January 2025

MoneySavingExpert submission to Treasury Committee call for evidence: Lifetime ISA inquiry

Summary

MoneySavingExpert (MSE) welcomes the opportunity to respond to this call for evidence.

The Lifetime ISA (LISA) can be an unbeatable savings product for many would-be first-time buyers, and it is an especially important vehicle for those without access to a 'bank of mum and dad'. But there are major flaws in its design, and changes are needed to make the LISA work better for first-time buyers:

1. Its dual use as a pension savings product means it's overcomplicated, and few providers – and no major high street banks – offer it.
2. People who could benefit from a LISA are scared to get one because of the risk they'll pay the state a penalty from their own savings if they have to buy a non-qualifying home. Someone who has saved into a LISA and buys a first-time home with those savings should never have to pay the state a penalty.
3. The product isn't linked to any measure of inflation – meaning it isn't future-proof, particularly for those buying in and around cities.

Of course, a product such as the LISA – or any that intervenes in the housing market – risks pumping up property prices and becoming counter-productive. Our view is that, on balance, there is no other savings product like the LISA that really enables people to take their first steps on the housing ladder. With reform, the LISA can continue to be an excellent savings vehicle for this purpose – especially for those who'd otherwise struggle to build a deposit, including people from lower-income backgrounds and those who don't get help from family or friends. The benefits of a LISA are a great solution to that problem – so if there is to be no LISA, there needs to be an equivalent product available to help build a deposit.

1. Is the Lifetime ISA fit for purpose in its current design, including as a combined product for house purchase and pension saving?

Many of the features of the LISA are good and well-intentioned, but its dual use has meant the scheme is overcomplicated and has reached far fewer first-time buyers than it should have been able to.

We have a guide on the MSE website that sets out all of the key information that savers should consider, including the best rates available from providers. Yet we constantly need to make sure that people understand these two uses and associated risks with both.

There is too much explanation needed upfront, particularly regarding the pension element and the penalties that can be incurred – including a 6.25% hit to your *own* savings – for making an unauthorised withdrawal (in the unfair case that you buy a property over the scheme's £450,000 price cap, or if you need to withdraw for any other reason before 60). This is confusing and off-putting from the outset for would-be first-time buyers, many of whom, understandably, want a risk-free way to save for a deposit.

Further, the pensions element has prevented all of the main high street banking providers from offering a LISA. This limits people's options and further knocks confidence for those who want a safe way to save for a first home with a name they know, meaning they potentially miss out on the 25% bonus.

2. How well do consumers transition between using the Lifetime ISA as a product for house purchase, to then a product for pension saving?

We've seen limited MSE user feedback or enquiries on this transition, which suggests that people are not interested in moving between the two uses.

4. Is the Lifetime ISA a suitable pension savings product?

In our view, the pensions aspect of the LISA is not the main boon of the product – nor is it the best option for the majority of pension savers. For most people (except some specific cohorts), the LISA is not nearly the best value nor the most suitable vehicle to save for retirement – a workplace pension or self-invested personal pension (SIPP) should be a first port of call.

There are some other drawbacks to saving into a LISA for a pension, which make it very unattractive even for those it could financially benefit. For example, LISA savings also affect benefit entitlement (unlike other pension vehicles while within the wrapper). LISA pension savings are also not protected if you go bankrupt (unlike most other pension funds before they become accessible), meaning you could be forced to cash in early, incurring a 6.25% penalty.

As mentioned above, the complexity of the LISA product – particularly in this highly regulated area – has also made it less attractive for more well-known providers to offer it. Major high street banks don't offer the LISA, unlike the Help to Buy ISA, and only a handful of building societies do – some are not existing pension providers, and others worry about mis-selling.

The previous Help to Buy ISA scheme was also boosted by these well-known banks' marketing of the product, which we suspect improved people's overall awareness and understanding of the scheme. This is not the case with LISAs.

5. Should the Lifetime ISA be abolished?

As we set out under question one, for those saving for a qualifying first home, the LISA and its 25% bonus cannot be matched by any other savings scheme. On balance, it is still a good product for many savers who use it to buy a home under the scheme's property price cap, and it's been a particularly useful tool for social mobility, giving a step up to those without access to the 'bank of mum and dad'.

We believe that, with some reform, the Lifetime ISA can continue to be a powerful product and be made even more accessible to would-be first-time buyers.

If the scheme were to be closed to new applicants, it is incredibly important that those with an existing LISA can continue to use it as expected. If they are not able to do so, LISA holders should have their savings, including any accrued bonus, returned to them in full, penalty-free.

Further, if the LISA is taken away, there needs to be another solution that can incentivise and help people who might otherwise struggle to build a deposit.

6. Should the Lifetime ISA be reformed to remove the withdrawal penalty?

As explained earlier, the LISA's design flaws leave would-be first-time buyers put off by potential risks. One critical risk is that of the withdrawal penalty.

As LISA rules have not kept pace with property-price inflation, current and future savers increasingly worry that the LISA isn't future-proof and could leave them with less than they put in if: a) they don't buy a home, or, b) they do buy a home, but it's not a qualifying one (in other words, one over the £450,000 price limit).

This risk is something we have no choice but to explain when covering the LISA on the MSE website and in the wider media. These caveats add to the confusion and reduce consumer confidence.

As the committee will know, an 'unauthorised withdrawal' incurs a penalty of 25%, which not only removes the government bonus, but also fines the saver roughly 6.25% of their own money, which is paid to the state. Someone who maxed out their LISA each year since launch now stands to leave with £2,000 less than they put in (indeed, £2,000 less than with any other cash savings product, or even no product at all).[1] Not only that, but they suffer an additional hit to their affordability, as this reduces their purchasing power.

Despite average property prices in the UK rising by 33% since the LISA launched in 2017[2], the scheme's £450,000 price cap has stayed the same. This has already meant that some savers have found themselves priced out of accessing LISA benefits, and worse, having to pay a fine to access their own money – even if they are still buying a home, but it's over the limit.

Recognising the spirit of what the LISA was meant to achieve, we accept those buying over the property cap may not get the bonus, but it's unfair that they should lose their own money too. Simply, no one should be financially worse off after using this product – which they've saved into in good faith – for its intended purpose. This is something we've been campaigning to change.

For some who know they will be buying a home under the cap, the Lifetime ISA will continue to be a helpful product. However, without change, it risks becoming unfit for purpose for those who need or want to buy in more expensive urban areas, as savers lose confidence that they will be able to find a suitable property under the frozen cap and will eventually have to pay to access their money.

> **We urge the committee to recommend that the penalty be reduced to 20% for those still buying a home –** so they lose the bonus but none of their own savings if they're buying a suitable home but have been priced out. This will give current savers flexibility to use their money as the scheme intended and give prospective savers confidence that they will be able to do the same when the time comes.

> **As a secondary ask, the committee should consider ways to future-proof the product against property-price inflation, giving confidence to savers.** For example, we recommend that the property price cap be immediately raised by 33%

[1] If a saver had put in the full £4,000 each year since LISA launch, they would have a total pot of roughly £40,000: £32,000 of their own savings, plus £8,000 in bonuses. They work in London and find themselves needing to buy a home in the area that is over £450,000. This falls foul of the scheme's rules, which means after the withdrawal penalty is incurred, they get back £30,000 (ignoring interest, for ease).
[2] Land Registry, UK House Price Index, last accessed 20 January 2025.

to catch up with house price growth since 2017, and then be linked to property-price inflation thereafter. This could be done regionally, or nationally.

In the 2023/24 financial year, MSE estimates that the Government collected approximately £15 million in fines from unauthorised LISA withdrawals.[3] This figure excludes the government bonus reclaimed and represents only the amount of savers' own money lost. As far as we're aware, there is no central data available on the reasons why savers make unauthorised withdrawals from their LISAs, but survey data collected by provider Moneybox in February 2023 showed that 12% of its savers making an unauthorised withdrawal in the previous month had done so to buy a property over £450,000.

Using this as a guide, only a small proportion of the total fines collected by the Government would be affected by this change. MSE analysis of this data roughly suggests that in the 2023/24 financial year, the Treasury would have only lost out on around £1.8 million if the penalty had been reduced to 20% for these savers.[4] For the Government, we feel this is not a lot to lose, but comparatively, it is substantial to each of those affected.

However, we believe that the proportion of savers withdrawing to buy a home over the limit has grown since. Moneybox asked a similar survey question in January 2025 and found 15% of its savers who'd made an unauthorised withdrawal in the previous six months had done so to buy a home over the limit.

MSE users told us about the impact the penalty had on them:[5]

> *"I think it's very unfair. It felt as if our money was being taken away from us, despite us doing nothing wrong, as we used the LISA for what it is designed for – buying a house."*
>
> *"If you're taking money out of a LISA to buy a property that's over the cap, I think that's really unfair when it's supposed to be a scheme to help first-time buyers. You take one step forward by using these schemes, but then you're worse off and taking two steps back because of the rules."*

7. Should the Lifetime ISA be restricted to those with no access to a workplace pension?

The main use and key boon of the LISA is for homebuying, not pension saving. We are strongly against this suggestion.

8. Should the Lifetime ISA house price cap be raised in line with inflation, or removed?

Building on our answer to question six, we reiterate our secondary proposal that the Lifetime ISA property price cap should be raised in line with inflation immediately, then linked going forward to ensure a dynamic cap that responds to changes in the market, on a regional or national basis. It could also see the cap fall if property-price inflation drops.

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[3] MSE analysis of HM Revenue & Customs' Annual savings statistics 2024, 19 September 2024.
[4] MSE analysis – assuming that 12% of the £15 million in penalties can be attributed to those savers who withdrew funds to buy a home over the limit.
[5] These comments are from MSE users, collected in 2024. We have anonymised them for our submission.

Average first-time buyer property prices in Great Britain, and UK house prices generally, have risen by a third since 2017.[6] If the cap had kept up with this increase, it would now be £598,500.

This problem is most acute in London – where property prices in many areas were already near to, or over, £450,000 at the LISA's launch. Our analysis of the latest available Land Registry data found that average first-time buyer property prices are above the £450,000 cap in 18 of the 32 London boroughs, and a further five boroughs have average first-time buyer house prices within 10% of the cap.[7]

Savers looking to buy in higher-priced urban areas outside the capital are also at increasing risk of being priced out of the scheme completely, through no fault of their own. In several areas, average first-time buyer prices were under £400,000 when LISAs launched, but are now within 10%, or even 5%, of the cap.

For example, the average price for a first-time property in **Windsor and Maidenhead** at LISA launch was **£390,000**. A saver could then have reasonably believed they'd be able to buy something in the area under the scheme's rules. Yet the average price has since risen to around **£435,000** – still under the cap, but a saver would feel much less confident about their chances of using their LISA savings in the future without a penalty.

Other areas outside London have been similarly affected – for example:

Area	Average first-time buyer price in 2017	Average first-time buyer price today*
Elmbridge	£406,000	£461,000
Three Rivers	£404,000	£444,000
St Albans	£403,000	£450,000
Windsor and Maidenhead	£390,000	£435,000
Cambridge	£367,000	£429,000
Oxford	£365,000	£421,000
**Table covers the areas outside London with the highest average first-time buyer prices according to the latest UK House Price Index data for November 2024. Prices rounded to the nearest £1,000.*		

This could hinder take-up of the product in future, as savers worry they'd risk losing their hard-earned savings if prices rose higher than they expected – which is of course out of their control.

9. Should the annual Lifetime ISA limit be raised from £4,000?

Raising the savings limit would be useful – especially to those who are able to save more but, without the bonus, might otherwise struggle to build a deposit. While a one-off uplift is one option, another is for the limit to be raised dynamically with average earnings or property-price inflation.

[6] Land Registry, UK House Price Index, last accessed 20 January 2025. First-time buyer data is not available for Northern Ireland.
[7] Land Registry, UK House Price Index, last accessed 20 January 2025.

About MoneySavingExpert.com

MoneySavingExpert.com (MSE), founded and chaired by Martin Lewis, is dedicated to cutting consumers' bills and fighting their corner. It is the UK's biggest and most trusted consumer website. For 20 years, campaigning journalism has been at the heart of MSE's mission. The site is behind many notable campaigns, including student finance reform, reducing energy bills, mortgage help, scam ads regulation and helping consumers reclaim an estimated £1bn in bank charges and £12bn in PPI payouts.

With millions subscribing to receive the weekly MSE Money Tips email and visiting the site monthly, MSE ranks as YouGov's most recommended brand (all sectors) in the UK. It is also, according to *Press Gazette,* the UK's largest specialist online news publication, with more traffic than many national newspaper sites. In September 2012, the site joined the MoneySupermarket Group PLC (now MONY Group PLC).

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