am literally terrified that, when I come to use it, I will not be able to and then I am going to lose some of my own money." I absolutely think that it is restricting some people from even opening an account.

Martin Lewis: I support every word that was said. It is really interesting that, when I have talked about this—and we get a large amount of feedback on the back of this—the people who are most put off this are those from risk-averse backgrounds, who tend to be people from the lowest-income backgrounds. I have educated middle-class students who have talked to me about this. I talk about the penalty, and they go, "If I have to pay the penalty, I will take the risk."

I know this is anecdotal, but I tend not to get that from people from non-university backgrounds who are looking to save. For them, the risk of losing money is too great. Therefore, the nature of the penalty and the deterrent of the penalty is not just a problem in its own right. It is a social equality problem and a social opportunity problem, because it is a greater deterrent for those from less financially educated backgrounds.

Q26 **Dame Harriett Baldwin:** Mr Johnson, more people last year paid this penalty than actually used their LISA to buy their first home. Do you regard that as a design failure?

Michael Johnson: It is certainly not desirable and it was not in the original design, so, yes, it is an implementation failure. There are some interesting numbers that have appeared about the consequences during the one year when the withdrawal charge was cut from 25% to 20%. In the year prior to that taking place, the average withdrawal on a monthly basis was about £3.7 million. In the final month of the year when the charge was cut to 20%, it was £50.6 million, which is a dramatic change.

Q27 **Chair:** That was partly to do with covid. To be clear, it is taken into account if you are trying to claim universal credit, so people were having to withdraw because they could not claim.

Martin Lewis: That penalty was withdrawn for everybody. It was not just for buying a first-time property. That was an open, "You can get your money back."

Q28 **Chair:** Yes, absolutely, because people needed it. We had lots of constituents writing to us desperate to get their money back.

Michael Johnson: It is important to bear in mind that, in parallel with the work you are doing, the Treasury is looking at financial resilience. This is a very good example, with the lifetime ISA being brought in during an emergency situation, during covid, which greatly assisted in financial resilience. It was achieved by reducing that withdrawal charge from 25% to 20%.

Funmi Olufunwa: Some of the people who I have spoken to, if they have used it to save for retirement income and are withdrawing before age 60, maybe because of poor health—so they cannot work as much and need some income—also believe, in that instance, that there should not be a withdrawal penalty. It is your own money. You are being punished for something that is outside of your control.

Chair: The only loss of the penalty is if you are within 12 months of dying, but not just in general.

Q29 **Dame Harriett Baldwin:** We have not seen many examples of that, because the product has not been going long enough for that to be an issue.

Funmi Olufunwa: There is a fear. This points towards people maybe not being as willing to use the product because of that fear.

Q30 **Yuan Yang:** I have a couple of questions related to the distributional elements and the impact of the LISA on means-testing benefit entitlement. Mr Lewis, you mentioned before that the most risk-averse individuals, particularly low-income individuals, will be put off investing in a LISA because of the withdrawal penalty. I was wondering whether I could hear from the three of you your sense of the typical demographic using the LISA the most. Is the money that the Government are spending, as my colleague Ms Blake mentioned earlier, being spent in a progressive way?

Funmi Olufunwa: I am probably not in a position to say whether it is being spent in the right way. I do not have enough information to comment on that. In terms of the demographic of people who are using the LISA, it is a lot of people. Like I said, the majority of people who I talk to about it are using it with the intention of buying their first home. They are not thinking about using it for income when they are aged 60-plus, unless they have effectively been forced to leave it in there.

Q31 **Yuan Yang:** Do you have a sense of where those people who are using it for their first home lie in the income spectrum? Is it quite a broad range?

Funmi Olufunwa: Yes, it is a broad range of people. For a lot of people, it is free money. Who does not like free money? Once they know about it—that is another point. The help to buy ISA was really well known. The language helps. It was called the help to buy ISA. We have other products; for example—I know it is not related to the LISA—we have the help to save product. It does what it says on the tin. Lifetime ISA, for a lot of people, does not really mean anything. A lot of people have come back to me and, when I talk about it, they are like, "I didn't even know that existed." I do not think that how it is named is that helpful.

Michael Johnson: The name came about because the proposal for the product was that it was going to be available from birth until death. That is why it is called the lifetime ISA. It was a somewhat unpleasant surprise when it emerged, for me anyway, to see it.

Chair: We have read your evidence, which is absolutely clear on this.

Q32 **Yuan Yang:** Mr Lewis, what is your sense of the demographics that are using the product?

Martin Lewis: I have no distributional data, so I simply do not know that. This is an every-person product. One thing I often talk about is that a great present for your child's 18th birthday is to put a pound in a lifetime ISA, because you have the one year that it has to be open before you can get the bonus. I tell everyone, "Get a pound in and then, when you are ready to use it, you don't have to wait a year." If you are going to make rules that are a bit silly—not you, but Parliament—it is my job to try to show people how—

John Glen: It was Treasury officials, I suspect.

Martin Lewis: I am sure some Ministers signed it off as well. If that is going to happen, it is the job to try to get the public to use it in the way that can work best for them. I understand why that one-year system is in place, but it is getting people to think ahead. This is one of the issues. Parents tend to be, for the younger people, the ones pushing their children to get it. If you are 35, it is slightly different, but you might be 18, 19 or 20. A number of people say, "How do I open one for my child?" My answer is, "You don't. You give your child your money and they have to open one." It is their product and that is the right way for it to be. It is important. We do not have distributional data. I suspect that your next session will do.

Q33 **Yuan Yang:** Mr Lewis, you said earlier that the withdrawal penalty puts off those who are most risk averse. Do you think that that hits low-income people the hardest?

Martin Lewis: I have enormous amounts of feedback, but we do not filter it for demographics—that is the issue. I have an intuition from those large amounts of feedback and the way that people write to me, when you can tend to tell who understands the finance a little bit more and who a little bit less. As with all things, the more financially educated you are, the more you tend to engage in products. The less financially educated you are, the less you tend to engage in products. When there is an off-putting thing like a penalty, that will disproportionately go to those who are less financially educated, who tend to be those from lower-income backgrounds. There are a lot of ifs and buts in my sentence, but intuitively that is the way I would see it.

Q34 **Yuan Yang:** Mr Johnson, do you have any thoughts on the distributional effects of this?

Michael Johnson: It is not something I have looked at, and I do not have access to that sort of information. If I may suggest a nudge, or possibly a shove, in terms of behaviours, if we go back to the wonderful days of child trust funds and the £500 that was in there to begin with, that was the proposal for the lifetime ISA as well. It did not happen and I was, again, sad not to see it happen.

Q35 **Chair:** To be clear for anyone watching, the child trust funds are now a defunct financial product.

Michael Johnson: They have gone, and that is why the plan was to resurrect it.

Q36 **Chair:** There are a number of children with money in there who do not have it.

Martin Lewis: There are 600,000. Go to gov.uk if you want to trace your old child trust funds.

Chair: Other Committees have done some work on this. That is absolutely worth highlighting.

Q37 **Rachel Blake:** Ms Olufunwa, we are thinking about the price cap and the impact that that is having. For great swathes of London and the south-east, this product is essentially irrelevant. You have talked about wanting to increase the property cap. What impact would that have on opportunities for people who want to buy their first home in London and the south-east?

Funmi Olufunwa: In terms of using the lifetime ISA, it would give people the confidence to actually use it. It would depend on the way in which the price increase was implemented. We need to give people the assurance, or as much assurance as possible, that if they save into this product, they are not going to be hit with a penalty or losing some of their own money. If they can see figures that seem to make sense in the context of the properties that they are looking at, people will be more encouraged to use the lifetime ISA product.

Q38 **Rachel Blake:** Are there other categories that might help, for example bedroom numbers, that could be equivalent caps to use for the fund?

Funmi Olufunwa: I have not really thought about that, but potentially, yes. We would need to go back and have a look at that. We need to remember that people are buying homes, or buying their first home, later and later. They are getting older and older, and not necessarily buying the sort of starter home that they might have bought decades ago. It is no longer a one-bedroom flat with no garden. It may now be that they are buying as a couple; they might already have a child or want to grow their family. More people maybe now have blended families. They might have children and stepchildren. The types of homes that people are looking at as a first home are very different. They are generally bigger and therefore generally more expensive.

Rachel Blake: The median house price in my constituency is £1 million.

Chair: We should say that Ms Blake represents the Cities of London and Westminster.

Dame Siobhain McDonagh: Rachel, just encourage your constituents to come and live in Mitcham. They would be very welcome.

Q39 **Rachel Blake:** There will be people in my constituency who are not able to buy their first home within, it is important to say, communities that are just minutes away from here. How could you make the case for value for money with such a significant median house price?

Funmi Olufunwa: There has to be some sort of cap. We have to be reasonable about how this product is going to be used. The average property price of £1 million is a lot of money. I am not suggesting that that would be the cap. We need to look at average house prices in different areas and use that to help.

If we look at the £450,000, that was back in 2017. Property prices have probably increased by around about 30% since then. If we were to inflate

the cap to reflect that, we are looking at around about £585,000 as an average. We could do something a little bit similar to the help to buy, so where there was an inside and an outside, but even that is not necessarily as helpful. Maybe we need to go a bit more granular, look at different areas and have different caps that way, or we could just have the average. We need to look at different ideas.

Michael Johnson: I am struggling to understand what consumer purpose the house price cap serves. What is it for? What is it trying to achieve?

Q40 **Rachel Blake:** My view is that there is an overall value for money for the taxpayer on the overall price cap. My view is that there are trade-offs to be made around where you would allocate public subsidy into this form of incentivising home ownership.

Michael Johnson: The average—"average" is a dangerous word, but I am afraid that it is the data that we tend to have—price of a first-time home in the last decade has doubled. If we go back to the time when the thinking was going on, it was approximately a decade ago, and although I certainly did not advocate a house price cap, maybe we should double the one we have.

Q41 **Rachel Blake:** You would be proposing to double the cap.

Michael Johnson: I propose to get rid of it. If you would like to have one, I suggest that, if you want to be consistent with the doubling of first-time house purchase prices in the last decade, we should double the cap.

Q42 **Chair:** There might be some issues for Ministers on that.

Michael Johnson: The costs to the Treasury of this product are tiny.

Rachel Blake: There are alternative uses of what you present as comparatively tiny. That is the function that we are trying to drill into.

Q43 **Bobby Dean:** Maybe I could ask a follow-up. It was £500 million in the last tax year, but we all accept that the product is not being taken up at the rate that it could be. Hopefully, if we fix that problem and maybe all the major high street banks get involved, it will be taken up by a lot more people. That would be good for those people, but it will cost the Chancellor of Exchequer a lot more. I am not sure how the public will react if that is being used to buy £1 million pound homes, for example.

I accept that not moving the cap at all could create a long-term disincentive for savers, because it might take them 10 years to save for their home and the uncertainty about whether they are going to meet the cap in 10 years could be a problem. The cap probably needs to move, but how much does it need to move by and should there be a hard limit to this? Should it be possible to purchase any home whatsoever, no matter how expensive, or should we be thinking about the distributional impact of this?

Martin Lewis: It is worth remembering that, on your £1 million pound home example, the £1,000 a year from a free lifetime ISA is nothing. It is irrelevant. You are going to be looking at a £50,000 or £100,000 deposit in the first place, so you are going to have to raise the funds elsewhere. I am not sure how it would help people.

Philosophically, I understand Mr Johnson's argument of why you would not have a cap at all, because it is the same for everybody. The bigger the house you buy, the more you are going to have to raise funds separately. Being practical, no Chancellor is going to sign it off and it is not going to happen, so it is probably not worth considering.

We got a little bit confused. We need to be very careful. The argument over the level of the cap is a subsidiary argument to the withdrawal penalty. If you have a withdrawal penalty, the cap is absolutely crucial. The fact that we have not increased it with average house prices year on year is a manifest unfairness that puts people off the product and gives people no transparency and no consistency. Parking that for one second, let us look in a world where, if you are buying your first-time property, you pay a 20% penalty—that is, you get your money back—if it is going to be above the threshold. Then the cap becomes a secondary measure, because it does not put anybody off.

You can say to people, "You put money in this product. We now have all mainstream providers providing it, so it is more competitive, so interest rates will be better. And just like with the help to buy ISA now that has no penalty, there is no risk. Put your money in, as long as you are going to buy a house with it"— with the help to buy ISA, you can take it out for any reason—

Rachel Blake: Outside London and the south-east.

Martin Lewis: There is still no risk in a help to buy ISA, because you can get your money out and get your interest. You just do not get the bonus. If we had a lifetime ISA with no withdrawal penalty as long as you are buying a house, the risk is that you choose not to buy a house, as opposed to choosing to buy the wrong house. You cannot look at the level of the cap and the withdrawal penalty in isolation. You have to play two scenarios. With the withdrawal penalty, the level of the cap is absolutely important, needs to be transparent and needs to move up year by year. I would still want that if there was no withdrawal penalty, but if you asked me which cross I would die on, I would die on the cross of getting rid of the withdrawal penalty for anyone who is buying a first home.

Q44 **Bobby Dean:** I accept that. For the sake of this argument, it may well be worth accepting that the Government have decided to do away with the withdrawal penalty, because I want to get to the equity point. Ms Olufunwa, you said earlier that it is free money, so who would not take it? Mr Lewis, you said that a few thousand pounds is not a big difference on a £1 million property, which is true, but if it is free money, people may take it.

Martin Lewis: They will.

Chair: To be clear, for the sake of the British taxpayer, it is not free money. It is the taxpayer.

Bobby Dean: Of course. I was quoting.

Chair: It is a good bonus for the saver.

Bobby Dean: My concern is that people would see that as free money. Actually, it is taxpayer money and it becomes a deadweight loss to the Chancellor. Do we think that we need to have a hard cap in place to protect the taxpayer?

Funmi Olufunwa: It makes sense to have a level of a cap. It makes sense to have some form of cap. We are all taxpayers, so is it the right thing to be spending our taxpayer money on? I believe that there needs to be some level of a cap. It is the question of what that cap is. We need to look at definitely increasing it from what it was back in 2017.

Q45 **John Grady:** Can I have very quick answers, please, because time is marching on, and perhaps one answer at a time? The SIPP minimum pension age, I think, is currently 55 and going up to 57, if I am right, in 2028. We have a different state pension age and then the LISA age is 60. Is this another example of confusion in the pensions-saving landscape?

Michael Johnson: Absolutely.

John Grady: That is a brilliant answer: one word. Thank you very much.

Michael Johnson: Pension access should be 60 straightaway. You can see why I am not a politician.

Funmi Olufunwa: It adds to the confusion, with the different ages for accessing, yes.

Martin Lewis: Absolutely.

Chair: Simple agreement.

Q46 **John Glen:** Mr Johnson, I know you well because we worked together in opposition 20 years ago—I should declare that. I do not think that LISA would have existed without you, but I understand your frustration, as it comes through, as I said, in your written evidence. Policy development has to interact with a legacy landscape and a range of products. If you think about pensions, you have auto-enrolment, and maybe it has not got to an Australian level yet. You have some provision for tax on interest. You have the ISA allowance, which has been pretty consistent at £20,000. We may come on to that.

Isn’t it the case that your vision was for this to become an alternative, universal method of saving for pension and housing? If we did that, the burden on the state would be much less, because you could have a

situation where somebody would get that £1,000 every year on top of their £4,000. They would not then pay any tax on exit. As you say in your evidence, it was an EEE: exempt, exempt, exempt.

The reality is that we have gone down the auto-enrolment route. We have all these different socioeconomic groups with different incentives. We have a different set of tax advantages according to how much income you have. Unless you had that wholesale commitment to transfer the whole structure of pension saving in this country, it was never going to be more than a complementary or supplementary vehicle.

For my second question, given the different inherent interests between a short-term savings project that is probably going to be cash-based, because you are going to get the money out quite quickly to put in a deposit, and something that you want to put in equities or something with a higher risk profile, if you are doing it before the age of 40 and you are not going to get to it until you are 60, despite the desire to simplify, that fundamental different objective requires a different sort of vehicle and has a different regulatory regime. Would it not be better now to separate the two, get the one for house saving right and redesign it, as one of my colleagues said? Why would you not do that, given the landscape that has evolved over the last 15 years?

Michael Johnson: I view the lifetime ISA as the first step in something like a 30-year journey to radically simplifying the pensions and savings arena in this country. It is ludicrously complicated. I do not think that anyone in the room would disagree with that. The question is how one starts that journey.

I thought that it was really key to illustrate the benefits of disconnecting the incentive from taxpaying status, which addresses the regressive-progressive problem. It is a question of interpretation, but we also need to be aware that the pensions industry was deeply suspicious of the lifetime ISA even before it was launched. Some within the industry took the view that this was a start towards an ISA-centric framework, full stop, which is not in the pension industry's interests.

Q47 **John Glen:** Was it not, though? It was though, really, was it not? If this had reached its full extension as your 30-year vision would have had, everyone would have used this as the vehicle to save. They would not have been taxed on the exit. You then have a whole issue around how you advise people, particularly people who are not very familiar with these financial matters. It would have fundamentally changed the legacy model and the investment industry that systems have been built around for generations.

Michael Johnson: Yes. Let us be clear that, in terms of the Treasury affordability, part of that vision was to do away with things such as the ludicrous annual allowance, now £60K, which is irrelevant to virtually everybody in the country, and bring that down to a number between £5,000 and £8,000 a year. If we look at the distribution of the incentive to save, be it through lifetime ISAs, pensions or whatever, we look at the

lowest 50% of the income distribution basically receiving nothing from the state because they do not save. Then it dramatically rises in the last 10% to 12%. I have always envisaged squeezing that down and pushing the toothpaste down to the lower end by dramatically curtailing the annual allowance. Yes, that is radically progressive, possibly not from somebody working for the Conservative party at the time.

Q48 **John Glen:** I was very sympathetic to it, I must say.

Michael Johnson: You are a good man, sir.

Q49 **Chair:** These are all interesting discussions, but we are focused on the lifetime ISA.

Michael Johnson: The lifetime ISA was the first step to making that manifest.

Q50 **John Glen:** That is dead now, is it not?

Michael Johnson: No.

Q51 **Chair:** In terms of splitting it, Mr Lewis, where would you be?

Martin Lewis: We have split it anyway in practical realities, if you listen to what Funmi said earlier. People ask me about the lifetime ISA and buying a house, "What should I do with it?" You put it in cash, don't you? If you are about to do something in the next two or three years, in general terms you are not going to invest in the market because you do not want to take the risk of crystallising at the wrong moment. The right thing to do when you are saving as a first-time buyer is to put it in cash. The right thing to do if you are saving for your retirement is to have it in equities.

The idea that there will be this seamless transfer from cash to equities at the nodal point when you take your money out to buy it has not worked. I have not done the polling or the data yet, but every instinct that I have is that it has not worked. You would need some form of radical change to the structure and the encouragement. Yes, clearly, you are talking about an idea no Chancellor has been brave enough to do, to basically get rid of the rewards for higher and top-rate taxpayers from saving in a pension. It would be a brave Chancellor who did it. It would be redistributive and probably be beneficial. I am not sure that, if you do it through the backdoor, through a LISA, everyone is going to go, "Oh, we didn't notice."

Q52 **John Glen:** The other side of Mr Johnson's proposal, and where it could go if it was ever seriously resurrected by the Treasury, would be that those who amassed large amounts of money would not pay any tax on exit, which is what they do if they have a massive pot. There would be some compensation for wealthier people.

Martin Lewis: I understand. For me, the idea was to try to get a sort of UK 401(k)-type savings vehicle to go all the way through. Listening to Mr

Johnson, clearly there has been a death of a thousand cuts from the original concept to what was brought in in the first case and all these different changes that came through. The rather overarching strategic philosophical design that originally came in the LISA has not manifested in practical terms and is not how people use it. You would have to do some quite radical change to get back to that. I am agnostic as to whether you split it. For me, it is a first-time buyer savings product.

Chair: We have heard that very much. Ms Olufunwa, is there anything you wanted to add?

Funmi Olufunwa: No, nothing.

Q53 **Lola McEvoy:** On that point about the use of the product as it is now, we could split the product and accept that it is being used for first-time buyers—that is brilliant—but reform the second use of the product and target it specifically to self-employed people who are basic rate taxpayers. In those circumstances, where we were targeting and encouraging, and the eligibility criteria were that you had to be self-employed and a basic rate taxpayer to use the savings product, do you think it would be fit for purpose as a lifetime savings product? That is to Mr Johnson first, because your evidence said that about one in five self-employed people are not saving for a pension.

Michael Johnson: Yes, it is probably higher than that. I was in front of the Work and Pensions Committee in July 2022 talking about specifically this. We were proposing to introduce a self-employed ISA, which is the sort of thing you are working towards if you are talking about splitting, so, yes, absolutely. That would also be included within the automatic enrolment framework. The question, which is the devil in the detail with any discussion to do with self-employed and encouraging them to save, is of course that there is no employer contribution. Therefore, we discussed—I think that Stephen Timms was chairing at the time—making use of the difference between class 1 and class 4 NICs.

Q54 **Chair:** You laid that out very clearly in your evidence.

Michael Johnson: At that time, it was 3%. It is now 2%. That could be used as a mechanism where, if the self-employed did not make a 2% contribution through having their self-employed ISA automatically enrolled, the 2% would go to the Treasury. It was a shove rather than a nudge.

Q55 **Lola McEvoy:** Sorry, I think that your evidence said that one in five self-employed people are saving for a pension.

Michael Johnson: Yes, it is the other way round, as opposed to 80%. It is a major issue. There are approximately 5 million self-employed. We have tussled around this particular theme for more than a decade, and to date no Government have been able to crack the problem.

Q56 **Lola McEvoy:** Ms Olufunwa, in your experience with Hoops, do you have

many self-employed people coming in who are on the basic tax rate? Do you think it would be a suitable product for them as a pension alternative? What is your view, given your stance at the beginning, for this group specifically?

Funmi Olufunwa: It potentially could be. Going back to the point that I made, if you are saving for the long term, saving in cash is probably not the most financially sensible thing to do. It could be used specifically for that purpose, to discourage people away from saving in cash.

Q57 **Lola McEvoy:** On that point, would you remove the cash element? It is a stocks and shares ISA or a cash ISA. If it was for the long-term saving, would you remove the cash element, which is, as we have outlined, suitable for your first-time buyers, but not necessarily for a 30-year long-term savings product? If you remove that, in that instance, would it be a good product?

Funmi Olufunwa: It would be, but we would also need to make sure there was the ability for those people to save in another type of cash ISA, so we are not forcing them to only have long-term savings in stocks and shares, but they have an alternative as well.

Michael Johnson: We are rubbing shoulders here with the productive finance agenda. Now is not the time to go into detail, but I would like to put it on record that I am distinctly uncomfortable with the whole thing.

Martin Lewis: I am somewhat clenching my buttocks at the idea. I did a programme on pensions the other day. We had thousands of responses coming in. By far the biggest question that comes in about pensions is consolidation: "I can't keep track of all my different pensions from all my different employers and self-employment." You are adding another vehicle. You are adding a level of complexity. If that vehicle could seamlessly be interlinked with the other things that were going on in there, I would be more favourable, but I do not see that happening.

I worry that you are just splitting the messaging of what you should do. You are creating an additional choice. For the type of people who do not save, the choice is what overwhelms people in the first place. You are going to have yet another "I can't remember what I saved to in the past" issue. While I am sympathetic to the idea because, as a complex financial individual, I like lots of choice and lots of different options, for the particular nut that you are trying to crack, of people not saving within the current general pension regime, which I do not see changing—on paper, it would be quite nice if it did—it would mean adding yet another thing and yet another question in there.

About a third of the questions I get are what I call permission questions. They are where people explain everything that they want to do—I get tens or hundreds of thousands of questions—and go, "Is that right?" If they do not get permission, they do not do it. By throwing something else in there, the risk is that they think, "I don't know which one to go for. I

just won't do either." That is my concern; it is not any ideological objection to what you are trying to do, but, just practically, you are throwing something else in there to make people make a decision about.

Q58 **Lola McEvoy:** I take that point, Mr Lewis, because I share your ambition for clear communications and correspondence with the public. If it is a communication issue and you feel like people would not understand the new product, but with this one in five stat of self-employed people saving for a pension, the current status quo is not working either. What alternatives are there? I am not asking you to name a good product. I just mean the alternatives for this community that we have outlined, of self-employed basic rate taxpayers.

Martin Lewis: I would focus on better communicating the existing products that we have. We have a free guidance system at the moment. On my show the other day, I had an adviser and someone from MoneyHelper who was brilliant and can answer lots of questions. Do you know the question they cannot answer? "Where should I get my self-employed pension?" "Well, here are the options." "But Where should I get it? Which provider?" They cannot answer that. You have to pay for a financial adviser. Financial advisers are not taking you on unless you have a £50,000 pension fund, so we have a gap. People just want to hear, "Go and get a stakeholder pension at this one or one of these three. It doesn't really matter. It doesn't make that much difference."

Chair: If it is any reassurance, we are keen to look at the advice guidance boundary issues.

Q59 **Lola McEvoy:** The argument should be that the Government should be a trusted person to help you.

Martin Lewis: Government are never trusted.

Lola McEvoy: Yes, I know, but in an ideal world that would be a suitable Government product.

Q60 **John Glen:** Mr Lewis, you probably have more influence over most people than the Government in this domain, but there is the danger that something goes wrong with that advice. As you know, you will then be asked to campaign on getting the Government to come back and do some sort of compensation.

Martin Lewis: Putting money in a pension is putting money in a pension, and the risk should be explained, but people should be putting money in a pension. I probably take a little bit of responsibility for what you were talking about earlier with people holding money in cash. I do not talk about investing. It is probably not arrogant of me to say I am the biggest name in this. I do not talk about investing, because it is not what I do and I am not a regulated financial adviser.

I will often say on the telly, "Just because I don't talk about investing doesn't mean it's bad. It's just not my subject, so I don't talk about it." I

have concerns that my own position, because I am a savings person, therefore makes people think, "Investing isn't good," and we need more investment communication.

Q61 **John Glen:** Where is the dividing line?

Martin Lewis: The regulation about it is so tight that we just do not get the messages. Instantly, if I start doing anything out there, you get rent-seeking people going, "He's just told you to do that. I'm going to get you. You are breaking the FCA regulations." You sit there going, "All we are trying to do is encourage people that, for the long term, you are probably better in equities."

Q62 **Chair:** In a separate area of our work, we are looking at and keeping an eye on this advice guidance boundary discussion, including about how AI might play into it.

Michael Johnson: We have been looking at this advice guidance boundary now for more than two decades. The fundamental problem that I keep coming up with is that people are given guidance and think they have had advice.

Q63 **Chair:** Yes, there is a lot. Much as we would love to get into this, this is, I am afraid, not the time. Before we finish, there is a lot of speculation at the moment in the media about the ordinary average cash ISA. We—this Committee and I—do not have any inside track about the Chancellor's thoughts. The current limit is £20,000 to invest in that. A lot of people use it and like it. There is some discussion that that might be reduced to talk about the whole lazy capital argument. I just wondered whether you have any quick thoughts. We will go from left to right, from Mr Lewis to Mr Johnson, to see what you think about the cash ISA, any changes to the limit and what impact that might have.

Martin Lewis: I have already had people telling me that they are worried about what is going on so they are going to withdraw from cash ISAs, which is clearly not the right thing to do. Your money is in a cash ISA and it has that status in the long run.

Q64 **Chair:** To be clear for anyone who is watching, it is likely that what you already have in there would be protected.

Martin Lewis: That is agreed, which is what I have been saying and making very clear. I do not think that we should reduce the cash ISA limit. This concept that, if you stop people saving in cash, they are going to put money in stocks and shares is false. Also, it is worth remembering that we have had a long time of ultra-low interest rates, which the people who worked very hard to put their money away in savings were penalised for, effectively. Those very low interest rates really hurt savers. They are finally getting some things back. Many people who have worked hard all their lives are living off that income. If you squeeze what people can take out of savings, either by lowering interest or by taxing them, people have less money to spend. It is not quite as simple a logic as saying you

reduce interest rates or reduce the amount of money people have, so they will go spending more, for savers and people living off their savings.

I would not argue for an increase in the cash ISA. Some of the investment banks are trying to get rid of the cash ISA in order to encourage people to invest in stocks and shares. For people to invest in stocks and shares, you need a cultural change. Lots of young people are putting money in bitcoin, which is a highly risky speculation. It is not a form of investment, but it has a hell of a bit of marketing out there. I do not think that this is about trying to starve people out of one thing to put money in the other.

Q65 **Chair:** You are in favour of keeping the cash ISA as it is.

Martin Lewis: Yes, and better encouragement of investing.

Funmi Olufunwa: I would agree. There is a lot of speculation around at the moment, which I think is particularly unhelpful and can lead to people doing things that perhaps they should not be doing. People like a bit of certainty and also want to feel that they can trust the Government. A lot of the people I speak to who are part of my community are saying, "I am not going to go from investing in a cash ISA directly to investing in a stocks and shares ISA. What will happen is, if the limit comes down and I can't put as much money in, I will just have my money in a savings account." Then more people are saying, "Is that the intention, because then that can potentially be taxed?"

We need to be really clear about what the impact is going to be if there is a reduction in how much you can save into a cash ISA. I do not think it is going to have the desired effect of getting people to move from saving in cash to investing.

Chair: I should stress that that is all speculation.

Michael Johnson: This question rubs shoulders with the productive finance point I made earlier. I am very uncomfortable with the idea that slashing the cash ISA allowance will automatically trigger waves of sophisticated investing in stocks and shares. Let us not kid ourselves. This is fundamentally an education question and should be dealt with in the education arena.

Funmi Olufunwa: The last thing I would say is that the majority of people are probably not using that full £20,000 allowance. It is the perception of what a potential reduction could mean.

Martin Lewis: Going back to the lifetime ISA, why should a 41-year-old who has never had the opportunity to buy a home not be able to open a lifetime ISA? Why is there an age limit of 40 for opening a lifetime ISA? As people are buying properties at a much older age, it is age discrimination. Having to open it before your 40th birthday seems wrong to me. Can I throw that in there?

Michael Johnson: That is agreed. That is absolutely agreed.

Chair: Can I thank our witnesses very much indeed for a lively session?

Michael Johnson: You have only warmed me up.

Chair: I am not even going to attempt to sum it up at this point. We are now hearing from a panel of LISA providers. We will be interested to hear what they say. We have had an awful lot of really interesting written evidence as well. I want to put on record my thanks to those who have submitted that written evidence, including the panel. Thank you very much indeed.

Examination of witnesses

Witnesses: Anne Fairweather, Charlotte Harrison, Richard Stone and Brian Byrnes.

Q66 **Chair:** Welcome back to the Treasury Select Committee on Wednesday 26 February 2025. We are continuing our conversation about the lifetime ISA and we are delighted to welcome representatives of ISA providers. We have with us Brian Byrnes, who is the head of personal finance at Moneybox; Anne Fairweather, who is the head of Government affairs and public policy at Hargreaves Lansdown; Charlotte Harrison, who is the chief executive of home financing at Skipton building society; and Richard Stone, who is the chief executive of the Association of Investment Companies, representing the wider sector.

I asked this question before, but we have a product that covers savings for a first home and then only withdrawal at the point of retirement. This is an odd hybrid product. Lots of people do not provide it, but some do, including you here. Do you think that there is a problem with having a hybrid product, and is this something where you would want to see reform?

Brian Byrnes: Thank you very much for the opportunity to give evidence today. The first thing to say, which is context for all my answers today, is that the lifetime ISA is changing the saving and investing habits of a generation of young savers. We have 1.5 million active lifetime ISA savers across the industry and nearly 3 million lifetime ISA customers who have benefited in some way since inception. These are people who are saving more, investing, supplementing their retirement savings and buying nearly 250,000 homes across the UK. They are doing exactly what we as a country would want them to do. They are telling us that the lifetime ISA has made their savings habits more consistent and made them feel more confident about their financial futures.

In terms of the dual purpose specifically, it was referenced on the previous panel. This is a lifetime product, and it is very early to be making an assessment of how successful the retirement option has been. We must remember, given the age profile of people who can open a lifetime ISA—so people who are 18 to 39—that their primary financial

goal in life is getting on to the property ladder. That is what we see with our customers. That is predominantly why they open up the lifetime ISA. If you think about when you purchased a house, you are fairly broke after you have done that. You do not necessarily straightaway think, "How do I top up my retirement savings?" Despite that, of the customers we have seen who have used the lifetime ISA to purchase a home, 79% said they either plan to return or consider returning to the lifetime ISA in the future to supplement their retirement savings.

Q67 **Chair:** To be clear, the base of that was all the people who have a lifetime ISA with you.

Brian Byrnes: It was people who have already successfully purchased a home and 79% said "I either plan to or may return to a lifetime ISA."

Q68 **Chair:** What is the sample size?

Brian Byrnes: From a Moneybox perspective, we have helped just over 100,000 customers on to the property ladder via the lifetime ISA. I believe that the sample size for that survey was 3,100 specifically. We must make sure, from a financial education perspective, that that is the right decision for them, but that is an incredible number of people who want to top up their retirement savings going forward. We have 12 million people in this country under-saving for retirement, before property costs in retirement are factored in. The last thing that we want to do is remove a valid and valuable retirement savings option from these people who want to return to it in the future.

Anne Fairweather: I would like to thank the Committee for shining a light on the lifetime ISA. It is a good product that has maybe lacked a bit of policy love in the last few years. It is precisely the right time to have a look at what is working, what is not and how to make it into an even greater product.

We very much share Brian's views, in that people are coming to this to buy their first home. Certainly that is the experience we see with our clients. There is an intention to keep that product open for the longer term. I should highlight that Hargreaves Lansdown's product is an investment one solely, so that makes sense for that longer term. Where we see most utility for this product in that long-term retirement savings vehicle is for the self-employed, but we think that there need to be some changes to the way in which the product works—not least in terms of the withdrawal penalty, as well as with that age limit—for it to be fully used.

When looking at this afresh and seeing what has and has not worked, we would say that, at the moment, it has provided a really helpful vehicle to get a lot of people on to the housing ladder. That is incredibly important in terms of their longer-term financial resilience and their resilience in retirement. We should absolutely bank that win. Let us think about how to use this product in retirement, especially for people who have uncertain earnings and are worried about tying their money into a

pension longer term—so those self-employed people who want that surety that they can get the money out earlier if they need to. That is why you need a different kind of product for that group. That is one of the first reasons. Secondly, for people who have maxed out their workplace pension, it is a good vehicle for them to then save in addition to any workplace pension savings.

Q69 **Chair:** They could equally put it into a private pension.

Anne Fairweather: They could but, particularly for basic rate taxpayers, it is helpful as a product. Yes, there would be a decision to be made there.

Charlotte Harrison: Rather than cover what we have just heard, I want to build on a couple of points if I can. I think that you mentioned, Anne, that we are seven to eight years into the product being live. We were the first provider of the cash lifetime ISA. We know that, from our perspective, 88% to 89% of those who are saving are saving for a first home. It is delivering on that intention, so 82% of withdrawals have helped a first-time buyer purchase their first property.

To the point that Brian made, we are 12 years away from seeing the impact for those who are saving for later life. Typically, it takes seven to eight years, on average, to save and accumulate the wealth that is required for a deposit for a home purchase, so we are at the cusp of that now.

To your point, it is welcome that we are having a review to understand how that has been operating in practice. From my perspective, this is a helpful, useful product that we need to have some review of now, with a couple of amends to make it even better.

Chair: We will come to some of the amends.

Richard Stone: I should say that we do not provide LISAs as such. We are the trade body that represents listed closed-end funds—so hopefully one of the investment options that users of the product might choose.

I would start with a little bit of a step back, which is to ask, "What are we trying to achieve here?" It is about increasing people's financial resilience, encouraging saving and investing, and, overall, improving their financial position. There is a general recognition—I think that Mr Byrnes said it just a moment ago—that individuals are not saving enough. Those long-term savings are too heavily based in cash, and therefore returns are not where they could or should be. We need to encourage a greater investment culture.

This is where I am probably going to disagree with my fellow panellists. We are recommending in our evidence that the LISA is scrapped, because you are conflating two very different investment objectives. If you are wanting to save for a house purchase, that is a short-term objective. You should be in cash. You do not want to risk the capital value of your

deposit. If you are saving for retirement, it is a long-term savings objective. You should be exposed to higher-risk, higher-return investments in that process. There are all manner of complexities in the product around the age limits on contributions and withdrawals, the house purchase property price cap and the timings of withdrawals, which are all very different to other ISA products.

When you look at the ISA landscape more broadly, you have had the help to buy ISA. You have the innovative finance ISA. You now have the LISA. Mr Lewis in the previous panel mentioned that the choice and the range of options actually puts people off engaging at all. We need to simplify the process. We need to get back to the point where there is a simpler ISA product and a simpler pension product, and therefore that choice for people is much clearer and, through that simpler choice, encourages greater engagement and greater levels of saving and investment.

Q70 **John Glen:** If you had a separate LISA that was for pensions and had a different profile from the start around equities and not cash, it would be a perfectly proper alternative, would it not? The only thing that is really in play here is the issue of the legacy providers in the pensions industry that do not want to have this.

Richard Stone: It would. You could do that. The key for me is understanding and setting out for consumers a very clear objective and choice. I have separate views on the pensions market. We have moved everybody, or society, from, fundamentally, a defined-benefit system to a defined-contribution system, where the risk has shifted from the state or employer on to the individual. We have never really explained that to people, so people are not contributing enough.

Q71 **John Glen:** The point is that you could have a separate LISA product for pensions and for long-term savings, perfectly reasonably.

Richard Stone: You could, yes, absolutely perfectly reasonably. My only comment back to that would be that if you are trying to encourage saving and investing, you want to make that choice as simple and clear as possible. The level of education is an issue, and financial education and literacy is a problem. Having a simple, focused investment ISA product as the ISA option would be a clear way of doing that, separate from your pensions market and pensions product, which you may wish to reform as well.

The only other point I would add was a point that Ms Blake made earlier in the first panel around the cost to the Treasury. In all these things we have to look at whether, if the purpose of this is incentivising people to buy their own home and enabling first-time home purchase, and that is seen as the principle, there is another way of achieving that through the £500 million that this costs. Is there a better way of doing that while, at the same time, encouraging greater engagement by getting rid of the complexity?

Q72 **Rachel Blake:** On one side of the panel, there is real support for the product. Our estimate is that this is only about 6% of all ISAs. I am interested that you have such a strong conviction about its success rates and performance if it is such a small proportion. We estimate that about 13% of overall ISAs are, I would argue, failing through unauthorised withdrawals. Does that compare to other ISAs, where people are taking money out sooner than they might have expected?

Brian Byrnes: In terms of the take-up of the lifetime ISA, we have to recognise that it has exceeded expectations of the Treasury when it was launched. The volume of people who are saving into it is by no means insignificant.

Q73 **Rachel Blake:** How are you measuring significance? It is a lot of people but 6% is not that large a share of the market.

Brian Byrnes: I am measuring it from 1.5 million young people actively making positive personal finance choices very early in life and putting themselves in incredibly good stead in terms of financial footing and financial security. Having 250,000 people getting on to the property ladder via the lifetime ISA is not insignificant. There absolutely are areas where we can make improvements to the product rules, which have not been looked at since 2017, so that we can make this more widely taken up by more people, and more people can benefit from the lifetime ISA.

There was a question on the previous panel about who is benefiting from the lifetime ISA. From a Moneybox perspective, 80% of lifetime ISA customers earn £40,000 or less. These are people who are on low to middle incomes. When we speak to these people, who are nurses in Liverpool or teachers in Cornwall, they say, "I never thought that I could be a saver or an investor before I got a lifetime ISA. I am the first person in my family to get a mortgage. I am the first person to be on the property ladder." They wear that as an absolute badge of honour. Those are the success metrics that I look at when we talk about the lifetime ISA and why we are passionate, given the data that we see day to day.

Q74 **Bobby Dean:** Mr Byrnes, just to follow up on your comment, you described the huge benefits that you have seen for users of the ISA, and said that it is too early to tell on the retirement product end. What we heard from the consumer panel earlier was a concern that we might be restricting the pipeline of people who would take up this option to get the benefits from a first-time property purchase, because of the complexity. People are confused. Mr Lewis was explaining how he always has to explain the pensions end of the product, which starts to confuse people and may put them off going for that investment vehicle. Even if the lifetime ISA could be a good product for a pensions product, should we not separate it off, so that we have a much clearer market for something that you said is a real success for your users?

Brian Byrnes: The idea of the lifetime ISA, when it came out, was that people would not have to choose. They could save for their first home or for their retirement in the same product. My argument would be that

there is a large volume of people that that has worked really well for. There are areas where we can make the rules simpler, the withdrawal penalty being one of those, and I would echo the previous panel in saying that that can be reduced from 25% to 20%, as it was during the pandemic. We did not see a large spike in withdrawals during the pandemic. The 20% Government bonus that you would lose is enough to incentivise people to keep their money in a long-term savings product.

I would say that there are areas where it can be made simpler, but I just really would like to emphasise the point that there are incredible things happening in the lifetime ISA, and we need to build on the success of it by making these small rule changes that have not been looked at since it was brought in in 2017.

Charlotte Harrison: I just want to make a couple of points, really. We are talking around having multiple choices out in the market. We are also trying to some degree to solve—I will take the pensions element to one side— the question for those at the entry level of, "How do I access home ownership?" For me, that is where the stark reality is.

We have conducted our own research. We have our own affordability index as part of Skipton Group, led by Skipton building society. Ninety per cent of first-time buyers who are looking to buy in their local authority area cannot do so without some form of help. Typically, that help comes in the form of bank of mum and dad. If you do not have access to bank of mum and dad, it becomes increasingly challenging to save for a deposit. Lots of those people are also renting, and we know that aspiring first-time buyers can be spending more than 45% of their income on essential housing costs.

The panel before was talking about a 5%, 10% or 15% deposit being a real challenge, which is why I am passionate about this product. This is a good product that provides another route to support people in getting their deposit.

To the point around whether this is a sensible use of taxpayers' money and whether we could utilise a different vehicle to enable that, we perhaps could. Equally, we also know that, with every housing transaction, we are supporting economic growth. This is not just about this point in time. Our LISA balances are currently helping us fund our mortgages, so we are able to lend to and support first-time buyers now. We also know that, with every housing transaction, there are other associated costs, and that is putting money back into the economy. The broader argument is that this is a good product, from my perspective.

Anne Fairweather: I would just like to make the point that there are specific incentives with the LISA for specific reasons, which you do not access with, say, a stocks and shares ISA. It comes back to whether, from a policy perspective, you want to incentivise first-time buyers to buy their first home. As Charlotte was saying, there are a huge number of reasons why that is a good policy outcome. Secondly, it offers an

alternative way of incentivising saving for pensions, which is especially important if you do not receive any employer contribution, particularly if you are self-employed.

It is a narrow product and an unusual combination, but we are talking about putting your money away for a long-term decision. In common with these customers, we see people who, once they have bought their home, keep that account open and could seek to save in it later on, particularly once their children have grown up and they have done up their house. When they are feeling a bit more comfortable, maybe in their 50s, they might put more money into it again. It is still quite early days to see how that product will be used in later life.

Q75 **Chair:** They cannot put money in after 40, can they?

Anne Fairweather: If you have opened it before, you can put it in after.

Q76 **Bobby Dean:** I have just a couple of data points. I do not expect you to be able to answer them now, but it would be good to know if you would have that data and could supply it to us afterwards. Mr Byrnes, you mentioned that 80% of your users are on incomes of £40,000 and lower, which is really interesting in terms of the distributional impact of this product. Will the others have that kind of data too? Would you be able to tell us what proportion of your users are at what income level and what their average property price is? If you could supply that to the Committee afterwards, that would be really useful.

Richard Stone: We cited in our evidence a research report, although slightly old, from the Resolution Foundation, which talks about how 47% of the wealth that is held is held by people in the top quintile, so the top 20%, of household incomes. The source for that is in our evidence.

Q77 **Bobby Dean:** The second data point that I would like to ask for, if you have it, is how many people continue to pay into their LISA products after completing their house purchase. I appreciate that it is early days for some, but we should have some years of data and some indication of whether people are putting in anything at all, or whether, as you might have overheard in the last session, they have abandoned them a little bit, as I have. If you have any data on what proportion of LISA holders continue to make investments in it after a property purchase, that would be really useful.

Brian Byrnes: Thirty-one per cent have some Moneybox product open with a positive balance three months after a house purchase. The reason why different Moneybox products are important in that is that the first thing that you do when you purchase a home is build your emergency fund back up. They will be using different types of savings accounts and not specifically the lifetime ISA in the three to six months after a house purchase.

Bobby Dean: Just to clarify, I have a positive balance in my LISA, but that is just because of what was left over after paying down the deposit.

Chair: Is that the 70p?

Bobby Dean: It has grown since. It was slightly lower.

John Grady: It is 73p.

Bobby Dean: No. It was about 60p before, but, anyway, I am talking about those making active investments after the point of purchase.

Charlotte Harrison: We have seen that 50% of Skipton customers have chosen to leave their lifetime ISA open, and 5% have deposited into that product since.

Richard Stone: This goes back to my earlier answer about the complexity of the product and its two purposes, and the different types of investment that you would want to make for the two purposes. Part of the issue here is that, when you open it originally and look at the number of providers that there are in the market, there is a predisposition towards cash LISAs. If you are a first-time buyer, that is what you want to invest in, because you do not want to risk the capital value of your deposit for your home.

Ms Fairweather was saying that Hargreaves Lansdown's is an investment LISA, and there are investment LISAs out there. I used to run a retail platform called the Share Centre, and we were one of the first providers of a stocks and shares LISA back in 2017.

If you are in a cash LISA, you do not want to, nor should you, be putting more money into that as a cash product, if you are then using it for saving for retirement, which may be 30 or 40 years hence. Again, part of the problem is that the principal demand for the product at the moment is coming from first-time buyers, or people who want to use it to buy their first home. They want to do that in a cash product, so that is where the majority of the supply comes from, but in terms of then carrying on using that for retirement, it is not the right vehicle or the right product, so you end up with that issue.

Q78 **Chair:** Should there be a switching mechanism between cash and equities? Is that possible easily, or is it a regulatory nightmare?

Richard Stone: At the moment, there is nothing to stop you keeping cash in a stocks and shares ISA. You could have a mixture of both within it, or you could have a cash ISA and a stocks and shares ISA.

Q79 **Lola McEvoy:** That is the question that I was going to ask, but I just want to probe a bit further. This product can be a huge success for younger people using it to get on to the property ladder, and you are all passionate about that. That is brilliant. Surely, once they have their foot in the door into savings, we want to keep them at a rate higher than the 5% reuse rate that Ms Harrison mentioned. Is there a model whereby you could keep the same account but, once you have taken out your first-time buyer deposit from the savings cash ISA, it switches to an investment ISA for the long term? I am just thinking about simplicity and

how people use these products, or is that very complicated?

Brian Byrnes: There will be a mechanism—that is where the advice guidance boundary review is incredibly important in all of this conversation—through which we can provide better support to people to move to investing over time. It will never be appropriate for every single person to move from cash to stocks and shares investing, despite them saving for retirement over the longer term. There will still be people who simply do not have the risk appetite to weather the market ups and downs, despite the fact that we think that that is the best thing for them to do.

We need to provide them with the support. I keep referencing the advice guidance boundary review, but it is going to be absolutely fundamental here. There is more to do there, but I would not advocate for an automatic switchover to stocks and shares.

Anne Fairweather: Just to add to that, what is important here is having a long-term product set. People who have put money into a LISA today are expecting it to be there for the next 10 years, or potentially longer. The first thing to bear in mind with a product set that, essentially, the Government are offering through ISAs, LISAs and so on is that keeping that product set stable is quite an important part of building confidence. That is the first thing to consider.

The second is then how we evolve that product set around our client needs. Clearly, when LISAs were first opened, you had people between the ages of 18 and 39. By and large, they were saving for their first home. A number of them have done that through investment with HL. It is worth saying that some people might be saving for a considerable amount of time for their first home, and so longer-term investment might be the right route for them. Getting that balance right between cash and long-term investment is the most difficult financial decision that people need to make.

Precisely to Mr Byrnes's point, that is where this advice guidance boundary review is so important for us as a company, but also for us all societally. That will enable us to say to people, "With your income and your circumstances, this is the right amount of cash savings that you should have. This is the point where you should be investing for the longer term."

We can take that complexity away for the client, so that they do not even necessarily have to wonder about which product they need to open, and we can have a conversation with them around, "Here is the right balance between cash and investment for you and what you want to achieve, now that we understand your investment time horizon." Almost behind the scenes, we would be able to then guide them towards the most tax-efficient product for them to do that in.

At the moment, we are in a Catch-22, where we are having to provide quite generic information to all people all of the time, which does not necessarily help people make those choices. We are going to move into a world, hopefully next year, with targeted support, where we will be able to help people more in that.

Q80 **Chair:** I just wanted to check on the record, Ms Fairweather. You said earlier—I think we were both a bit confused—that you can contribute to a LISA forever, up to any age.

Anne Fairweather: Up to 55.

Chair: But you can only put in up to £4,000 a year until you are 50, and you must open it before you are 40, just so that we are clear about that on the record, in case anyone listening gets confused.

Anne Fairweather: Yes, apologies.

Chair: You can put in £4,000 a year up to the age of 50, but you must open it before you are 40, and then, at that point, you cannot access it until you are 60.

Q81 **Dame Harriett Baldwin:** In your written evidence, all of you say that you have an issue with the withdrawal penalty. I wanted to ask if any of you have any evidence that the withdrawal penalty itself is preventing people from opening a LISA.

Brian Byrnes: We have some survey data that we can share with the Committee afterwards, which suggests that people are using potentially less appropriate products for saving for their first home, because of both the withdrawal penalty and the house price cap. The objective of the withdrawal penalty and all Government savings policy should be to encourage people to save more in the most appropriate product that they can.

Our evidence suggests that the withdrawal penalty is putting people off doing that. We can make it more equitable and simpler, and make sure that people do not lose any of their own funds, as was the case during the pandemic, where we did not see a significant spike in withdrawals.

Q82 **Dame Harriett Baldwin:** Do you all agree with that? Does any of you have any additional evidence that you want to share with the Committee?

Anne Fairweather: I would just reflect that, when you are trying to encourage people to make financial decisions for the longer term, removing friction from those choices is quite important. The fact that we have to be up front about the withdrawal penalty and to explain that to the consumer would automatically create more drop-off in that journey, so we would be most interested in smoothing that journey.

Q83 **Dame Harriett Baldwin:** We have had evidence that the penalty should be moved to 20%, as it was during the pandemic, on a permanent basis. Does any of you want to make a different case for the penalty? No. Does

anyone want to disagree with the evidence that we have heard about the home-buying price, in that, if you end up spending just a bit more than £450,000, but it is your first home, you should not have to pay the penalty there? Does anyone want to disagree with that evidence that we have received?

Brian Byrnes: I would disagree slightly, just with the mechanism. The house price cap and the withdrawal penalty are incredibly linked. Our evidence suggests that the house price cap today impacts about 1% of active lifetime ISA savers. It is very hard to prove a negative of who is not taking out the lifetime ISA because of the house price cap.

We must separate the house price cap mechanism versus the value of a house that can be bought for £450,000. A house that can be bought for £450,000 across most of the country is a very, very nice house. When we speak to our customers and say, "How long are you planning to save for?" a not insubstantial number say that they are going to be saving for seven to 10 years, if not more, even using the lifetime ISA.

We have to have a mechanism whereby they can, in 10 years' time, buy the same value of house as they can today. That is why we recommended an annual review of the house price cap in line with house price inflation. That is the most sensible way forward, and that should move in line also with the withdrawal penalty being reduced from 25% to 20%.

Q84 **Chair:** It is just worth highlighting to everyone that Skipton building society has helpfully provided some evidence, which we agreed to publish this morning, highlighting some of these very points. Ms Harrison, perhaps you could speak to that.

Charlotte Harrison: I was just going to come to the point around the maximum price cap. Our data shows that, when the LISA was first launched back in 2017, the average first-time buyer property price would have exceeded that price cap of £450,000 in around 4.2% of local authorities. Our forecast is that, in two years' time, that triples to 12%.

It is now recommended that there is a review of the price cap and, to your point, that that is index-linked to give surety that, if I am committing in cash or investments today, I will still be able to purchase something. In fact, a customer emailed me directly on this subject yesterday, saying, "I opened a lifetime ISA in 2020. For the first two tax years, I saved the full contribution. I am now living in London. I am 32. I haven't contributed anything for the past three years, because I am trapped out of that with my current purchase price." So it does warrant a review.

Q85 **Dame Harriett Baldwin:** We have more questions on that. The evidence that we have had is that, last year, nearly 100,000 people paid the withdrawal penalty, and only 56,000 people used their LISA to buy a new home. That has to mean that there is a problem with the design here,

does it not?

Anne Fairweather: You would have to go into that in more detail, certainly. The question, to my mind, from a policy perspective, is, "What is the purpose of the withdrawal penalty?" This is about making sure that people are putting that money away and getting that incentive from the Government for house purchase or for retirement. That is fine as a concept.

There is a question as to whether you need that extra penalty. Especially in the case of buying a home that is more expensive, that is probably one of the more egregious cases of where it is being used. You could look at other ways in which you want to balance that, but certainly, from our perspective, there are two major use cases here.

One is the self-employed, who may need to withdraw money in extremis. To then penalise them when they have been trying to put money away for the longer term, especially when that group is really under-saving for retirement, does not, I would suggest, necessarily help your policy aim there. We would be very keen on looking at that use case, in particular, with regard to the penalty.

The second is in terms of those more expensive house purchases, where not gaining any incentive above that is totally fine, but disincentivising being able to buy at that level seems odd. As everybody has said, when people started out saving in their LISA, they did not know where house prices were going to go over the decade. They might have started out saving as a single person and then bought as a couple. They may well have moved areas for jobs and so on.

To this point, when we are trying to encourage people to save and invest for the longer term, let us make it as easy as possible, because it is very hard to predict where you are going to be in 10 years' time.

Richard Stone: As I said, we are not a provider. The debate, in itself, highlights the complexity and the things that you have to explain to people when they are taking out the product. The fact that, as you highlighted, more people were penalised than used the product to buy a first home is potentially problematic in terms of whether the product is achieving its aims. You have to take a step back and say there may be other ways of achieving those aims and the same objective. Just because the product is not working and could be reformed does not necessarily mean that the policy outcome should be to retain that product. There may be a better way of doing it as a whole.

Q86 **Yuan Yang:** I want to go back to the point that various panellists made about cash ISAs and driving an investment culture. There is an issue about risk aversion, particularly among low-income customers and particularly among women, who take up many more cash ISAs than men. They are opting for that for a particular reason; there is a reason behind that risk-averse behaviour. I was wondering if members of the panel

might want to comment on how, in this proposed transition to an investment-based culture, you would get risk-averse investors to see that as a real option.

Richard Stone: This touches on a range of other issues. There is a whole issue around financial literacy and risk appetite. In our evidence, we have suggested that the Committee might want to look at the ISA regime as a whole, beyond just the LISA—so the innovative finance ISA and the cash ISA, and how they sit together.

The FCA, in its consumer investment strategy, has said that too much long-term saving and investment is kept in cash, and it wants to do more to encourage people with pots of cash over £10,000 to expose those to the market and invest them. That is one of the reasons why, from a productive finance perspective, which we heard about in the first panel, and from a long-term returns and savings perspective, we are not earning the returns that we should be.

There are lots of other incentives to saving cash already. You have the personal savings allowance of £1,000 a year of interest income for the basic rate taxpayer, for example. That would enable somebody to save about £22,500 in cash without paying any tax on the interest today, which is relatively high against the median income. There are lots of things that we can do, but there is a big financial education piece, frankly, around investment and that cultural point.

Q87 **Yuan Yang:** I am hearing you, Mr Stone, talking about changing the incentives as opposed to getting rid of cash ISAs and funnelling people through compulsion.

Richard Stone: Yes, absolutely. Just to be very clear, we recommend in our evidence to the Committee that either the cash ISA should be scrapped or the limit severely restricted to about £5,000. That would enable the building of a cash pot way above the FCA's £10,000 that I was talking about just a minute ago. Cash does form a fundamental part of financial resilience. It is where people should start their savings, and it is right that the Government should incentivise an element of cash saving to get people on that journey.

Q88 **Yuan Yang:** Given that behaviour takes a long time to change, and there are reasons why low-income people are more risk averse, if you were to do that scrapping, as you suggest, or limit it at £5,000, is there any modelling of behaviour that you would expect—I see Mr Byrnes shaking his head—so that people would change that into an investment product?

Richard Stone: You can just have a much clearer conversation with the consumer about how and where they could save in cash and get their tax-free interest income on that as a starting pot, how they can then save from an investment perspective in an investment ISA and where their pension or long-term savings sit. You just need a much clearer landscape for people to help that education point.

Anne Fairweather: One of the advantages of the current system is simplicity. People can move their money from a cash ISA into a stocks and shares ISA today. The big question is, "Why are they not?" It is not the wrapper that is the barrier here. It is confidence. It is understanding when the right time is to take risk. Luckily, there has been quite a large amount of research on this with consumers.

One of our trade associations, TISA, has done a lot of work on this as we were working with it to make the case for this advice guidance boundary review. We recognise the particular importance of enabling help. Thirty-nine per cent of people did not think that financial advice would be for them. It is about the cost of financial advice, in particular.

There are a number of things that we, as firms, can do already to make it easier. One is removing jargon, which came up in the research as a big problem. The second one is around contextualising risk warnings. There is some quite recent research on this, which TISA supported, with the University of Nottingham. That shows that, rather than just saying, "Your money is at risk" with an investment, you could put that into some sort of context—for example, "Over a five-year period, you are more likely to see returns from investment." We have managed to change those risk warnings within the current rules and are already seeing an uplift in the number of people opening a stocks and shares ISA as a result.

This is about democratising the understanding of when the right time is to invest. Being able to do things such as slimmed-down options for people and understanding what the balance between cash and investment is for them will all come forward with this targeted support regime. There are things that we can do now. There is a lot more that we can do in the future in order to shift this behaviour, but let us be clear: this is about behaviour shift and changing that culture, rather than the wrappers.

Brian Byrnes: Moneybox has both cash products and stocks and shares products, so we are, hopefully, quite balanced in this debate. I have been advising and educating customers for the last 15 years on the balance between saving in cash and investing. I would love nothing more than if there was a simple button that we could press with the allowances that would suddenly make more people comfortable and confident investors. There is not.

The reasons why people do not invest in the UK are complex and are individual to their different circumstances. They must be addressed via a thoughtful, joined-up piece of work and, thankfully, there is a piece of work going on: the advice guidance boundary review. To bring that to life, 12 providers were over at the FCA yesterday. We are going to be working with them over the next six weeks, building prototypes of targeted support that will make people more confident—hopefully, if the prototypes go well—to move from cash to investing. That is going to be

far more powerful than making short-term decisions on the most popular financial product in the UK being the cash ISA.

Anne Fairweather: It is probably worth highlighting that the FCA has more research coming out on precisely this point in the coming months.

Q89 **Yuan Yang:** Do I hear both Mr Byrnes and Ms Fairweather as saying, "Keep the cash ISAs and their level until that work has been done"? Is that what you are saying?

Anne Fairweather: The other thing is that, if you reduce the amount of money that you can hold in your cash ISA in future, the conversation that we will be having with clients next year will be, "If you have that money put away for the longer term, investment is probably going to get you better returns. However, if it is wrapped in that ISA and, at some point, you want to put it back, you may not be able to." That just complicates that conversation considerably. You might end up with those cash ISA pots being locked into cash rather than being moved across to investment.

Q90 **Rachel Blake:** You are all united in thinking that the price cap has to go up. Ms Harrison, you talked about the barrier in London, in particular, to people being able to purchase a home. There is also the value-for-money argument for the Government, in terms of thinking about the scale of investment that they should make in particular regions and markets. Have you put much thought into what kind of cap there could be in different regions?

Charlotte Harrison: Yes. I do not necessarily think, going back to creating additional complexity, that people may be saving in certain areas and having to move. Rather than having huge regional skews, I would advocate for a blanket move on the price cap. Our recommendation was that that needs to be to a minimum of £500,000, so we are not talking about significant upward swathes.

Our affordability index forecast also showed that a move to £550,000 would maintain the position of average first-time buyer exclusions, as it was in 2017, at 4.2% in England. When we are talking about value, it is not a significant move up, but we should be index-linking that, so that people have certainty that, when they are investing and putting cash into that vehicle, they can utilise that for what the intended purpose is.

Q91 **Lola McEvoy:** Ms Harrison, could you give us a bit more detail on the percentage of deposits that people who are using this ISA are taking out? Sorry, I will rephrase that. Are we talking about 5% or 10% deposits when we are looking at the products that your customers are mostly using?

Charlotte Harrison: I can find out and come back with probably more specific data around the lifetime ISA.

Chair: That would be very helpful.

Charlotte Harrison: The average first-time buyer deposit in the UK is typically 25% to 30%, and that is because house prices warrant that, in order to have the affordability stretch, you need that. That comes through products such as income boosters, the bank of mum and dad and so on. This goes back to my point about enabling home ownership and about the challenges that people face, which are so stark, in getting on to the property ladder. There is not really a silver bullet, which is why we want a range of measures that help people.

Q92 **Lola McEvoy:** I am just slightly concerned about raising it to £500,000 for a first-time home. The deposit required for that, for a couple, is huge, even at 5%. I am not giving financial advice.

Charlotte Harrison: The average first-time buyer deposit is around £50,000 to £60,000. In London and the south-east, that can be up to £150,000, so people are significantly stretched.

Q93 **Lola McEvoy:** What is the average first-time deposit in the UK as a whole, rather than in London and the south-east?

Charlotte Harrison: It is between £50,000 and £60,000.

Chair: It sounds like you have a lot of data from Skipton. The data that you have already provided is really useful, so any data that any of you can provide would be very helpful.

Q94 **Bobby Dean:** There are quite a lot of variables in this conversation, so I want to try to hold a couple of them, if I can. Let us assume that the withdrawal penalty is changed in the way that most of you have proposed, so that there is no effective fine on top of the bonus element afterwards. Let us also assume that some sort of inflation index is introduced, so that people have certainty over a 10-year period that the value of the home that they are saving for will not outpace them.

With those two things in mind, what should a fair price cap be? Going back to Ms Blake's earlier point, I feel like it should not be unlimited, because of the cost to the taxpayer. The average price of a home is currently 270 grand. We have the cap currently at £450,000. Accepting that it may need to move over time going forward, and that the withdrawal penalty element may be gone, could the cap even come down and still benefit an awful lot of people?

Anne Fairweather: It is a question of how it interacts with that penalty.

Q95 **Bobby Dean:** Can we assume that the withdrawal charge is now down to 20%, just for the sake of argument? We will have an index link. We will have the withdrawal charge at 20%. Mr Byrnes, you said that most of your users are not getting anywhere near this cap anyway.

Brian Byrnes: Yes, the pressure on the public finances and the value-for-money point is one of the reasons that we are advocating that the price cap should not jump up significantly today and that it should just be reviewed on an annual basis from £450,000 going upwards. The reason I

say "going upwards" is the movement in property prices over the last eight years. House prices have increased by 30% since the lifetime ISA was introduced.

We also run what is called lifetime ISA hotspot data. The top three cities most popular for lifetime ISA over the course of 2024 were Bristol, Manchester and Belfast. For Manchester, in particular, and Bristol, these are areas of the country outside London and the south-east where the average house prices are rapidly coming up towards the house price cap. For those reasons, I would suggest that bringing the house price cap down probably would not be the right thing to do in order for lifetime ISA customers to have certainty going forwards that it will be fit for purpose for those who are going to be saving for seven to 10 years from here.

Charlotte Harrison: The only point I go back to is that, as we know, it is taking longer to get that first foot on the property ladder. We heard the panel before talking about what that first-time buyer house looks like. How do we ensure that, if people are buying as blended families, we can cater for that? That is why I would advocate that you not reduce that property price.

Q96 **Bobby Dean:** Can I just ask you a follow-up question, because this is mainly a regional problem as well? London and the south-east are the reason why there is so much upward pressure on the cap. You have said to me that it is too complex to do that. We have had previous products such as help to buy where there was quite a clear regional difference. Why should we not just have a regional cap that is higher for London and the south-east?

Charlotte Harrison: For London and the south-east, you could. If you wanted to then introduce multiple regional caps across the country, that would add complexity. Going back to the point that people are saving and are having to move to different areas, it just adds additional challenge. Going back to, "Do I understand what I am purchasing? Do I understand the complexities that are involved with this product? What does that mean for me?", you would want to be absolutely crystal clear on that. Could you have something for London and the south-east? Yes, you could.

Anne Fairweather: I would just like to say, as a company that employs over 2,000 people in Bristol, that it is not just a London and the south-east problem.

Charlotte Harrison: Yes, that is part of what we see in the data. In 2017, at original launch, it was absolutely that, but we are seeing a shift and we are seeing that change.

Q97 **John Grady:** Just to set out the landscape a little bit so we are all on the same page, because this can get quite complicated, if I have a SIPP, I get tax relief on the way in, at my marginal rate of tax. If I have a LISA, I get a bonus, although obviously there is a withdrawal penalty. If I have

an ISA, there are no additional tax benefits on the way in. If I have a DC scheme, I get employer contributions as well. Then on the way out, if I have a SIPP, I have income tax. If I have a LISA, it is tax-free. If I have an ISA, it is tax-free, the income. For the pension, if it is converted into an annuity or otherwise, I get income tax on that. It is probably best to avoid inheritance tax today, but, while it is within the wrapper, you have capital gains tax. That is the first thing.

Secondly, of course, we have different tax rates in England and Scotland. In Scotland, we pay more tax. I will not comment on the state of the public services in relation to that. This is not the proper place for it.

Thirdly, we have different retirement ages. You can take a SIPP from 55 and 57. Your state pension retirement age is up to 67, or whatever it is. For LISA, it is 60. Then you have different savings limits as well.

With all that in mind, you are all in the financial services industries. Who should choose a LISA to save for retirement? Is there a benchmark person who should choose a LISA as opposed to another product?

Chair: Anne Fairweather, we are willing you to step up.

Anne Fairweather: Outside of those saving for a first home, it is clearly for additional retirement saving, over and above your workplace pension. If you are a basic rate taxpayer, it can be a better option. Then, secondly, if you are self-employed, without that employer contribution, and you are a basic rate taxpayer, it is absolutely a better option.

Q98 **John Grady:** Would anyone demur from what Ms Fairweather has said?

Brian Byrnes: No, there are some brilliant examples. Reading between the lines, I completely understand the concern that lots of people may be giving up higher-rate tax relief, for example, by contributing to a lifetime ISA rather than a SIPP, but the income demographics that I shared earlier of Moneybox lifetime ISA customers suggest that is not happening en masse. There are several use cases, which Ms Fairweather has articulated there, where the lifetime ISA is a very good option for lifetime ISA savings. As I mentioned at the start, with so many millions of people under-saving for retirement, we should not be removing a perfectly valid and valuable option from the retirement landscape for them.

What we should be doing is providing them with a lot more support to make an educated decision for them. I keep going back to the advice guidance boundary review; these things are incredibly linked. Yes, we should be aiming for simplicity. We should be aiming for support, on top of that, and giving people as many options as they need to make the retirement savings that we desperately need them to.

Q99 **John Grady:** I am very mindful that time is marching on and we may have votes, so am I taking it that the basic position of each of you on the panel is that it is good for basic rate taxpayers who are not in employer schemes and not good for many other people really, unless it is a supplement to what they already have?

Anne Fairweather: It is a supplement, but also it is always good to open a LISA if you are under the age of 40, because you have that optionality later on.

Richard Stone: The one point that I would make is back to where I started from, in terms of the complexity within the system as a whole, which your examples highlight. There is a fundamental principle, which we have operated on historically, that pensions are effectively tax-free on the way in. You get the tax relief on the way in and you are taxed on the way out. That is how pension saving works. ISAs and other savings are taxed income, but you then do not pay tax on the way out. In both cases, you do not pay tax on the gains and things in between. The LISA muddies that, effectively, with the bonus and everything else.

Q100 **John Grady:** Mr Byrnes, do you have a point?

Brian Byrnes: A very quick point that we have not touched on is the access of the lifetime ISA versus a pension. Even with the withdrawal penalty as it is today, you have far more access to a lifetime ISA than you do for a pension. You cannot get your hands on pension money before 55 or 57. With the lifetime ISA, if a true emergency occurs, you can pay the 6.25%. Hopefully, you would not have to pay in the future. You could just pay back the Government bonus and pay your medical emergency, or whatever it might be. That access point is another tick in the box of lifetime ISA. It just gives you that additional bit of optionality.

Q101 **John Grady:** That is a very interesting point, Mr Byrnes. I suppose I would ask the rest of the panel whether they agree. Are we confusing two things: the rainy day fund you need for medical emergencies and all the rest of it, and long-term pension saving? Does that easier access for pension saving point away from this being a good pension-saving product?

Anne Fairweather: That is precisely the point for the self-employed. They are afraid to tie up that money. They tend to hoard cash. Certainly, the research from our savings and resilience barometer really shows that. At least if they put that money into a LISA, behaviourally, for most people, once they have put money away for the longer term, it is the last pot they are going to touch. Then, secondly, it does mean, in extremis, if something goes wrong with their self-employment, that they are able to access that money, but at the moment, they would be subject to that penalty.

It is about whether we want to make sure that that group is rewarded for saving for the longer term for retirement. I would argue that, yes, they do need more incentives in the system in order to boost those retirement savings. That is where the flexibility within the LISA is actually very helpful for that group, in particular. We would need to address the age cap within the LISA, because the majority of self-employed people are over the age of 40, so would not currently be able to access the LISA as a savings product.

Q102 **John Grady:** That is a very interesting point, Ms Fairweather. I suspect you would need a whole new inquiry on saving for self-employed people, actually.

The Hargreaves Lansdown evidence is that 47.3% of outright homeowners are on track for a moderate retirement income. It is a bit late for complex maths, so that means over 50% are not on track for a moderate retirement income. That is very worrying. When it comes to renters, it is just 15.5%. The LISA retirement contribution cap is £4,000 a year, or whatever it is. That is nowhere near enough for people to save. Is that another aspect that points to a flaw in the product for retirement saving?

Anne Fairweather: It would be £4,000 plus the bonus, so £5,000 a year. I would have to come back with the maths on precisely where that would get you.

Q103 **Chair:** If you have bought a home, you have already spent most of it for that. Then you start saving again.

Richard Stone: The reality is that we are not saving enough for our retirement. Mr Glen spoke earlier about the contribution rates getting up towards Australian levels, for example. We are still behind other countries in the world in terms of contribution levels, as well as the returns we earn when we actually do have those pots of savings, because of the way we are investing the money. No, it is not enough. The auto-enrolment scheme at the moment is not enough. We need to increase those rates and to increase the amount we are saving for retirement.

Q104 **John Grady:** As a final question from me, because time is marching on, does this discussion really illustrate the fundamental problem here: that it is all just too complicated for people to save in this country?

Richard Stone: I have already said yes. Hence I would scrap it, simplify the landscape and try to encourage better engagement through clearer messaging.

Anne Fairweather: I would also say people's lives are complicated. People move in and out of self-employment, and into employment back out again. People's families change over time. Trying to find a simple route through is always nice in conception, but actually the LISA brings in some flexibility precisely for people in slightly different circumstances. That would be my one "Watch out!" in that. What we need to do is make it clearer so that people can make the right choices for them. The most complicated choice is that choice between cash, long-term investment and pensions. In getting that balance right, absolutely, this advice guidance boundary change will help us with that.

Charlotte Harrison: It should be on us to make sure that we remove the complexity rather than remove product choice.

Brian Byrnes: What we are asking for is actually quite simple in terms of getting more people to benefit from the lifetime ISA going forward—the withdrawal penalty and the house price cap solutions that we have talked about. It is just natural that those areas of the rules will get more airtime than the 1.5 million people just quietly saving away and getting into very good saving and investing habits.

I would say that we have provided a large volume of evidence to the Committee that shows that brilliant things are happening within the lifetime ISA. Lots of people are not thinking it is overly complex. Lots of people are buying houses, saving for retirement and getting into really good financial habits. We can accentuate that going forward with some very simple tweaks to the product rules.

Q105 **John Glen:** If we assume that the caps and the penalties are sorted out, we have seen substantial evidence that, as a saving vehicle for somebody wanting a deposit to buy their first home, it has proved to be a success. I want to just probe and get some clarity over what happens afterwards, because, Mr Byrnes, you have said that 79% of people aspire to continue.

Chair: This is on the survey of 3,100 people.

John Glen: Let us take that as reasonable.

Chair: It is a weighted sample, I am assuming.

John Glen: My colleague Mr Grady set out all the advantages and options in terms of pension saving, particularly with the tax advantage for higher-rate taxpayers, but also the way that the auto-enrolment has moved forward. The reality is that once you have bought property, if you have a 90% or 95% mortgage, a lot of your disposable income is probably going on just paying your mortgage and living. So it is unrealistic, really. You do not really have enough data, do you, because that is an aspiration? That is not a reality.

What I am trying to get at is this. If you have opened a cash LISA, subsequently it is clear that you need to put it into equities to make it worth while, if you have bought it before you are 40, because you are not going to use it for anything other than 20-plus years hence when you are in pension. Is there a mechanism at the moment to switch what started as a cash LISA to an equities LISA after you have taken the money out for the deposit?

Brian Byrnes: You are right in saying that the data does not exist yet, because it is very early in a lifetime product. The first person cannot withdraw from this until 2037.

John Glen: Of course, I am not criticising you; I am just saying.

Brian Byrnes: The fact that 79% of people, even answering a survey, will say, "I am thinking of making supplementary retirement savings in the future" is absolutely incredible. The reason that they are doing that is that they have had a fantastic experience with the lifetime ISA so far and it has been their primary financial goal in life.

Q106 **John Glen:** I understand that, but the specific point is that that is a cash-based product. If you are then going to switch to use it for savings for pensions, or as a complement to your auto-enrolled pension, can you switch from the cash-based thing to an equities-based savings vehicle—that is, the same one? Can you retain the benefits from opening it earlier?

Brian Byrnes: Yes, and that is why people are keen to return to it. You can switch over to the stocks and shares version. We need to do a lot more financial education and targeted support from the advice guidance boundary review to make sure that more people are comfortable using the stocks and shares version for retirement. As it stands, even without that, and with the financial education landscape as it is today, more people use the stocks and shares version for retirement than do for the house buying, which is what you would expect. I would agree with you that more can be done there.

Q107 **John Glen:** What I am trying to get at is that, if you want to fulfil that aspiration of the 79%, surely you must feel a responsibility for them to move over, notwithstanding the issues around advice, to get into the equities. Otherwise, it is not going to be the right product, probably, is it? For a 40-year-old to have cash only for a savings product for retirement is probably not the right thing, is it?

Brian Byrnes: It is hard to say, "notwithstanding the issues around advice", because that is what precludes us from being very hands-on with these customers. This is why, from day one, we have engaged with the advice guidance boundary review, and we are excited about what that brings.

Q108 **John Glen:** If we can fix that, we then get a viable transition, and the dual purpose that Mr Johnson and the first panel envisaged for this could be achieved.

Brian Byrnes: The No. 1 example I have given to the FCA for targeted support is switching people from cash to a stocks and shares lifetime ISA for retirement. It is a perfect use case for that.

Q109 **Chair:** Then you have a point in time at which they buy their first property for most cases.

Brian Byrnes: Exactly, and you have the date in the future when they can access it as well.

Q110 **Lola McEvoy:** I am sorry to bring us back to this so late in the day. On the deposits, from those of you who have customers using these products, how many people are using their savings in the LISA for 100% of their deposit?

Charlotte Harrison: I can share that data. No, people are adding to it.

Q111 **Lola McEvoy:** Just so that I can understand, is it a small part of the deposit, and the majority is coming from the bank of mum and dad, or is

it the majority of the deposit, and a small part is coming from an auntie or something?

Charlotte Harrison: I can follow up on that. We do see people saving in their lifetime ISA and doing regular savings alongside. We see some supplemental support as well. I do not have the data to hand.

Brian Byrnes: The average property price that we see for people using lifetime ISA is around £270,000. The average withdrawal from a lifetime ISA, from HMRC data, is around about £12,000, which would suggest people are getting about a £3,000 Government bonus on average. It represents a small but absolutely not insignificant helping hand towards that deposit and the saving and investing habits that it gets them into for life.

Richard Stone: To answer the question, if the average deposit is £60,000 in the UK, as you said, Ms Harrison, and the average withdrawal from the ISA is £12,000, then you can see where the disconnect comes.

Q112 **Lola McEvoy:** Zoopla says that the average UK deposit is £34,000, but we can pick up the data after.

Richard Stone: Even if it was £34,000 and £12,000, it is still a big gap.

Lola McEvoy: I am just interested as to whether it is the majority chunk.

Chair: It may be deposits of first-time buyers versus deposits more generally.

Lola McEvoy: Is this working for people without the bank of mum and dad, basically?

Q113 **Chair:** There is a lot of data that we will need to collect. Thank you very much indeed for that. Before we move on and close the session, I mentioned in the first panel the cash ISA. Speculation is rife on this. As I say, none of us on this Committee, individually or together, has any insight on that. I would be interested to hear your views, if you have any, about the cash ISA limit. Would there be any benefits or disbenefits to changing the £20,000 cash ISA limit?

Richard Stone: As I said earlier, I would start by saying that having cash savings as your rainy day pot is absolutely essential. That is where anybody should start their savings journey. It is right, in terms of encouraging financial resilience, that the Government incentivise that in some way.

To continue to incentivise further and further cash savings, you have to question the value to the taxpayer of that benefit, when you are giving an incentive on cash in that way. We would argue that £20,000 a year is too much. You could either scrap the cash ISA, given that there is plenty of incentive within the tax system to already save more than £20,000 and receive all the interest income and so on tax-free, or at the very least, as we say in our evidence to the Committee, reduce the annual contribution to £5,000. To be clear, as you said in the first panel, we are not talking

about any threat to people's existing cash ISA pots. This would just be going forward.

Q114 **Chair:** To pick on that, as a lower-rate taxpayer, you get £1,000 interest tax-free. If you are a higher-rate taxpayer, it is £500. If you are at the additional rate, it is nothing. If you had £20,000 in a savings account instead of a cash ISA—let us say you were someone maxing out even £10,000 a year, which would be a significant amount for most people—you could very quickly trigger that £1,000 threshold or £500 threshold, so you would actually begin to wipe out the benefit of the savings.

Richard Stone: I go back to the FCA's consumer investment strategy, which says that it wants to encourage people with more than £10,000 saved in cash to expose that to the market so that there is a benefit to the economy and to economic growth.

Q115 **Chair:** Do you think people would really just jump from one to the other, if you are saving, for instance, for your children to go to university, so a fixed point where they might do that, or you are saving for some other lifetime event?

Richard Stone: Just because there is not a tax incentive to saving cash, that will not necessarily stop people from saving in cash, but whether the state should be incentivising people to save that additional amount in cash is where the question comes.

Q116 **Chair:** Do you think there is a period of time where there should be a transition? We are expecting, as we speak, a fiscal event on 26 March. We do not know, but it could be a possibility—it could be something the Chancellor says. We have no idea. If there were a point where the Chancellor were to say, "I'm going to look at this," what would be an optimal time for making a transition from the £20,000? Should it be instant, consulted on or reduced over a period of time? What would be your preference?

Richard Stone: Ideally, it should probably be consulted on. If it is not consulted on, and there is a point in time, then it is right to give people sufficient notice of that so they can build that into their planning. If it was March, you might want to do it not from that 5 April, but the following 5 April, a year or so, so that you could give people notice. I would have anticipated a change of that nature probably to warrant some form of consultation.

It is the whole productive finance debate. It is how we encourage more investment in infrastructure. We know the state of the public purse. It cannot do all the heavy lifting in terms of the investment that this country needs. There is an awful lot of money being saved in cash, and being incentivised to save in cash, which is not then helping drive that economic growth agenda.

Q117 **Chair:** You are also saying some people might put that into savings accounts, not into an investment, so it might not produce the results you

suggest.

Charlotte Harrison: I would strongly urge that we do not reduce the limit. I do not believe that it would have the intended outcome, which is that we would switch that into investments and therefore support the growth agenda that has been cited. Consumer research that the Building Societies Association has conducted says 73% have advocated against this. We also know that cash ISAs and ISAs provide a really important funding vehicle for banks and building societies.

Q118 **Chair:** We know what you mean, but could you just explain that in simple terms?

Charlotte Harrison: In terms of bank and building society infrastructure, we utilise retail depositors—so the funds from our savings customers, our members—to fund our mortgages. When we are funding our mortgages, from the building society sector, 40% of first-time buyers specifically were supported by that, among other purchase activity and remortgage activity. Actually, if we start to see a more constrained supply of that, that could have other downstream consequences that we would not welcome.

Q119 **Chair:** Do you mean an increase in mortgage rates?

Charlotte Harrison: Yes, potentially.

Q120 **Chair:** Anne Fairweather, just to be clear, you do not provide cash ISAs, do you, only stocks and shares?

Anne Fairweather: We do have a cash savings platform, actually. It is a small part of our business, but we provide a multi-bank platform there, so people can choose which cash ISA to put their money in through one central door.

Q121 **Chair:** It is not your main business.

Anne Fairweather: No, but we were founded to democratise investment and to get people to move their cash into investment. The first thing I would say is that stability in the system is incredibly important. What we do not want to see is the run-in to every fiscal event, or rumoured fiscal event, as this is now becoming, to be a discussion around what exactly these allowances are going to be. We saw in the run-in to the Budget the negative impact of speculation around tax-free cash in pensions and how that drove irreversible behaviour in some cases by people making really important decisions around their retirement, but it being accelerated and driven by a timetable that was not actually related to their own finances.

The stability in the system is incredibly important. The last Budget set the allowances through to 2030. That was obviously a promise that was made to people: there is going to be stability. Now, obviously, those allowances have eroded over time with inflation, but we see that as a positive. We see it as a positive that you can move your money from a cash into a stocks and shares ISA very smoothly currently. Our focus in

trying to encourage that investment culture should be on how we build confidence to do that, how we make sure that those risk warnings have the right contextual information so that people understand when investment is right for them, and how we make that balance between cash and investment.

Q122 **Chair:** You rightly highlight the potential damage that speculation can cause, but who would you lay the blame for that speculation on? A lot of it was consumer finance journalists and people in the industry speculating. Was there something that Government should be doing? It is a complex picture.

Anne Fairweather: In the run-in to the last Budget, a number of options around pensions tax were ruled out, one way or the other, even if it was just a Treasury spokesperson or something very inane. Ultimately, there was no comment around tax-free cash, and that is why that speculation continued. Certainly, from our perspective, we were very clear with our clients that, if they are going to make long-term decisions about withdrawing from their pension, they need to think about that over the longer term, not the short term.

That is one of the real risks at the moment with this framework. If you want to encourage people to put money away for the longer term, whether it is into a pension, an investment ISA, a LISA or whatever it may be, you are asking people to take that risk into the future. As was rightly pointed out, with defined-benefit schemes winding down, that risk lies with individuals. From a policy perspective, it is our responsibility to give people a clear framework and some kind of stability under which they are saving.

Q123 **Chair:** It is hard for a Chancellor or any Government to rule out everything. There is a difficult Catch-22 situation there.

Brian Byrnes: I will be concise, because I referenced this earlier. We absolutely need to create an investing culture within the UK. With the thousands of customers I have advised or educated over the last 15 years, who have told me that they are nervous about investing, for such a wide multitude of reasons, it is very hard for me to imagine how a cut to the cash ISA allowance would make one of those people more comfortable and confident to start investing.

Chair: Thank you. That is really clear. Can I thank our witnesses very much indeed for their testimony, and our witnesses from the previous panel? We are going to go and think about a lot of this. It is too much for me to try to sum up in a couple of minutes. Thank you very much for the data and evidence you have already provided. Ms Harrison and anyone else who has other data, please do provide that, because numbers talk, and we are really keen to see that information. We will cogitate over this and be producing a report in due course.

The transcript of this session and the previous one will be available on the website in a couple of days' time, uncorrected—thank you to our

colleagues at *Hansard* for that. Thank you to our colleagues at Bowtie for the broadcasting services today. Thank you very much indeed.