# Lifetime ISAs – free money from the Government

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*Editor's note: although Amin is a member of UKSA's Policy Team, he is writing in a personal capacity.*

Firstly, what is free money?

For money to be free, somebody has to give it to you, and not take it away later. For example, the tax refund on paying into a SIPP is not free money because when you take money out of the SIPP (apart from the 25% tax-free lump sum) you pay tax, possibly at higher rates than your original tax refund.

However, with a Lifetime ISA ("LISA"), the government gives you a bonus which it never takes back, provided you comply with the rules. That bonus is free money.

## The basic LISA rules

These are set out on the Government website page. I have summarised them below:

Contributing to a LISA:

• You must be aged 18 or over, but under 40, to open a LISA;

• Once a LISA is opened you can keep contributing until you reach 50;

• The maximum annual contribution is £4,000. This counts towards your annual ISA limit of £20,000;

• The government will add a 25% bonus to your savings, so the maximum bonus is £1,000 per year;

You can take money out of a LISA without any penalties in three circumstances, namely if you are:

1. Aged 60 or over;

2. Terminally ill, with less than 12 months to live;

3. Buying your first home (subject to certain conditions, which I ignore to save space).

Accordingly, if you pay the maximum of £4,000 into your LISA every year from age 18 to 50, which is 32 years, you will have received £32,000 of government bonus, all of which you keep, plus keeping all of the growth in the LISA, all entirely tax-free.

If you take money out in any other circumstance, you are charged a penalty of 25% of the money withdrawn.

Since the government bonus only represents 20% of the LISA fund, the 25% includes a real penalty since you are paying back more than a government's notional share of your LISA. However, if you follow the rules, the penalty will never arise.

## What I did for my children

LISAs started in the 2017-2018 income tax year. I was a bit slow getting organised but in January 2018 persuaded both of my UK-resident adult children (then aged under 40) to open a LISA and contribute £4000 each. I also gave them £4000 each.

I have given them £4,000 each in every subsequent tax year, just after 6 April, which they have chosen to contribute to their LISA.

They invest entirely in equities and have just made their April 2021 investment. Their LISAs are worth about £31,000 each, derived from personal contributions totalling £20,000 each. (Neither child's LISA has yet received the 2021-2022 government bonus, so that £1,000 each should be added on to the value.)

## National take-up statistics

HMRC publishes statistics annually, but the most recent figures only go up to 2018-2019. In that year, £604,000,000 was contributed to 223,000 LISA accounts, so the average amount contributed was £2,708. The average figure makes sense since there is a £4,000 maximum.

While 154,000 LISA accounts received a contribution in the previous year, 2017-2018, I would expect most people once they had an account open to keep contributing to it. Accordingly, 223,000 is a reasonable estimate for the total number of individuals who had a LISA by 5 April 2019. I would expect the number to have grown since then, but not dramatically.

This contrasts with the figure of 18,576,083 UK resident people in the age range 18-39 shown in the national census. The take-up is microscopic; approximately 1.2%.

I refuse to believe that the low take-up is entirely due to lack of ability to save. The top 5% say of the income distribution would certainly have the resources to save, and probably a much larger proportion of the income distribution would. Accordingly, the microscopic take-up must derive from lack of awareness.

In my view the LISA is the most generous individual savings product available in the UK, and the low take-up demonstrates appalling widespread ignorance.

## UKSA members?

I suspect that most UKSA members, like me, are rather too old to open a LISA! However, I would be interested to learn the percentage take-up by eligible adult children of UKSA members. I would hope that it was significantly greater than 1.2%.

The availability of free money is why I put LISAs number 6 in the decision hierarchy in my article "Personal Finance 101" in TPI issue 209 for those young enough to be eligible to invest in a LISA.

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