

# Treasury Committee

## Oral evidence: Lifetime ISA, HC 607

Wednesday 23 April 2025

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

Questions 124 to 236

### Witnesses

I: Emma Reynolds MP, Economic Secretary to the Treasury, HM Treasury; Laura Webster, Director of Personal Tax, Welfare and Pensions, HM Treasury.

### Examination of witnesses

Witnesses: Emma Reynolds and Laura Webster.

**Chair:** Welcome to the Treasury Select Committee on Wednesday 23 April 2025. We are delighted to welcome Emma Reynolds, the Economic Secretary to His Majesty's Treasury, accompanied by Laura Webster, the director of personal tax, welfare and pensions at the Treasury—that is certainly a productive-sounding role; you have three jobs in one there, Ms Webster—to talk about the lifetime ISA, also known as the LISA, as we will refer to it. We will try to spell it out where that is appropriate.

We have been looking at this with various other individuals, but it is very important to hear what the Government's position is on the lifetime ISA, which was established to enable people to purchase their first property with a bonus from the Government on top of the money that they put into it. If they do not purchase a property, it kicks in at 60 as a retirement product. It is an interesting hybrid product, and that is one of the reasons why we were keen to look at it. To kick off, I am going to ask Rachel Blake MP to come in.

Q124 **Rachel Blake:** Welcome to the Committee. We have been spending quite a bit of time thinking about ISAs—the cash ISA, the LISA and its role supporting people into home ownership. We wanted to start off by talking about why you might want to change the cash ISA. What incentives or



reasons might there be to change the cash ISA at the moment?

**Emma Reynolds:** As we announced in the spring statement, we are looking at a reform of ISAs in the round to drive better returns for savers and support the Government's mission to drive greater economic growth and lift people's living standards. I am not going to be making any announcements before the Committee. Your inquiry into the LISA and any recommendations with regard to the broader ISA landscape will be very timely because we are still considering our options.

Q125 **Rachel Blake:** In terms of the popularity of the cash ISA, is there enough scope within the cash ISA to support home ownership?

**Emma Reynolds:** We will be looking at the advantages and perhaps downsides of all the different ISAs in the round alongside our primary objective, as a Government, to improve people's living standards through better economic growth. As we said in the spring statement, we are looking at striking a better balance between cash and equities. We know there are many people putting cash aside who could and might consider investing in stocks and shares.

According to the FCA—Laura will correct me if I am wrong—over 12 million people have more than £10,000 in cash savings and, of those 12 million people, about 5 million are open to the idea of investing but lack the confidence to do it. As you know—we might have talked about this last time; I cannot remember—we are also looking at the advice guidance boundary, which I know the previous Government were looking at too. As John will know, that is something that has been discussed and talked about. There have been a couple of attempts at changing it.

Certainly, I am very passionate that it should not just be the 8% of people who can afford financial advice who are getting more out of their money in the longer term. That should not be the preserve of 8% of the population; those opportunities should be available to others too. We are looking at targeted support, which would involve financial services firms being able to suggest to clients with a similar set of characteristics certain things that they could do with their money, without putting any pressure on them, that would make sense in their financial circumstances. This applies to pensions as well, particularly the decumulation side of pensions. I will not go into that in detail, but the FCA is looking at it across the board.

Q126 **John Glen:** I totally respect and recognise the sensitivity around making any announcements today, but it is widely thought that there could be a move away from exclusive cash ISAs into more equity-based products. I personally would welcome that.

Can I just pick up on the issue that you have mentioned, Minister, about the capacity and willingness of the mass market to go down the equities route? If you reduce the cash ISA limit to £4,000 or £5,000, let us say, and you have that massive extra capacity, how do you avoid a situation where masses of people feel very uncomfortable? How can you avoid,



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from the outset, the risk that you set up the sort of scandals that have happened in which people jump on the opportunity to advise people to shift money out of cash and into something that is not suitable?

You mentioned the boundary review. I know it is a really tough matter, but could you just say a little bit more about how you anticipate getting the benefit, which undoubtedly is massive, of increasing the amount of money in aggregate that is put into equities, hopefully UK equities, while avoiding that consumer problem? How can you head that off at the start?

**Emma Reynolds:** All those choices are finely balanced, Mr Glen, as you will know from your significant stretch in my job. You were the longest serving, weren't you?

**John Glen:** You can just about make it if you survive until August 2029.

**Emma Reynolds:** There is a competition here!

Those decisions are definitely above my pay grade. We are looking in the round at what to do on ISAs. We are very interested in boosting the culture of retail investment. Anything that we do will be very carefully considered.

I just want to say to the Committee—I have said this on the Floor of the House—that I understand, because I have cash savings myself, that everybody, if they can afford to, would like to have some cash savings as a financial buffer in case something goes wrong. I lost my seat in 2019. I had a cash buffer for it. Your boiler might break down. You might lose your job. Your car might break down. People will always have some cash savings. No one is suggesting that that should be otherwise.

The FCA is doing the detailed policy work on this. It has just concluded a policy sprint on targeted support, which is a really interesting way of testing the policy. I cannot give you much detail around that, but it is really good that the FCA is looking at it in detail to get it right. As you say, we have to strike the right balance here. Ideally, we would have all the benefits and decrease the risk of the downsides.

We have some very good providers that are FCA-regulated and therefore have to comply with a whole set of rules. That hopefully gives consumers the confidence to invest for the longer term, along with the appropriate warning that you have to be in it for the longer term. There is no point investing in a stocks and shares ISA if you need the cash in six to 12 months, or whatever it is, in a short timeframe. You really have to want to save that money for the longer term. We think that giving people that confidence would be good for their financial resilience and good for the economy.

Q127 **John Glen:** I certainly recognise the complexity and the tough decisions you have to make. Can I just ask one question about the interaction between the potential ISA reforms, with all the caveats that you have mentioned, and the lifetime ISA? Clearly, each has a different set of



advantages. One is an envelope for £20,000 at the moment, tax-free on a perpetual basis of accumulated growth, et cetera. The other one attracts an annual £1,000 bonus, essentially.

We have looked at different issues around the deadweight cost. We will come on to look at some of that. Are you actively looking at the profiles of different cohorts with different levels of wealth and how they use ISAs and lifetime ISAs? One of the emerging issues that we are looking at is the fact that there is potentially quite a lot of deadweight cost in the lifetime ISA. How can you ensure that the quantum of fiscal advantages that you may have at your disposal is optimally deployed through these changes?

**Emma Reynolds:** I know there has been some correspondence between the Chair and HMRC. HMRC has commissioned three reports. It brought forward the first report and published it yesterday in order to assist the Committee with your inquiry. Taking it from the top again, the inquiry that you are doing is very timely.

The second study, which is not published yet, looks at a number of very significant factors around the demographics of the users of LISAs, the original reason that the subscriber opened a LISA, their employment status and their savings status. We are very much looking forward to this research. It is going to do a lot of different things, so there is a lot of pressure on the people conducting it. In all seriousness, again, it will be very timely. As you say, if we are going to use taxpayers' money, it is right that it is used in the right way.

Q128 **John Glen:** If it is a lifetime ISA, it conceivably could start much earlier. It could start before the age of 18.

**Emma Reynolds:** I see what you mean. We do have the JISA to cover that segment of the market.

**Chair:** Just to be clear, that is the junior ISA.

Q129 **John Glen:** You do not see it fusing with that or moving back?

**Emma Reynolds:** You are the first to mention it. I will have a think about that. I am not sure you would necessarily want to create an overlapping product with the junior ISA.

Q130 **John Glen:** It is just whether you simplify and have one that is an enduring advantage.

**Emma Reynolds:** We will take that back.

**Chair:** We can point you to the evidence we have had about this, which is quite interesting.

**Emma Reynolds:** That is very interesting. The second study will be very interesting. The first one is qualitative, as you have seen; the second is quantitative and surveys users of the LISA. The third one surveys non-



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users of the LISA. These will give us a lot more data, which will be rich in terms of what we can get from it, in a way that we have not had it yet.

As you will know very acutely, Mr Glen, although the LISA was not introduced in your tenure or designed by you; it came in not that long before you took up office as EST, so in 2017. It is still a relatively new product compared to the other ISAs, which are 25 years old.

**Chair:** That is partly the reason we thought this was a good time to look at it. Thank you very much, Mr Glen. Dame Harriett Baldwin MP.

**Dame Harriett Baldwin:** Thank you very much, Chair. I think I was the Economic Secretary when it came in.

**Chair:** It's like a reunion!

**John Glen:** There are several of us here.

**Emma Reynolds:** We could have a meeting afterwards.

Q131 **Dame Harriett Baldwin:** What is very interesting, and I welcome, is that you have mentioned the need to look at the advice guidance boundary and the targeted support changes early on in this conversation. With these initial questions, we want to give you an opportunity to talk strategically about how you see the LISA fitting into the landscape.

You will have been aware, when you were Pensions Minister last year at the time of the October Budget, how hares started to run and people took actual decisions with their savings as a result of those hares running. That is why I am keen to give you the chance to talk about how you see the LISA fitting in strategically to this whole landscape.

You have mentioned that you think having cash savings is important and therefore should be incentivised through the tax system; I think I heard you say that. Specifically, is home ownership a key part of your overall goal of improving people's living standards through improving economic growth? Do you see first-time buyers as an important group to support?

**Emma Reynolds:** Yes, we do.

Q132 **Dame Harriett Baldwin:** That is a strategic objective.

**Emma Reynolds:** Yes.

Q133 **Dame Harriett Baldwin:** Clearly, you are also looking at pension savings in the round and auto-enrolment, and whether there need to be any edits to that as we go forward. Presumably, pension saving continues to be at the core of helping people's living standards. You would accept that.

**Chair:** For the record, the Minister is nodding.

**Emma Reynolds:** I am no longer the Pensions Minister, but I take a very close interest in it. I gave up being Pensions Minister not that many



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months ago. At the moment, we are focused very much on the first stage of the review, not the second, but there is a link between the two.

Q134 **Dame Harriett Baldwin:** You also mentioned stocks and shares. Presumably, you see that as a way for UK taxpayers to share in the growth of the economy and invest for the long term, and therefore as something that it makes sense to encourage through the tax system. I have got you to nod to all those strategic things.

**Emma Reynolds:** Yes. Just to be clear about hares running, we do not want to add to the speculation. There are a lot of things being written in newspapers, with no offence to the journalists. There is a lot of speculation about what the Government might and might not do. As a Treasury Minister and a Treasury official, it is very difficult. We cannot comment on all the speculation. We do not want to fuel it either.

Q135 **Dame Harriett Baldwin:** No, I appreciate that. When you talk about stocks and shares, are you specifically focusing on investing in the UK?

**Emma Reynolds:** It would be investing in stocks and shares. As part of phase 1 of the pensions review, we are looking at what more can be done to drive investment into our own stock market. That will not be exclusive because, as you will know, Dame Harriett, to have a balanced portfolio you want to be investing in lots of different places.

Q136 **Dame Harriett Baldwin:** One of the first acts of the new Government was to cancel the British ISA, was it not?

**Emma Reynolds:** Yes. That would have helped those who were already able to put more than 20 grand plus into an ISA. I was not the Economic Secretary at the time, but there were reasons for that beyond the additional investment that it might have brought into stocks and shares.

Q137 **Dame Harriett Baldwin:** That does imply that we should not expect the new landscape to be more generous to the taxpayer than it currently is.

**Emma Reynolds:** I could not possibly comment, but all taxes are kept under review.

Q138 **Dame Harriett Baldwin:** I want to ask one other thing about incentivising first-time buyers. You have made a sharp change in terms of the stamp duty that a first-time buyer pays. I wonder whether you think that cuts across some of the encouragement to save for your first home.

**Emma Reynolds:** There are lots of different types of support available to first-time buyers. Arguably the biggest impact for first-time buyers will be increasing the supply of homes. Our Government have committed to building 1.5 million homes over the course of this Parliament. We have taken forward the most ambitious planning reforms that have been seen for generations.

In the spring forecast we were very pleased to see that the OBR scored the planning changes—this is just the NPPF planning changes from



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December, not the Planning and Infrastructure Bill changes that are going through Parliament at the moment—and gave us the biggest ever enhancement in GDP from those changes for any non-fiscal change that we have seen.

We are very committed to increasing the supply of homes. We are committed to the mortgage guarantee scheme. We are in very active conversations with the FCA because, in response to our recent letter to encourage the FCA to home in on growth and competitiveness, it came back to us and said it would look at the mortgage rules. I have then gone back to Nikhil Rathie at the FCA to ask it to do that in short order and to be ambitious. We are working very closely with the FCA on that. There is a particular emphasis on first-time buyers there.

There are other saving products, including the LISA but not exclusively, which help people to save for a deposit. I am very keen that Laura wants to come in.

**Chair:** We might want to bring in Ms Webster.

Q139 **Dame Harriett Baldwin:** I just have one last quick question, if I may. Given your reluctance to start any hares running in terms of speculation, I presume you want to make these announcements of changes sooner rather than later. Can you tell us when we are going to hear about these changes?

**Emma Reynolds:** As a Government, we are committed to one fiscal event a year. We think that is better for consumers and business because it means that there are not continual changes twice or three times a year. We are committed to one Budget a year. The spring statement was not a Budget, despite how some might have tried to describe it. The next Budget will be in the autumn.

Q140 **Dame Harriett Baldwin:** That is when we will hear these changes.

**Chair:** That is the earliest we will hear these changes.

**Emma Reynolds:** I am not going to comment about these changes because we are still in the policy consideration phase, but, as I said, we are committed to one fiscal event.

Q141 **Chair:** If it is not this autumn, it is next autumn.

**Emma Reynolds:** That gives people time to plan. If we were to announce any changes, whatever they might be, in the autumn Budget, although there are some that come in straightaway, they would usually come in for the financial year.

Q142 **John Grady:** One of the things you are emphasising, Minister, is the fact that long-term saving in equities is better for people and gives them more comfortable retirements and later lives. That is backed up by evidence from people such as Dimson, Marsh and Staunton. If I was a new retail investor, I would turn on the news and I would see the US



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markets moving around rapidly according to whether or not the chairman of the Fed is in a job this week. The global economy is very unstable at the minute. That is a very difficult environment in which to achieve a retail revolution of the sort we are seeking to achieve, is it not?

**Emma Reynolds:** We have to talk about people investing for the long term. You will have seen research by AJ Bell and other platforms suggesting that, if people had invested £1,000 a year in an ISA over the 25 years since 1999, they would have made a lot more money in stocks and shares than they would have made in cash. I was talking about this in Westminster Hall yesterday. If you want the stats, they are not in my head, but they are in Hansard. There was a very striking difference between the two.

Q143 **Bobby Dean:** I will cut to the chase and ask you the most straightforward question. We have had a lot of evidence about LISAs. There are probably three options on the table, to our minds: we could keep it as it is, we could change it or we could abolish it. Are those the three options that are on the table for you? Are any of them ruled out?

**Emma Reynolds:** We are looking at ISA reform in the round. We are very keen to hear your recommendations, but we are also very keen to see what the second HMRC study tells us because that is really going to give us a very detailed breakdown.

Q144 **Bobby Dean:** So it could be abolished.

**Emma Reynolds:** As I say, we are looking at it in the round.

Q145 **Chair:** Is it all on the table? I think that is the gist of it.

**Bobby Dean:** Yes, basically.

**Emma Reynolds:** Coming back to Dame Harriett's point, I do not want to set hares running. We have 1 million people invested in this product. It is £5.5 billion. As I said, we are looking at ISA reform in the round. We are very interested to hear what your recommendations are with regard to this product.

It is quite an unusual product, as you have already pointed out, because it has a dual purpose. The original intention was that it might have more than a dual purpose, by the way, from what I understand.

**Chair:** Yes, indeed.

**Emma Reynolds:** You had Michael Johnson before you, who was very into the detail of the design of the policy.

**John Glen:** He wrote it.

**Emma Reynolds:** Yes, he did, but I hear he was also quite disappointed with the outcome.

**John Glen:** He was disappointed with George Osborne's implementation



of it because the pensions industry got to him.

**Chair:** There is an opinion there.

**Emma Reynolds:** It is very interesting to hear the evolution of these things because we were not involved in the design of it. We will look at it in the round.

Q146 **Bobby Dean:** To fit the question that I asked, would you be happy to keep it as it is or will you need to make some changes?

**Emma Reynolds:** We are looking at it in the round alongside other ISAs and the reforms that we suggested we were looking at in the spring statement. How do we drive better return for savers? How do we support the Government's ambition to drive greater economic growth?

Q147 **Bobby Dean:** Can I go into one of the specifics, then—the hybrid element and the dual purpose of the product? In a previous Committee meeting, I shared that I had used the LISA to help me purchase my first home.

**Emma Reynolds:** Yes, I heard. Well done. How is it?

Q148 **Bobby Dean:** The home is great. I left the 70p as a balancing figure in the account and have not touched it since. I am sad to report that I had it in the stocks and shares version and that is down to 63p now. That is a slightly separate issue.

**Emma Reynolds:** You have to be in it for the long term.

Q149 **Bobby Dean:** Yes, exactly. The core point is that I have abandoned it since. From what we have heard in the inquiry, many other users have too. Will you be looking to improve or address the dual-purpose element?

**Emma Reynolds:** Again, I am sorry. I am really trying not to be evasive, but the second HMRC study is going to be really key to this particular question. It is a question that we are considering very carefully.

You could argue that one of the benefits of this dual purpose is that it is very flexible. You may have a situation where somebody is using it to purchase a home and that does not work out. They could use it for a pension later in life. There are pros and cons of having a dual-purpose ISA.

It is something we are looking at. As part of the second study, HMRC is looking at how the transition works, whether it works for people, whether people use it and what people are subscribing for. Mostly, people are subscribing for a specific purpose, but some people might be open-minded about how they are going to use it. They have gone out to the field and asked those questions. We will get a better breakdown of the uses of the LISA and this question about transition.

Q150 **Bobby Dean:** We have heard evidence saying that it is holding the



product back. You will be aware that there are not so many people out there who are offering the lifetime ISA. One of the reasons why is that people feel that having this additional element means it is quite difficult to provide advice because you have two different objectives. One is the short to medium-term objective of getting a home and the other is the very long-term objective of retirement. Is that a concern to you?

**Emma Reynolds:** We would be very interested in your views as a Committee on that, given what you have heard.

Q151 **Bobby Dean:** We are also interested in your views.

**Emma Reynolds:** Yes, I understand that.

Q152 **Bobby Dean:** It is going to be quite a long hour if every question we ask about the LISA is going to depend on the report. Could you give us a bit of clarification?

**Emma Reynolds:** It could be a long hour. The reason why your report and inquiry is timely is precisely that we are in the policy formation stage. If that is a disappointment to you, it should not be. The point of Select Committees is to influence Government policy. We will look at that alongside the other characteristics of the LISA. Do you want to come in, Laura?

**Laura Webster:** I was just going to say that the research that the Minister was referring to was commissioned and the first part carried out in 2023. As the Committee knows because of the questions that you have asked HMRC, there is a lack of granular data on users and the usage of the product. The research really will be very powerful and will give us much better information.

The second stage that the Minister was referring to asks over 1,500 people in a representative sample why they set up the product. We will be able to better understand the demographics of those who set it up for the primary purpose of saving for a home or for longer-term savings.

Going back to the relative immaturity of the product, relatively few people have left phase 1 and moved into phase 2. It is still quite early days.

**Emma Reynolds:** They could not until 2037 because they have to be 60. I do not know whether you are going to put a few more pennies in.

**Bobby Dean:** I am not turning 60 soon.

**Emma Reynolds:** No, you do not look like you are, but I do not know whether you will have a few more pennies in there before you are 60. I do not know. It is very difficult for us to evaluate, even in phase 2 of the study.

**Bobby Dean:** We have heard evidence on that as well.



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**Q153 John Grady:** I hope we are not going to have to disclose all our birthdays in this Committee. This question may be for Ms Webster. Will that HMRC study cover the following points? First of all, are people using the LISA appropriately from a tax point of view? You get a 20% bonus. In Scotland, if you are earning over £27,492 a year, you pay tax at 21% because we pay more tax in Scotland. Will it look at that point specifically?

**Laura Webster:** Yes, it will look at your wider savings profile, along with your demographics and your household demographics. It will be able to say what proportion of savers are basic-rate or higher-rate taxpayers.

**Q154 John Grady:** Will it be able to make the leap to whether people are using it in the most tax-efficient way?

**Laura Webster:** I am not sure it will provide a cast-iron statement for each individual that "this is the right decision for you from a tax-efficiency perspective". As you will know, it will also depend on how you intend to use that money in later life. If what you really want is to withdraw a larger chunk, you will need to think about the profile of that withdrawal and the marginal rate that you will be paying in retirement. It is almost too difficult to give a very precise answer on that question, but it will say which tax bracket people are in now. That will give an indication of whether it is a sensible use of tax-efficient savings.

It will also look at whether they are employed or self-employed and whether they are in a workplace pension separately. For example, it would be concerning if the study found significant numbers of employees were not choosing to take part in their workplace pension and had opted out of automatic enrolment but were in the lifetime ISA for that motivation. That would be a worrying finding.

When the product was launched, there was some concern by the pensions industry about the potential for it to undermine automatic enrolment. My experience is that that concern has not materialised. That is not something I hear from the industry any more. It is seen to be a bit more of a complement than a substitute for workplace pensions.

**Q155 John Grady:** Will the HMRC study address specifically whether people are making appropriate investment choices? As the Minister has explained correctly, the best way to invest over the long term is in equities and not in cash. Will it cover that point specifically?

**Laura Webster:** Again, it will not be personalised as to whether a financial adviser would recommend this particular course of action, but it will give higher-level findings on what proportion of people are in stocks and shares versus cash at four different profiles.

**Q156 John Grady:** I also have a quick question for the Minister. We have heard evidence that the withdrawal charge is causing hardship. We have also heard evidence that the property price cap should potentially be increased. If the withdrawal charge was changed or the property price



cap was increased, that would have a public finance implication. It could be quite material. Are the Government assessing robustly whether those steps are appropriate and whether there are better ways of spending the money?

**Emma Reynolds:** We have heard concerns expressed in your Committee and we have correspondence about some of the rules around withdrawal. You are absolutely right. You have got to the point that I was going to make about this. Any changes that could be made to perhaps improve that situation would cost money, and you would have to get the money from somewhere else.

There were mixed views in HMRC's first research study from users—this is qualitative, not quantitative—about the withdrawal charge. Some described it as unfair; some thought it was a good deterrent that made sure they did not take their money out. There are mixed views among users as to whether the withdrawal charge is a good thing or not.

We did not design the LISA—I did not design it—but it is a voluntary savings product. People go into it with their eyes wide open. The providers should make sure that they understand the terms and conditions. Having some rules around a penalty if you withdraw is in line with, for example, the rules around making an unauthorised withdrawal of your pension. In fact, the penalty for withdrawing your pension early is much heavier than the 25% in this case.

We cannot have a risk-free option where you are investing for the long term, but there is no charge if you take it out. We could not have that situation. There has to be some penalty or withdrawal charge in a product such as this.

Q157 **Rachel Blake:** You talked about how the supply of homes can really help with home ownership. I wanted to come in now to talk about the value for money of the overall product against its stated objective of supporting home ownership. We had some pretty compassionate evidence from some of the providers about the change and transformation that the product can have for people who are going into home ownership, yet we know that the average withdrawal to buy a home has been £15,000, while the average first-time buyer deposit is around £55,000.

What the Committee is trying to get to the heart of is what actual difference the lifetime ISA is making to home ownership and whether that £500 million annual cost, which is going up to £600 million, could be invested in another product or another intervention to support home ownership.

We have looked into what evidence there might be about alternative products. I would be keen to know what assessment you have made on the value for money of this particular product to support that stated objective around home ownership.



**Emma Reynolds:** I will give you a few stats to build on what you have said. We know that about 6% of those eligible to take out a LISA have taken one out. You have to be between the ages of 18 and 40—I am not in that category, Mr Dean, I do admit. However, 9% of first-time buyers have used it since its introduction in 2017. In the early years, not many people were using it. As Mr Dean will know, you have to build it up for it to be worth while. You probably want to be in there for at least two or three years to get the bonus.

As to what impact it is having on home ownership overall, that is difficult to say right now. I am sorry to keep referring to the second study—there are lots of expectations on HMRC's study provider here—but it will give us some more depth on those issues.

**Laura Webster:** It explicitly asks the group who have withdrawn to buy their first home whether the LISA was critical, helpful or a bit of a nice to have. That finding will be particularly interesting to Ministers and the Committee when it comes through.

Q158 **Rachel Blake:** That is a direct, multiple-choice question.

**Laura Webster:** Yes.

Q159 **Rachel Blake:** That is helpful. Just probing on this in terms of supply, you could invest this money in shared ownership. That would have a different impact. I have spent some time, as have the Committee Clerks, trying to find comparative evidence against different products. Shared ownership products are new supply; they incentivise new supply. Is there any evidence that you are aware of that could show the value that this product would have against investing in shared ownership?

**Emma Reynolds:** I personally have not looked at those comparisons. We are not into the detail on that.

Q160 **Rachel Blake:** Just going back to the second piece of research, we have not had any evidence so far that the money that is going into the LISAs is from individuals and not from family members. From the evidence that we have had so far or from HMRC, we do not know whether this is individuals who are able to save or money gathered from friends and family. Is that going to be probed within the research?

**Laura Webster:** Yes, that is covered in the research. As you will know, only the individual can deposit the money. The research is asking where the funds come from in the first place. It will enable you to see whether it is from parents, an inheritance or saved from earnings, for example.

Q161 **Dr Sandher:** I just want to build on what Mr Glen said around the deadweight loss of this product, whether it is worth it and whether it is helping people. If I understand correctly, the research will show whether people needed this to buy a home or it was just additional and who is contributing. Is it going to shed light on whether it is basically subsidising middle-class first-time buyers who the bank of mum and dad is already



helping in any case?

**Laura Webster:** It should help to answer that question. It is self-reported. The question on whether the user needed this product in order to complete the transaction will be the individual's view on it. It is the best that we will get on that question.

**Emma Reynolds:** It will also look at the tax bracket that the individual is in. It will not give you the income of their parents.

**Laura Webster:** It will give you their income and their household income.

Q162 **Dr Sandher:** To follow up on that, in terms of policy development, I appreciate that you guys came into office when it was already in place. Did you have any discussion at that time about who this was supposed to help? In one sense, it seems like it is intended to help those on lower incomes get on the housing ladder, but it looks like it could be additional. It is about £500 million. That is a lot of money to be spending. Have you seen that in any of the work that you did when you came into office, any of the descriptions or any of the policy analysis?

**Chair:** Ms Webster has been slightly longer in the job than the Minister in this case. Can you shine any light on that, Ms Webster?

**Laura Webster:** Again, there is something interesting about the dual purpose of the product. It will be interesting to see whether the research shows there is a difference in the profile between people who are saying they have opened this product as a later-life savings product—originally, there was quite a lot of interest in targeting it at self-employed people—versus those who are looking to get on to the property market.

If you look at the property price cap, the product was designed to target support at those looking to buy at lower end of the market. It is still above the average property price for a first-time buyer. It is targeted in that way.

**Dr Sandher:** I take the point, but, given how expensive house prices are and how much they have grown in relation to income, it is still not helping those younger people without rich parents to get on the housing ladder.

This is a question for you, Ms Webster; I appreciate that it is a broader question. We have a zero-based spending review and we are justifying each line of spending. In some senses, this is almost like a tax relief or a subsidy. Would it have been helpful to go through each line, such as the LISA, and ask, "Is this a good use of public money"?

**Laura Webster:** As the Minister says, tax is always kept under review. The lifetime ISA is technically a tax wrapper. It is seen through that lens rather than as a spending review question. To the extent that we are



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constantly looking at tax and the money that goes through various schemes, it is always under review.

The research was commissioned a while ago and is now coming through. It will be very informative in helping us understand who is using the product and how it is helping people.

**Q163 Dr Sandher:** My final question is to you, Minister. You spoke a lot about how it has to sit inside the broad scheme of what happens to the other ISAs as well. In either reforming or changing ISAs, will you be looking specifically at how the LISA could be reformed to help lower-income savers, specifically those without wealthy family members, save for the future?

**Emma Reynolds:** We also have help to save, don't forget. There are other savings products that are targeted at those on low incomes. We can talk about this as well. In the autumn Budget, we announced an extension of help to save to all universal credit claimants.

To be fair to the people who designed this product, it is quite difficult to make the sorts of restrictions that you are talking about. With the help to buy ISA, the limit on house prices outside of London was much more restricted: it was 250 grand rather than 450 grand. We have lots of complaints about the 450 grand. I am sure that the help to buy ISA had lots of complaints about the £250,000 house price cap. There are ways that you could do what you are suggesting, but there are trade-offs. I suppose the question is whether you want to help first-time buyers overall or only a subset of first-time buyers. Those are the policy choices that you need to look at on that.

Just to reiterate, this is not the only savings product. Do you want to say anything about help to save or any of the other schemes?

**Laura Webster:** There is also the consultation that was launched at Budget as well. The decision was to extend help to save in the first instance and widen it to all universal credit claimants. There was a consultation on possible reforms, which closed in January. There will be a response to that shortly.

**Dr Sandher:** That is very helpful.

**Q164 John Glen:** Ms Webster, you have mentioned the self-employed. The original intent was that the 25% bonus would provide an alternative vehicle for pension savings for the self-employed. To what extent is this review looking at that cohort and the failure of the pensions regime to deal with, despite auto-enrolment, the savings profile of the self-employed being at the level it should be?

**Laura Webster:** Are you talking about the pensions review?

**Q165 John Glen:** I am talking about the interaction between the two. The truth is that this has a bearing on that for the self-employed. Do you have any



observations about how you bring out the relevance of this product for the self-employed in the context of their pension provision?

**Laura Webster:** On the broader pensions review, you will be aware that last July the Government launched the pensions investment review and said the second phase of the pensions review would be forthcoming. That is still forthcoming. The specific terms of reference for that review are to be determined. At the time, I think it said that it would look at pensions adequacy and retirement savings in the round. I would expect that to be a good candidate to be part of that review.

Q166 **John Glen:** Is it reasonable to assume that this LISA is a suitable vehicle for a certain cohort of pension savers?

**Emma Reynolds:** Yes, but there are others for the self-employed. Certainly when I was Pensions Minister, I was very concerned about the low level of savings of the self-employed. The LISA is a vehicle that self-employed people could use. There are also SIPPs and other vehicles that self-employed people can use. It is true to say that we had auto-enrolment, for which there was great cross-party support.

**John Glen:** There was.

**Emma Reynolds:** That has been a very quiet but fantastic revolution in terms of the additional 11 million people now saving for a pension who previously were not. They are employed so they are saving for their pension through their payslips. That quiet revolution has not applied to those who are self-employed. That is a cause for concern for the Government.

**Chair:** We would love to talk more about pensions, but we have to focus on LISAs.

**Emma Reynolds:** Yes, I would be here all day. Laura also used to work at the DWP, so there we go.

Q167 **Chair:** I know you are enthusiastic about that, but that is mainly the business of our sister Committee. Minister, you talked about people going into the lifetime ISA with their eyes wide open, to quote you. As Mr Dean highlighted, being a hybrid product, that makes it much more challenging to give advice. Do you genuinely believe that people are going into this fully informed about the choices they are making at all times? It is about economic literacy? You quoted figures about 12 million people having money in cash LISAs and 5 million of them being interested in investing in stocks and shares. They are not doing that. You seem to be confident they have gone with their eyes wide open into a lifetime ISA.

**Emma Reynolds:** According to the first HMRC study, people said that they found it straightforward to open the LISA and to use the LISA to fund the purchase of their home.

Q168 **Chair:** The withdrawal penalty is a particular issue, though, is it not?



**Emma Reynolds:** As I say, there were mixed views. There is some confusion about the withdrawal penalty. There is a 25% bonus, but when you withdraw you do not just lose the bonus; you lose 25% of the whole. I can see how that could be confusing to people. It is the provider's responsibility, rather than the Government's responsibility, to make that clear.

Q169 **Chair:** As Mr Dean highlighted, it is a hybrid product. It is quite difficult to craft advice for this reason. This is effectively a pensions product, but you also have an ISA end of it. You have the short-term saving and the long-term saving. It is quite challenging for people to be thinking about it from both ends. We will go into the details of the technical differences between LISAs and other retirement products. Do people really understand it as well as you are suggesting?

**Emma Reynolds:** The truth is that I do not know because we have only the qualitative research so far. The providers have a responsibility to explain to those who are subscribing to the LISA what the rules are, what the terms and conditions are, and what will happen if they withdraw when they should not be withdrawing. Those rules should be set out by the provider. As I said before, one argument is that there are some positive things to be gained from having that flexibility.

Q170 **Chair:** While you were not the architect of this, and neither were this Government, nevertheless you are in the hotseat now as the Minister. This product is still a Government policy. Do you have any responsibility to make sure people are really going in with their eyes wide open?

**Emma Reynolds:** The design of the policy should be as optimal as possible. Ultimately, the providers are responsible for ensuring that they are providing the right information to their consumers. They have a broader obligation now under the consumer duty to ensure that the consumer gets the best outcome.

I admit that some of it is a little confusing, but the dual nature is not as confusing as the withdrawal charge issue that you mentioned. This is something that we will consider in the round.

Q171 **Yuan Yang:** Thank you, Minister. We have touched on the withdrawal charge, and I have a few questions about that, but I just wanted to give you the opportunity to summarise in one place what you see as the main benefits, in terms of the behaviour that the charge is intending to drive, and the main harms of the withdrawal charge as it is designed right now.

**Emma Reynolds:** As I say, I did not design the product. This is a savings product with a dual purpose: its intended purpose is to help people save to buy a home and to help people save for retirement. If a withdrawal is made that does not comply with that intended purpose, it is quite normal that there should be a penalty, as is the case in pensions and other savings products.

Q172 **Yuan Yang:** Is that in order that people use the product for that



intended purpose?

**Emma Reynolds:** Yes. It is also because they are getting quite a healthy bonus from the Government. There has to be some quid pro quo. That is the deal, is it not? You get 25% on top of your investment. We cannot have a product that gives you 25% when there is no penalty for withdrawing from it if you are not complying with the intended purpose. Otherwise, we would get so many people into the product who were not using it for its intended purpose.

Q173 **Yuan Yang:** Do you see any harms with the charge as it is designed right now?

**Emma Reynolds:** I have read some of the evidence to your Committee and I have correspondence about the charge, but we have to have some rules. Inevitably, there will be some hard edges. Laura, I do not know whether you want to say anything more about that.

**Laura Webster:** HMRC has already provided some additional data to the Committee and has committed to providing additional extracts of the data that it already has. That has shown in a bit more detail the number of unauthorised withdrawals, the average amount withdrawn and the different bands of withdrawal charges, which I hope the Committee has found helpful.

The research will go into that in more detail. The quantitative study will ask what led to that charge. The distribution shows that most of it is in the nought to £1,000 charge category, which suggests—we do not have proof of this—it is more in response to an event where you need to dip in. The average value of the authorised withdrawals is much higher at around £15,000. There are very few at the top end, which suggests it is people having to take everything out to buy the house.

That is not conclusive because it is just the current distribution, but we will get better information over time. Hopefully, the Committee has found that additional data from HMRC helpful.

Q174 **Yuan Yang:** Ms Webster, as you have described, you would suspect, based on the quantities involved, that many people are incurring the charge because they have suffered an unfortunate life event and they have had to rely on their savings. That could be a boiler breaking, as the Minister mentioned, or something else happening in their life. In that scenario, does the Minister see that withdrawal charge as being the right instrument? Is that one of the harms of the policy? Do you see that in some other way?

**Emma Reynolds:** You could not design a policy with so many get-out clauses. You could not say, "You will not have a withdrawal charge if your car or your washing machine breaks down". You could not have that. You have to have some rules around withdrawals that are not in line with the intended purpose. You cannot have a savings product that gives you a



risk-free withdrawal. That does not exist in this case; it does not exist in the other savings products either.

Q175 **Yuan Yang:** Perhaps we can talk about the level of risk. As you mentioned—

**Emma Reynolds:** I will just say that it is a voluntary savings product. People do not have to save into the LISA. They could be saving into a cash ISA and not have a penalty for withdrawing, but then they would not get the bonus. The bonus is the thing that attracts people into the LISA from the evidence that we have seen.

**Laura Webster:** It should be possible, with the supplementary work that is coming, to see the wider savings profile. If there were a significant group of people who had a lifetime ISA but had no other savings whatsoever, that might be somewhat concerning. You might expect people to have some cash saved in a different way because that would be their rainy day savings buffer and the lifetime ISA is for another purpose. We will be able to see how many people have no other cash savings and are using a lifetime ISA, which might point to an issue.

Q176 **Yuan Yang:** Perhaps we can turn to the question of the level of the penalty charge. With the 25% charge, as you mentioned, Minister, right now anyone withdrawing for whatever reason will lose not just the government bonus but also part of the capital that they invested in the first place, 6.25% of it. During the pandemic, there was a reduction in the charge to 20%. I was wondering how you think the trial period of that reduction went and whether you have any thoughts on the overall level of charge.

**Emma Reynolds:** The pandemic brought some very difficult financial circumstances for people. We were not in government, but I can absolutely appreciate why the Government at the time chose to reduce the penalty charge. Going back to the beginning, Mr Grady said, "If you reform this product, it will cost the Government money, and therefore you will have to find money elsewhere". There could be a case for changing the withdrawal charge, but you would have to find money from elsewhere in order to do that.

Q177 **Yuan Yang:** Ms Webster, you have seen the charge over its different evolutions. Do you have any analysis or any views on the benefits and costs of the different levels of charge?

**Laura Webster:** In the data there was a significant increase in the year that it was lower, but that has not fallen back down. I might have expected to see more of a spike in the data, if I am honest. It is interesting that that has not materialised.

The level of increase is perhaps not as high as we might have expected, but it has remained reasonably high. About 7% of holders made an unauthorised withdrawal in the last year for which data is available. It is significant, but it is a minority.



Q178 **Yuan Yang:** I have one last question on this theme. We discussed earlier the question of whether it is well-off families who are benefiting more. We know that low-income families tend to be more risk-averse. One of the sessions on the lifetime ISA that we held with a panel of consumer champions talked about the deterrent effect of the withdrawal charge to risk-averse groups. In particular, Ms Olufunwa mentioned that people found the idea of losing capital terrifying. Taking into account all the positive reasons why there need to be penalties to shape consumer behaviour, I was wondering what you make of that particular testimony around risk-averse consumers.

**Emma Reynolds:** I will go back to something that my colleague said. There are other saving products out there for a rainy day. This product was not designed for rainy day savings. If you need to be able to get hold of some cash for a rainy day, you could look at a cash ISA or something similar. That is what I would say in this case.

Q179 **Yuan Yang:** Another savings vehicle might be more appropriate for that group. Is that what you are saying?

**Emma Reynolds:** Yes, indeed. If they could save a little bit more, they might want to put it into the LISA. As a Minister, I am not going to give people financial advice. I am just saying that the intended purpose of this savings product is not to be the financial buffer that other cash savings could provide for people.

Q180 **Bobby Dean:** Just briefly, I want to ask about the interaction of the withdrawal penalty with the price cap. The price cap has not moved. Some people have commented on this. You aspire to save for a home and you think you are targeting a home that is within the price gap. You use the LISA product, but then house prices go up over the period that you are saving for and you are punished for saving in that way. At the time you made the decision, it was a sensible investment. Do you have any thoughts about that?

**Emma Reynolds:** What I will say is that the house price cap is relatively high. If you look at the difference between the house price caps in the LISA and the help to buy ISA, it is a 200 grand uplift from the help to buy ISA. From February this year, the average first-time buyer house price was £240,000.

Q181 **Bobby Dean:** Personally, I agree with that. The cap is quite high. You are talking about fairness and what the consequences are for choosing particular products. Some people might have, in good faith, chosen a product that was suitable for them and invested accordingly, but they are then getting hit with a withdrawal penalty because the price cap has not moved while house prices have. Would you be open-minded towards a specific exemption on the withdrawal penalty for people in that situation?

**Emma Reynolds:** That would be very difficult to police. I go back to the point—I am sorry to sound like a Treasury Minister on repeat—that, if we were to reform that, it would cost money. Is that money you would want



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to spend in this case? You would have to take money from elsewhere. It goes to Dr Sandher's point. Do you want to target it at those on lower incomes or lower-middle incomes? The more you ratchet up the house price, the more you are helping people on higher incomes. I would question whether you want to do that.

In the terms and conditions when you sign up to the LISA, the provider should state that that is the house price. It would not state that the house price cap will increase with inflation. It might not be popular with those who subscribe, particularly if they are in expensive areas, but at least gives the consumer some certainty about the level overall.

Q182 **Bobby Dean:** We are going to go into the price cap a bit more, but, just finally, in some of our hearings we have heard very strongly that the 25% should be changed permanently to 20%. I am getting the sense that that is not something you would consider. Is that right? Are you ruling that out?

**Emma Reynolds:** We are considering everything in the round, but it would cost us money. We would have to find the money from elsewhere.

Q183 **Chair:** In summary, you are happy for that withdrawal charge to include a punitive element because not doing it would cost the Government money.

**Emma Reynolds:** Not doing that would cost the Government money and it is a strong incentive not to withdraw. If you were going to reduce it to 20% or less, you would have to look at what impact that would have and whether that is really the desired outcome.

Q184 **Chair:** People would obviously lose the bonus, which is one of the big reasons for taking it in the first place.

**Emma Reynolds:** Indeed, yes.

Q185 **Chair:** No doubt everything is on the table. That is the latest phrase from Government, is it not?

Just coming back to the price cap, we have had a discussion about who it is aimed at. The £450,000 price cap is affecting some diligent savers in constituencies such as mine. There are very few properties at that level. The typical price for a new two-bedroom property would be £750,000. Just to be clear about what you have said, to have it clearly on the record, there are no plans to look at the price cap in the future of this product.

**Emma Reynolds:** We are looking at everything in the round. If we were to put it up to that level—let us take it as a hypothetical—it would cost the Government more money because you would have more people subscribing to that product because they would know they would be able to buy a product of that value. Outside Hackney, I am sorry to say, that is a very high house price. I know there are other parts of London, such as Ms Blake's constituency, where prices are probably not as high.



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Q186 **Chair:** Just to be clear, Ms Blake represents the Cities of London and Westminster. I represent Hackney South and Shoreditch. Both, or parts of both of them, are in zone one of central London.

**Emma Reynolds:** Indeed, yes. I represent a constituency outside of London, Wycombe. Buckinghamshire has quite high house prices, but they are nothing like you see in Hackney.

Q187 **Chair:** On that point, then, at the moment there is no increase in the house price cap for joint buyers. Is that something that might be considered if you have two people who are saving and decide to buy together? At the moment the price cap applies whether you are in a couple or an individual.

**Emma Reynolds:** You would want to be quite careful about that. I do not know what was in the minds of the people who designed the policy in the first place, but I can see the logic that, if you are buying as a couple, you are not able to double the price cap. Again, that does make the product available to many more people buying much more expensive properties.

Q188 **Chair:** In terms of house prices, the help to buy ISA had some regional element to it, but there is not one for the LISA. It is a national tariff.

**Emma Reynolds:** Yes, but it is much more generous—sorry, when I say “generous”, it is much more generous in terms of the level of house price.

Q189 **Chair:** Yes. Basically, just to be clear about what is on the table and what is not, would you be considering any regional variations? It can be hard and complicated to do.

**Emma Reynolds:** It is not something that I have actively considered.

Q190 **Chair:** Just going back again to this withdrawal charge, the key thing, as Mr Dean was driving at, is when you hit that price cap. In a constituency like Ms Blake’s and mine, people may have been saving in good faith, and the only options they have are to use this outside of the area that they are currently living in—so to move areas—or to pay the penalty.

**Emma Reynolds:** Some of us have even moved outside of London to get a lower house price.

Q191 **Chair:** Indeed, and lots of our constituents are driven out for all sorts of reasons, owners and tenants. If it was proven that that was the reason, is there any prospect that you would look at reducing the withdrawal charge, because they could not actually use it in the area where they are living?

**Emma Reynolds:** I am sympathetic. Some of these cases are difficult, but, where you have a “what if”, all the complexity that you build in is then very difficult to police. It would be very difficult to see a scenario where you had a lot of “what if”s, I am afraid.



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Q192 **Chair:** To summarise it, in a way, it is not really designed for constituencies that are in central London, where prices are above that cap.

**Emma Reynolds:** It was designed at a time when house prices were lower. That is the point that Mr Dean is making. I do not know how much lower they were in your constituency at the time, to be frank.

Q193 **Chair:** Quite a lot. They have gone up very rapidly. But we are not talking about my constituency; it is just an example of the challenges of regional pricing.

**Emma Reynolds:** I do receive a fair amount of correspondence about the price cap, but as I said before, if we were to increase the price cap, we would have to find money from elsewhere. The question then would be, "Is that value for money for the taxpayer?"

Q194 **Chair:** As Dr Sandher teased out with Ms Blake, there are issues about who it is directed at. Minister, we appreciate that you have a lot of options and choices on the table. Can I just go back to this first HMRC report that was being talked about? Just to be clear, Ms Webster, is that the one that had 50 telephone interviews?

**Laura Webster:** Yes.

Q195 **Chair:** Yes; we would be careful not to lean too heavily on that. Were they weighted interviews?

**Laura Webster:** No, it was a qualitative survey.

Q196 **Chair:** Yes, but it is only 50 people who had a discussion, so we cannot rely too heavily on that.

**Laura Webster:** No, it is indicative.

Q197 **Chair:** But the second report is more thorough and properly weighted.

**Laura Webster:** Yes, definitely. There are 1,500 to 1,600 surveys with LISA holders, and then a similar weighted sample, representative, with non-holders.

Q198 **Lola McEvoy:** Welcome, Ms Webster, from sunny Darlington, where you are my constituent, and working at the Darlington Economic Campus. It is great to see you here. We have heard a lot about the intended purpose. What is the intended purpose of the LISA as a retirement savings product?

**Laura Webster:** It is there to give people choice about how they wish to save for retirement. I can see the original design focusing on the self-employed, where there is perhaps more of a gap in the market, but originally—going back to the Turner commission—there was a three-tier division there, where the state pension provides the foundation, government policy encourages and nudges people into automatic enrolment, and then there is a layer of voluntary savings on top of that.



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In reality, the voluntary savings have not quite materialised, so the LISA is one product in a suite of pension savings and wider retirement savings products that are available.

In terms of who it is for, it does depend on individual circumstances, so your expected tax bracket while you are accumulating, then where you expect to be when you are retiring and how you wish to use your retirement savings. As I was saying earlier, under a LISA, it is the TEE—taxed, exempt, exempt—model so, if you want more freedom on what to do at the end without paying tax a LISA might be your preference, even if there might be less tax efficiency, to Mr Grady's point, but there are obviously SIPPs and other non-pension savings options available as well.

**Q199 Lola McEvoy:** In terms of your data and your analysis of people who are incurring the charge, in 2022-23 £75 million was made in incurring charges from people who had saved and then had to withdraw early. Are they people who have been saving for their first home and had to withdraw before buying it, or are they people who were using it as this retirement savings product and had to withdraw that? Do you roughly know what the distribution is?

**Laura Webster:** We do not yet know.

**Q200 Lola McEvoy:** Okay, so there is no analysis of that.

**Laura Webster:** Yes, we will have better data on that. I would just point to the distribution that HMRC has already provided, which to me suggests—it does not prove—that, because the bulk of those withdrawal charges are quite small, that you are not withdrawing the money to buy a property above the price cap, because I would expect a higher amount to be withdrawn.

**Q201 Lola McEvoy:** In terms of the data of a savings product, we heard evidence that, in 2019-20, 8% of people who had used the product to save for their first home continued to use it for a savings product. That has fallen to only 1% of people in 2024-25. What is your analysis of whether it is fit for purpose as a savings product? Do you think the LISA is on life support?

**Laura Webster:** Honestly, it is too early to tell. Some of the earlier evidence you have heard suggested that there is actually some potential benefit of getting people in the habit of saving and awareness of the product. Maybe it is okay if they withdraw, and then the point at which you buy your first home is not a point where you feel awash with lots of excess cash that you can continue saving, but it is there for you to come back to later. The product has not yet had enough time for us to give a well-rounded answer on that point.

It is certainly true that so far, from the evidence I have seen that you have received from others—and thank you to the Committee for publishing that yesterday afternoon—it looks like a low percentage are continuing to save, but a much higher percentage are keeping the



accounts open. Now, that could be inertia as much as an active choice, but it is interesting that we are not seeing the majority of people withdraw to buy their home and then shut their account. We just need to watch it.

**Q202 Lola McEvoy:** Minister, in 2019-20, 8% of people who had used the product for their first home put in for a retirement product, falling to 7% in 2021, 6% in 2022, 4% in 2024, and 1% in the last year. Is that a sign of the times or is it a fall in the product's effectiveness?

**Emma Reynolds:** I am going to ask my colleague.

**Q203 Lola McEvoy:** Just to be clear—because I know shouting numbers at you is not helpful—it is a steady decline from 2020 in terms of people reusing it, as it was intended, to continue saving. It is quite stark, going from 8% to 1%. We have seen a cost of living crisis and lots of other changes. Do you think there is a likeliness that it could see an uptake, it is fit for purpose and it is just a sign of the times, or do you think this is a steady decline?

**Laura Webster:** The truth is that we do not know. It could be that there are people who have put money in and saved for a house—a bit like Mr Dean—bought the house, kept it open and not put much more money in. Anecdotally, there may be quite a few people in that position. They have kept it open through inertia. I hope you do not mind me saying that, Mr Dean. That might be the case.

**Chair:** At 63p, maybe it was inertia.

**Emma Reynolds:** They might start to contribute in the future. People move out of employment and self-employment. If you are self-employed, this might be quite an interesting product. There are others, as I have said, to save for a pension, but this is one. As Ms Webster said, it means you get your income taxed TEE; it is taxed when you put in, but you are exempt during the growth and you are exempt when you take out, so there are advantages to the product. The truth is that we do not really know.

**Laura Webster:** The only other comment I would have on that is that, as time goes on, the people who were withdrawing earlier can only have amassed a smaller deposit, because of the limits on annual savings. I am purely speculating as to whether, if you are taking out a slightly smaller amount, it was less significant in your purchase and maybe you are continuing to save. I am purely speculating, but it is a slightly different profile, because people who are spending a lot longer to build up bigger deposits as the product has been open for longer and then withdrawing that might just be a slightly different profile of person.

**Q204 Lola McEvoy:** It is particularly interesting. If the idea is to create a habit and people have bought their first home, you would expect to see an uptick, even if there was a gap of a couple of years when had people bought their new home, rather than a really stark decline. We did hear



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evidence as well about it potentially being a good savings product for basic-rate taxpayers who are self-employed.

Why do you think there is an age-60 cap on when people can withdraw it? It feels like it is plucked out of the air. It seems a bit odd, because it is not in line with anything else. Ms Webster, what is your analysis on the reasons? You have been working on this for a while.

**Laura Webster:** It is important for this sort of product. If the aim is for later-life savings, it is really important that you cannot access it until later life. When that starts is a bit of a debate point and we have different points in the system with the normal minimum pension age for your private pension savings. As you know, it is currently 55. That will go up to 57 in 2028, and then the state pension age is continuing to rise as well.

It is about making sure that you have this window for people to open the product before they are 40, contribute to the product until they are 50, and then wait 10 years. I think that was part of the original Michael Johnson design; Mr Glen will correct me if I am wrong on that. Yes, it is about making sure we have sensible cut-offs in the system. I agree that it is a different one than ones we have elsewhere.

**Emma Reynolds:** It is better to ask Michael Johnson about this, or a member of the previous Government, but, to be fair to them, it is a midway point between when you are able to take your pension early and when you take your pension, if you see what I mean.

Q205 **Lola McEvoy:** Do you think it was potentially a compensation from the last Government for changes to the state pension age?

**Emma Reynolds:** No, because you can still take some of your pension early, do not forget, so 10 years before you retire. At 60, this is a midway point between that and when you do retire.

Q206 **Lola McEvoy:** As a final question on this, with the £500 million that is going into this product, we have heard evidence that as a retirement savings product there is a desperate need. One in five people who are self-employed are saving for retirement. Is this the best this Government can do, Minister? Looking at the evidence that you have heard today—and we are all forming an opinion on the evidence that we have heard—do you think it is the best we can do to serve self-employed people?

**Emma Reynolds:** It is not the only product out there for the self-employed. If this was the only thing the Government or the previous Government were doing to help the self-employed, it would not be enough. There is a question as to what we do to help the self-employed save for a pension, because it is not as easy, is it? The whole point of auto-enrolment is inertia, but you cannot get that if you are self-employed. It is one product of a number of products that you can use if you are self-employed and you want to save into a pension.



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I spoke at an event late last year when I was Pensions Minister. It was an event the IFS brought together, because it did a study into the low level of pension savings of the self-employed. This is a problem that has got worse over time, as well. The graph seems to go like that. I do not know whether that is because more and more people are self-employed or because, in the current workplace, there are different ways of being employed and different types of jobs that we did not have before. I am not an expert in labour force analysis, but this is not the only thing we are doing. The lack of pension savings of the self-employed is of concern. It is not my job any more, unfortunately. I am very pleased to be in this job, but it is something that you might want to ask the Pensions Minister.

Q207 **Chair:** In summary, then, who do you think this product is for as a pension and a retirement savings product?

**Emma Reynolds:** It is a flexible product. It could be for the self-employed, but it could be for employees who have an employer that is perhaps not matching the amount they are putting in.

**Laura Webster:** It is that point on where you want to make your additional voluntary contributions. Obviously it is not for us to give advice, but where there is an employer contribution you would hope people are taking advantage of that. Different schemes will have different options, whether you can continue to contribute personally on top of that, or whether you want to open a lifetime ISA. It is definitely something where people should look at the options and decide what is right for them.

Q208 **Chair:** Of course, if someone is offering it, they may only be able to give advice on the product they are offering, not necessarily advice around the whole pensions arena. Is that a worry? People will be self-selecting and getting advice on the product, but they will not get advice in the round about pension savings.

**Emma Reynolds:** They will get advice only if they pay for it, and they get targeted support if they do not pay. Well, at the moment they do not get anything, really.

Q209 **Chair:** The point is that, if, as a basic-rate taxpayer, you want to take out a lifetime ISA thinking that might be a sensible thing to do, you go to the provider, which provides advice on that product but cannot provide advice on your overall situation unless you are paying for it, which, as we know, lots of people are not. Is that a concern?

**Emma Reynolds:** It is a concern about all financial products, but that is what we are trying to solve. This whole problem of that big gap is something that we are trying to solve through the advice guidance boundary review.

Q210 **Lola McEvoy:** Can I just come in on the question around who this is for? We know the intention when it was set up, but currently, if you have £5,000 spare that you want to save for later life and you are happy to put



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it in until 60, and your eyes are open about the penalty charge, is this the best return you can get for that £5,000?

**Emma Reynolds:** We are not here to give financial advice to people. It will depend very much on your circumstance. It will depend on your allowance. It will depend on what your employer does in terms of contributions. It will depend whether you prefer to pay tax up front and be exempt, exempt, so the TEE, which is what Michael Johnson had in mind.

Q211 **John Glen:** In effect, though, for basic-rate taxpayers the bonus really gave the effect of exemption on entry, because it was effectively EEE.

**Emma Reynolds:** Yes. The original intention for the basic-rate taxpayer was EEE, but you have to assess that in the round on anything else that you are doing with your money. We have to be careful here. Providers have to be careful to give advice, but I do not want to be quoted from this Committee as saying, "If you have this amount of money, you should do this with your money". It completely depends on the circumstances of the individual.

Q212 **John Grady:** On the other side of this, of course, are the providers. The evidence we have had is that the major banks and a lot of the big ISA providers do not provide LISAs. Neither do some of the big building societies, so it is a pretty small pool of providers that provide this product. Why do you think that is? Is it because they are concerned about the risk of mis-selling, in particular, for a long-term retirement product? Has the Treasury done any work to understand why the LISA is not very popular with the investment providers?

**Laura Webster:** It is obviously a commercial decision of the providers as to whether they want to offer the product. A lot of work was done with the FCA on guidance, to make sure providers were appropriately supported on any concerns about risk of mis-selling or consumer duty. There was additional guidance supplied through the FCA. There has not been any push beyond making sure that people understand the product and know how to engage with it if they choose to do so.

Obviously, there are lots of conversations with providers and the wider industry, which the Minister and I will speak to frequently, but not in terms of us trying to push providers to offer something that they are not currently offering.

Q213 **John Grady:** This is a follow-up question for the Minister. This is quite an important point, because only about 6% of eligible people have opened up a LISA. It is really important that people save more for their retirement. That is what the data shows. We have a real problem coming down the train tracks.

It is really important that we get fresh capital into British industry and British businesses. All this points to a situation where we need people to save more. Here we have a saving product that very few people use and



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very few of the main providers are prepared to provide. Understanding why that is the case would appear to be pretty important to me. Would you agree, Minister?

**Emma Reynolds:** We should dig into it more, but what I will say is that it is one savings product, right? There are lots of people between the ages of 18 and 39 who have access to different savings products. It is one of a suite of savings products, so you would not expect the take-up to be a huge percentage. I agree with you that 6% is really not very high, but 9% is one in 10 first-time buyers since its inception in 2017. Given it has had a quite slow start, that is not bad, actually. I would say it is mixed.

**Laura Webster:** There is the fact that 88% of employees are saving into a workplace pension. Not all of those 6% might be motivated by later-life savings; it is slightly apples and pears. There are a big chunk of people who are now saving into workplace pensions thanks to automatic enrolment.

The research published yesterday includes some views from eligible non-holders, precisely to try to understand a little better why people who could open a lifetime ISA do not choose to do so. When the quantitative work follows, it will answer some of the earlier questions about whether there something in the demographic profile about people who are eligible but not taking it up. It could be, to your earlier point, about lower-income individuals or lower-income households appearing more risk averse and choosing not to take a lifetime ISA. It will be very useful to have the findings of that study.

Q214 **Rachel Blake:** I just wanted to come back to the research that is coming up, because we are all very excited about it. When is it going to be published?

**Laura Webster:** It is nearly finished, as I understand it. There are waves of the survey, as the Minister said earlier. The second phase was conducted towards the end of 2024. That work is being written up by the contractor, and quality assured, as you would expect. The survey with the eligible non-holders started in February.

Q215 **Rachel Blake:** That is number three.

**Laura Webster:** Yes.

Q216 **Rachel Blake:** And number two is due to finish anytime.

**Laura Webster:** Yes.

Q217 **Rachel Blake:** Is that weeks or months?

**Laura Webster:** The general rule for government social research is that, once the Department has a signed-off report, it aims to publish that within 12 weeks. It could be weeks to a few months, I would expect.

Q218 **Rachel Blake:** The third report, which is the people who do not have it,



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is a few months behind that.

**Laura Webster:** We can confirm to the Committee if this is wrong, but I am expecting it to be the same report. There are three phases, but the final report will include both quantitative surveys.

Q219 **Rachel Blake:** Just to recap on the context, to make sure that we are really clear, it will help us understand what I see as the distributional problem that I and Dr Sandher have talked about, in terms of what part of the income distribution this is helping. It does cover that.

**Laura Webster:** Yes.

Q220 **Rachel Blake:** It addresses the deadweight problem by asking where the money is coming from.

**Laura Webster:** Yes.

Q221 **Rachel Blake:** Are there any other ways that the research can address the deadweight problem?

**Laura Webster:** Individuals are asked whether it was essential to facilitate the purchase of their house.

Q222 **Rachel Blake:** But it is self-reporting.

**Laura Webster:** Yes.

Q223 **Rachel Blake:** It is 1,500 people self-reporting.

**Laura Webster:** It is a weighted and representative sample, though, so the results should be robust and valid. The other thing to note is that it is not just the individual's income, but we will also look at the household income. That is normally challenging with HMRC data, because it is individual-level datasets, so the research will help us understand better the household position.

Q224 **Rachel Blake:** Does it break people down by their current tenure, such as living with parents or being a private renter?

**Laura Webster:** I would need to check that.

Q225 **Rachel Blake:** Minister, you did give us a hypothetical. I have been resisting asking you hypothetical questions, but you engaged in the hypothetical by talking about lifting the cap. Hypothetically, if we were to find that there was a significant deadweight problem here, what types of changes might be available to this product or to a home ownership product?

**Emma Reynolds:** Those are a lot of hypotheticals. We want to be led by the evidence. We need to look at the evidence. There is significant social benefit in ensuring that we have more first-time buyers. It is something that the Government are prioritising. There are different ways you can do that, as I have suggested. The planning reforms are a big part of that. Increasing the supply of homes is a huge priority for this Government.



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I personally would not call it a deadweight, because that generation is still having to pay much higher prices. The ratio between their earnings and house prices is much, much higher than it was 10 or 20 years ago, let alone 30 or 40 years ago. We just need to be a little bit careful about how we think about home ownership and who this scheme is helping.

Q226 **Chair:** Just on the research that is coming up, it obviously plays into the work we are doing. I wonder whether it is possible for us to have sight of that second piece of research from HMRC, in confidence, to help craft our report.

**Laura Webster:** We can speak to HMRC.

Q227 **Chair:** If it is imminently going to be published to the Department, we would obviously maintain confidence on that.

**Laura Webster:** Let me check on the completion of the fieldwork for the final report.

Q228 **Chair:** We can have some dialogue about that behind the scenes, just because it would be odd for us to put out a report that did not reflect that. We would make sure we time it appropriately, so we can negotiate that.

Finally from me—before I pass to Ms Yang on a slightly different issue—I do not know whether it is fair to say, but in some ways, Minister, you maybe seem ambivalent about this product. Do you like the lifetime ISA?

**Emma Reynolds:** It is not about whether I like it.

Q229 **Chair:** We look at it because it is an interesting product.

**Emma Reynolds:** There are pros and cons. Government is about trade-offs. It is healthy to look at it in the round of the broader ISA framework, but also to see what the advantages and disadvantages of it are. There are advantages to it and there are disadvantages. Some of those have been brought out in your evidence sessions. I am relatively open-minded at this stage.

Q230 **Chair:** Everything is on the table. It is just worth saying this, because people might be watching and worried that there might be changes if they have a lifetime ISA now. Can you just say, for the record, that if a product were to be abolished, for example—to take the extreme end of the options—existing holders of LISAs would be protected under the regime and the legacy product would continue?

**Emma Reynolds:** That is what has happened in previous cases, if you look at the help to buy ISA.

Q231 **Chair:** And the child trust fund.

**Emma Reynolds:** That will have had an impact on the figures in the early lifetime of this product, because you were still able to subscribe to the help to buy ISA.



Q232 **Chair:** I just wondered if you can say anything reassuring to people about that on the record.

**Emma Reynolds:** We know that over 1 million people are invested in this. There is £5.5 billion invested in it. We want to provide reassurance to those people that we want to encourage them to keep saving. We see this as a product that is helping them to do that, but we are looking at the reform of the ISA landscape more broadly.

**Chair:** People will take that as they do.

Q233 **Yuan Yang:** Ms Webster, I have a question about the structure of assessment of tax reliefs versus spending lines. The lifetime ISA has just had its eighth birthday. We have just heard about the great research that HMRC is doing that we will hear from in due course. If this had been structured not as a tax relief or as a tax benefit, but as a spending line—if it had been a Ministry of Housing spending line to promote home ownership, let us say—would it have received a higher level of scrutiny over those eight years?

**Laura Webster:** It would not have been a different level of scrutiny; it is more the framework through which it is scrutinised. It is not true that it would have been a different level of scrutiny, because the Treasury has a close eye on all the lines, whether they are tax or spend.

Q234 **Yuan Yang:** Does that mean that for the million or so people who hold lifetime ISAs there would be ongoing collection of data on their use and, if so, whose departmental responsibility is that?

**Laura Webster:** I am sure you are aware that the Treasury and HMRC work in policy partnership together. The analytical resource in HMRC is very much part of that partnership. It is not the case that Treasury has its own analysts working on tax research, for example. We do that very much in partnership with HMRC, so it is a policy partnership responsibility.

As I would expect with any research of this nature, you receive the report and then part of receiving it is deciding whether and when to do any follow-up work. In some cases, the research throws up things you might not have expected, or a survey has to be contained to some extent, so there might have been questions that were not included in this round. If there was sufficient interest and Ministers wanted further work, there are always options to design a future programme of research, whether that is on the lifetime ISA or other products. HMRC has a very ongoing active research programme.

Q235 **Yuan Yang:** Has that data been collected over time with the intention of assessment and analysis of the benefit, or is it collected just as a by-product of HMRC's tax returns?

**Laura Webster:** Thankfully, HMRC is a very data-rich organisation and that facilitates lots of really helpful analysis. That is the basis of much of



the modelling that goes into the OBR when we originally cost policies. That data is not perfect, because no data is perfect. A particular challenge for HMRC data is that, because we have an individual-based tax system, it is not possible to properly link couples or families living together. That is where additional research is often most valuable, to get a broader picture of the taxpayer.

Obviously, Government have to decide the burden of data collection. It has to be appropriate both from an individual citizen perspective and in terms of the burdens placed on providers—if it is providers that have to supply the data to HMRC—and on HMRC to cleanse and manage that data. There is a constant balance to be struck, but we are quite lucky that HMRC is a pretty data-rich organisation. You will have seen, from the questions that the Committee has sent to HMRC already, that there are a few things either that HMRC does not have or that would take quite a significant amount of time to extract.

**Q236 Yuan Yang:** It just strikes me that the collection of data and the design of the data collection has not necessarily been done with impact assessment in mind. That is the case not just for this particular tax credit, but for over 1,000 tax reliefs that remain in the Treasury and HMRC's hands. I just wanted to register that concern.

**Laura Webster:** Yes—sorry, I get the question. Part of it is about our self-assessment data. The mechanics and process of adding new fields to that is a decision that is regularly reviewed. We will think about what data we need to collect and whether there are improvements to be made. That is a prioritisation exercise and a question of trade-offs. That is all I will say on that.

**Chair:** HMRC is supposed to be collecting only the data important for collecting tax, so there is a limit to the datasets that it can collect. This is the beginning of another conversation, so, rather than start this at the end of the session, I thank the Minister, Emma Reynolds MP, Economic Secretary to the Treasury, and Laura Webster, director of personal tax, welfare and pensions at the Treasury, for their time today. The transcript of this session will be available on the website uncorrected in the next couple of days. We will be producing our report in due course, depending on the timing of that HMRC research. Thank you very much indeed.