

Locked out by the LISA

Lifetime ISA rules **COSTING** first-time buyers
and need a radical overhaul



January 2023

Helen Knapman and Sally Dray

About [MoneySavingExpert.com](https://www.moneysavingexpert.com)

[MoneySavingExpert.com](https://www.moneysavingexpert.com) is dedicated to cutting consumers' bills and fighting their corner. The free-to-use consumer finance help resource aims to show people how to save money on anything and everything, and campaigns for financial justice. It was set up in 2003 for just £100, and its free-to-use, ethical stance quickly made it the UK's biggest independent money website, according to internet ranking site Alexa.com, and the number one 'Business and Finance – Business Information' site, according to Hitwise.

It has more than 8.6 million people opted-in to receive the weekly MSE's Money Tips email, and 10.4 million unique monthly site users who visit 19.9 million times a month, including the MSE Forum, which has more than two million registered users. In September 2012, it joined the MoneySupermarket.com Group PLC.

In the event of any queries, please contact the campaigns team:
campaigns@moneysavingexpert.com

Contents

Summary	04
Lifetime ISAs were launched in 2017 to help first-time buyers, but they're no longer fit for purpose	06
Average property prices have increased by 35% since 2017, but the LISA property price limit has stayed the same	08
Lost ground – a £450,000 property in 2017 cost £563,000 in 2022	10
Many who saved in a LISA could now be priced out AND face a penalty to withdraw their cash	13
Fairness requires the penalty to fall and the limit to rise	15
Annex	17

Summary

The MSE logo is displayed in white, bold, sans-serif capital letters on a red rectangular background.

Change is needed to help the half a million younger people with Lifetime ISAs¹ – the Government’s first-time buyer savings plan – as many risk being locked out of homeownership and hit with £1,000-plus in fines to get their money back.

Opening a LISA allows first-time buyers aged 18 to 39 to save up to £4,000 a year, then get a 25% boost when they’re used for a qualifying first home. This can result in a bonus of up to £1,000 a year, on top of individuals’ savings and interest.

But while many hopeful buyers told us they reasonably expected the scheme’s £450,000 maximum property price threshold to rise in line with house price inflation, this limit hasn’t increased since the scheme’s launch in April 2017.

In the meantime, average UK house prices have risen by 35%, while average prices for first-time buyers across Great Britain have increased by 33% over the same period. A £450,000 property in 2017 cost £563,581 in September 2022. In London, average house prices for all buyers had already surpassed £450,000 when the LISA launched.

In addition, someone who has maxed a LISA out for five years, and has £20,000 saved (excluding £5,000 in bonuses), would need to pay £1,250 of their own cash to withdraw the full amount. Technically the penalty is 25% off the total amount, which includes the 25% bonus added – this works out as a net 6.25% reduction in funds excluding interest.

Some 155,600 LISA savers withdrew money for reasons other than to buy a qualifying first home between April 2017 and April 2022 – with around half doing this in 2021/22 alone – forfeiting £9.5 million of their own cash in penalties. That’s nearly 30% more than the 118,000 savers who used a LISA to buy a home in the same period.

Prior to their launch, LISAs were heralded as a key pillar in helping to achieve the Government’s “commitment to supporting savers at all income levels and at all stages of their lives”.²

¹ Provisional data shows there were 553,000 Lifetime ISAs subscribed to in 2020/21, according to HM Revenue & Customs’ Annual Savings Statistics 2022 – the latest data available. Individuals can, however, hold more than one Lifetime ISA.

² [Explanatory notes to the Savings \(Government Contributions\) Bill](#), 13 December 2016.

Yet disappointed first-time buyers have told us of the “sleepless nights” and “heartbreak” suffered after being charged to access cash they’d saved in good faith in their LISAs – and then having to make up the shortfall to buy their first homes. Others have called it a “kick in the teeth” after saving so hard.

To address the concerns outlined above (and detailed in full on page 15), we will submit this report to the Chancellor – and to the LISA regulator, the Financial Conduct Authority – calling upon him to make one or both of the below changes:

- **Reduce the early withdrawal fee from 25% to 20% for those purchasing homes above £450,000.** This relaxing of fees was implemented on a temporary basis by the Government to help savers during the Covid-19 pandemic, which proves it can be done. It means savers lose out on the Government’s bonus, but do not forfeit their own cash.
- **Uprate the LISA property price threshold in line with average property prices,** and continue to do so automatically on an annual basis going forward.

Martin Lewis: ‘This is about fairness. The state sold a savings scheme that is now a dud.’



“This isn’t about pumping the housing market – this is about fairness to about half a million younger people the state sold a savings scheme to, that for some of them is now a dud. If a private firm had done this, it’d be getting close to mis-selling.

“Savers had a legitimate expectation that – over six years, amid huge house price inflation – under a fair system there would have been some uprating to the maximum house purchase limit. Without it, a chunk face being priced out, having to spend more on a property, and then having to pay the state a fine to access the money they’d put aside for a deposit. Then, to take the biscuit, the fact they then have a reduced deposit can decrease the value of the mortgage they will be accepted for.

“The changes we’re asking for – either ditching the fine for those buying houses that no longer qualify or increasing the threshold, or both – are simple, easy to put into practice and would cost a relatively small amount in Government terms.”

Lifetime ISAs were launched in 2017 to help first-time buyers, but they're no longer fit for purpose

Lifetime ISAs (LISAs) were launched in April 2017 and can be opened by anyone aged 18 to 39. Between April 2017 and April 2022, more than 118,000 people used one for property purchases, according to the Government's latest data.³

You can save up to £4,000 a year into a LISA account, and the Government will give you a 25% cash bonus, paid monthly. That means you could get an extra £1,000 a year, plus interest, on top of your own savings.

However, there are strict rules attached to LISAs – if you want to get the Government bonus and keep all your savings, you must use the money to buy your first home, or for retirement.

If using the LISA to buy your first home, you must wait a year after opening it before buying, and the total property price cannot exceed £450,000 – that includes if you're only buying a proportion of the property – through a shared ownership scheme, for example.

The earliest date to access LISA savings for retirement is 2037 – as a 39-year-old who opened a LISA at launch has to wait until they're 60 to access the cash and bonuses.

To use your LISA savings for any reason other than retirement or to buy an eligible property as a first-time buyer, there is a 25% penalty. Shockingly, this results in an effective 6.25% fee applied to savers' own money.

³ UK Government, [Annual savings statistics 2022 – Lifetime Individual Savings Account \(LISA\) tables: June 2022](#), 8 June 2022.

“

‘It’s heartbreaking after years of saving to lose my own money’

Charlotte from London has been saving in a Lifetime ISA since 2017. But the 34-year-old, who works for a professional services firm, forfeited around £6,330 – including just over £1,266 of her own money – when she purchased her two-bed flat costing £465,000 – just over the LISA limit – at the end of 2022.⁴

The shortfall also left Charlotte suffering from “sleepless nights” as she fought to “scrape together the pennies” to cover the money lost, given she only realised months down the line of her property purchase.

She said: “I understand the Government bonus being taken away, but it’s heartbreaking to have years’ worth of savings and interest taken – I could have saved the money elsewhere in the meantime.

“As a first-time buyer, I felt I was being encouraged to work hard and to save to become a property owner, yet there was no support at all. I feel betrayed.”

”

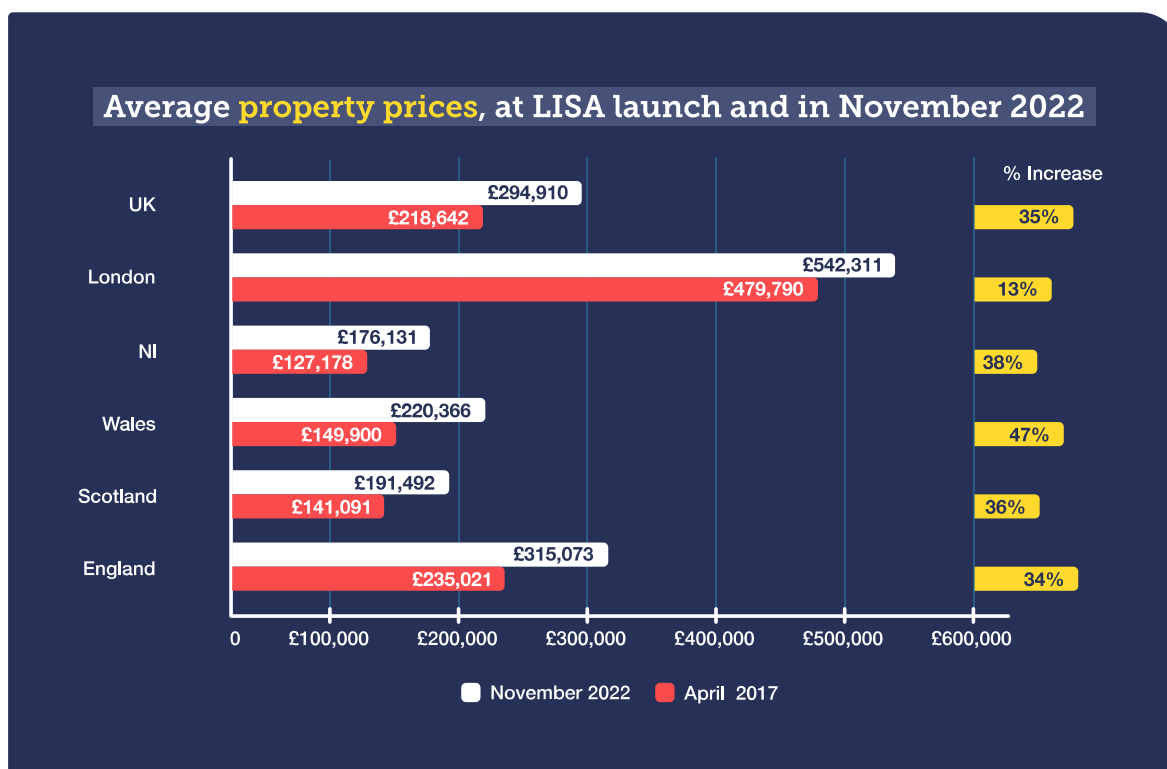


⁴ We’ve included interest accrued in the 6.25% calculation, as we’ve assumed savers could have earned this elsewhere if they’d not used a LISA.

Average property prices have **increased**
by 35% since 2017, but the LISA property
price limit has **stayed the same**

Many savers said it's "unfair" that the £450,000 LISA limit has remained the same since launch.

On average, property prices in the UK have risen by 35% since 2017.⁵ In London, the average property price was already above the £450,000 limit at the LISA launch (see graph 1). First-time buyer property prices across Great Britain have increased similarly by 33% since 2017 (see graph 2).⁶



Source: [UK House Price Index](#), accessed 18 January 2023

⁵ Data from the UK House Price Index, last accessed 18 January 2023.

⁶ Data from the UK House Price Index, last accessed 18 January 2023. First-time buyer house price information not available for Northern Ireland or the UK.



Source: [UK House Price Index](#), accessed 18 January 2023



‘I’m now stuck with a Lifetime ISA I can’t use’

Sarah, 31, from Maidstone, Kent took out a LISA not long after their launch. But she’s now struggling to find any suitable properties for herself, her husband and their newly-born twins for less than £450,000.

Sarah told us: “I didn’t envisage spending over £450,000 on my first home when I took out my LISA, but where house prices have gone up, I’m now stuck with a LISA I can’t use. It just doesn’t feel very fair.

“I put the money into my LISA in good faith. It’s supposed to help first-time buyers, not penalise them. I would understand if I had to sacrifice the bonus, but I don’t appreciate losing my own money.”

The family are currently living with Sarah’s mum while they continue to search for their own home, but Sarah has stopped saving into her LISA as she doesn’t expect to find a home within the scheme’s limit. Sarah has so far saved just under £25,400. This means she’ll lose around £6,350 in total, and around £1,270 of her own money if she withdraws the cash to buy.⁷



⁷

We’ve included interest accrued in the 6.25% calculation, as we’ve assumed savers could have earned this elsewhere if they’d not used a LISA.

Lost ground – a £450,000 property in 2017 cost £563,000 in 2022

The issue is further emphasised when you consider that a £450,000 property in September 2017 cost £563,581 on average in September 2022, according to additional analysis from Zoopla requested by MSE.

This cumulative house price data, which is not publicly available, differs from the UK House Price Index data – though it is helpful in giving an indication of the level of house price growth across the UK.

Table 1: Cumulative house price growth in five years across all buyers, and what a property that cost £450,000 in each area cost in 2022, by country.

Location	Cumulative five-year house price growth (Sept 2017 to Sept 2022)	What a £450,000 property in September 2017 cost in September 2022
England	25	£562,341
Scotland	22	£548,800
Wales	40.4	£631,948
NI	31.5	£591,885
UK	25.2	£563,581

Source: Data provided by Zoopla from its UK House Price Index.⁸

This is also evidenced by analysis requested by MSE from building society Nationwide, which found that 10% of first-time buyers in 2021/22 paid over £450,000 for their property.⁹

⁸ Data provided to MSE from Zoopla from its UK House Price Index, which covers 20 cities and is based on a mix of transactions, asking prices and surveys. To get the 2022 figure, Zoopla added the five-year cumulative house price growth to the £450,000 property price.

⁹ Figures provided by Nationwide to MoneySavingExpert.com from its analysis of UK Finance's Regulated Mortgage Survey (RMS) data.

While the issue with the LISA limit is most acute in London, house prices have also increased significantly in every region of England (see table 2). In fact, house prices have grown more than three times faster than London in the East Midlands, North West, South West, West Midlands, and Yorkshire and the Humber, and twice as fast as London in the other remaining English regions. One option for the LISA threshold could be to set it regionally, to allow the cap to be flexible to different needs in different areas of the UK.

Table 2: Cumulative house price growth in five years (September 2017 to September 2022) across all buyers, and what a property that cost £450,000 in each area costs now, by English region.

Location	Cumulative five-year house price growth %	What a £450,000 property in September 2017 cost in September 2022
North West	34	£603,179
East Midlands	33.3	£599,961
Yorkshire and the Humber	31.1	£589,809
West Midlands	31	£589,355
South West	29.3	£581,632
Eastern	21.3	£545,888
North East	20.8	£543,400
South East	19.7	£538,770
London	9.1	£490,844

Source: Data provided by Zoopla from its UK House Price Index.¹⁰

¹⁰ Data provided to MSE from Zoopla from its UK House Price Index, which covers 20 cities and is based on a mix of transactions, asking prices and surveys. To get the 2022 figure, Zoopla added the five-year cumulative house price growth to the £450,000 property price.

“

'It's a kick in the teeth after saving so hard'

Sophie, 26, from Warrington, Cheshire is currently in the process of buying a home with her partner and is due to complete in early 2023. However, while Sophie said she's lucky that the pair can buy a home costing just over £450,000 due to her partner's savings, she is having to borrow money from her parents to cover the shortfall lost from withdrawing her LISA funds.

In total Sophie, who works in recruitment, had saved around £15,200, but she's lost just under £3,800, including around £760-worth of her own savings.¹¹

Sophie told us: "I was gutted; I was expecting the Government's bonus to be taken but not my own money. I was so angry. It's such a kick in the teeth after saving so hard for a house. Despite my partner's savings, I'm still a first-time buyer and I needed all the help I can get."

”



¹¹ We've included interest accrued in the 6.25% calculation, as we've assumed savers could have earned this elsewhere if they'd not used a LISA.

Many who saved in a LISA could now be **priced out** AND **face a penalty** to withdraw their cash

There is no upper limit to the amount you can put into a LISA, but the Government will only apply the bonus to £4,000 per tax year. If a saver took out a LISA in 2017 and put in the maximum £4,000 a year, they would now have £20,000 of their own savings, plus £5,000 in Government bonuses, plus interest – totalling more than £25,000

To take this money out to buy a property over £450,000 (and ignoring interest accrued for ease), the saver would lose £6,250 of their LISA pot, including £1,250 of their own money, taking their total savings down to £18,750.

This 6.25% penalty also has a direct impact on the price of the property the saver can afford to buy, as it reduces their buying power by at LEAST £12,500. If you assume the saver was aiming for a 10% deposit, the saver's own £20,000 would give them a 10% deposit on a home costing £200,000. With the penalty applied, the saver's deposit is reduced to £18,750, meaning a 10% deposit on a home costing £187,500 – a £12,500 difference.

Given the huge expense of purchasing a first property, and in the context of the cost of living crisis, this additional barrier caused by the penalty is another blow to a first-time buyer.



Why savers lose 6.25% of their money

Imagine you saved £1,000 and so got a 25% bonus of £250, you'll have £1,250 in total (ignoring interest, for ease). If you then withdrew this money and closed the account, the 25% penalty would be £312.50. This means you've lost 6.25%, or £62.50, of your own money. So you'd only get £937.50 back.

These penalties have impacted a significant number of savers, resulting in millions of pounds in lost funds.

In total, some 155,600 savers have made early withdrawals between the time LISAs launched and April 2022, according to the latest Government data.¹² This includes 77,550 people who took cash out in the last tax year (2021/22).

Overall, this has resulted in charges of more than £82 million, including Government bonuses. Excluding the Government's bonus, HM Revenue & Customs confirmed that savers lost out on £9.5 million of their own cash (this factors the withdrawal fee being lowered to 20% between 6 March 2020 and 5 April 2021 due to the pandemic).¹³



'It seemed like a reasonable limit for a first-time home when the scheme launched, and now it's not'

Jess, a 38-year-old architect from London, took out a Lifetime ISA (LISA) in 2018. When her landlord said he was selling her rental property in June 2022, Jess and her partner started looking into buying their first home together. But it was then Jess ran into problems.

Jess said: "A £450,000 limit seemed like a reasonable cap for a first-time home in London when LISAs launched, but now it's not. It's really disappointing and frustrating. I feel I'm trying to use a Government scheme for exactly what it was intended for, but can't. And if I'd wanted to use this money for retirement, I'd have put it directly into a pension."

The couple have now decided to rent elsewhere while they contemplate their options, which include:

- Withdrawing Jess's LISA funds to put down a deposit on a property in London costing more than £450,000, but paying the 25% withdrawal fee. This would see Jess lose £4,700 in capital, interest and bonuses based on her current £18,800 pot, and would leave her £940 out of pocket.¹⁴
- Moving further out of London to try and buy a property costing less than £450,000, but where they'll have to pay more to commute in for their jobs.
- Leaving Jess's savings in the LISA until she's 60 and using alternative ways to save for a property deposit.
- Buying a home within the £450,000 limit that's likely to need a lot of repair work – which Jess feels is risky and would also require additional upfront money to carry out improvements.



¹² Data taken from [Lifetime Individual Savings Account \(LISA\) tables: June 2022](#).

¹³ Data taken from [Lifetime Individual Savings Account \(LISA\) tables: June 2022](#), with additional calculations by HM Revenue & Customs for MSE. The total amount of charge relating to LISA savers' own funds is calculated by the total withdrawal charge (£82 million) minus the total value of the charge that was a Government-paid bonus (£72.5 million).

¹⁴ We've included interest accrued in the 6.25% calculation, as we've assumed savers could have earned this elsewhere if they'd not used a LISA.

Fairness requires **the penalty to fall** and **the limit to rise**

In light of the significant increase in property prices and the strain already put on people's finances at this time, the Chancellor should make one, or both, of these changes to the scheme:

- 1. The withdrawal fee should be reduced for anyone forced to take their money out of the scheme to buy a property over the maximum threshold. Just as in the pandemic, a 20% withdrawal fee should be applied, rather than 25%, so none of the saver's own money is impacted.**

This approach was taken during the coronavirus pandemic between 6 March 2020 and 5 April 2021, allowing people to access their savings in what was a difficult financial time for many. It is vital that people aren't penalised for the significant increase in house prices, which could not have been predicted when taking out the LISA.

We understand that not all savings products work for everyone, and so the penalty should be withdrawn for those who are still buying a property over the threshold. This means they are not benefitting from the Government bonus, but equally are not forfeiting significant amounts of their own money due to a change in circumstances beyond their control.

In order to identify those who would be eligible for this, the Treasury could ask for proof from a solicitor, in the same way that solicitors must claim the Help to Buy Government bonus on behalf of savers.

- 2. The £450,000 limit should be raised immediately to £607,500, to catch up with the average house price growth in the UK since 2017. This should keep roughly the same proportion of first-time buyers eligible for LISA bonuses as originally planned. The threshold should then be automatically uprated (or downrated) in line with average house prices each year.**

Individuals will still adhere to the other conditions of the LISA, and it will still be used for its intended purpose – but with a flexible property limit, it will be better fit for purpose for savers.

On this recommendation, and despite its “commitment to supporting savers at all income levels and all stages of their lives”,¹⁵ the Government has since said that the property threshold was set at this limit because those who can afford a £450,000-plus property are not those who need Government support.¹⁶ Yet the feedback from our users suggests that the property limit is affecting those who took out the LISA in good faith and did not think in 2017 they’d be buying a property over £450,000.

A similar principle of uprating house prices in line with housing inflation could also be applied to the two thresholds set for Help to Buy ISAs.¹⁷



¹⁵ [Explanatory notes to the Savings \(Government Contributions\) Bill](#), 13 December 2016.

¹⁶ [Written question on 'individual savings accounts'](#), UIN 33795, 18 July 2022.

¹⁷ Uprating Help to Buy ISA limits should be proportionate, in line with the regional £250,000 limit and the £450,000 London threshold.

Annex

MSE users have told us the LISA **property limit** **is a problem**, and many say you should be able to withdraw your money **penalty-free**

We've heard from our users about their experiences using the LISA to buy a property.

A key theme from their comments is the unfairness of losing their own money. Many expressed that they understood the removal of the Government bonus from their LISA accounts if buying a property over £450,000, but not the penalty of their own money in this circumstance.

Throughout the report, we've included case studies from MSE readers we've spoken to. Here are a few more quotes from users who have contacted us about this issue, though we've not independently verified their claims:

“

“It's so disappointing after years contributing to a LISA, to find that it has actually cost me rather than saved me money.”

- MSE user

”

“

“I wanted to share my daughter and her boyfriend's experience of having an offer on their first flat purchase accepted on 18 October 2022 in these financially difficult times”:

“They have saved with a LISA (originally it was Help to Buy, but they switched to a LISA believing this to be better at the time) for six years to buy their first home. They have each been saving the maximum amount per year (£4,000 a year), plus more each month in other savings accounts.”

“Yet now when they come to purchase their first property in London, despite searching for six months, they have been unable to find anything suitable up to £450,000 and are having to spend £520,000 to purchase their first flat. They both must have the ability to work from home. They do not have the option to work in an office five days a week, so a one-bedroom property, which would fall within the £450,000 limit, is too small.”

“Losing the Government bonus (£1,000 a year) for exceeding the limit, and the interest on that, could be understandable, but it seems unfair that they will actually be penalised, ie, lose money from their own savings, for having used the form of saving (ie, a LISA) which was specifically designed to supposedly assist first-time buyers.”

“It is quite hard to calculate, but it looks like not only will they have absolutely no benefit from saving in a Government LISA, but they will be out of pocket by approximately £800 of the money they have put into the LISA.”

“The Government should either raise the limit or not penalise bona fide first-time buyers who have to go over the £450,000 limit.”

- MSE user Anne

”

“

I’m about to use my LISA valued at £20,000 as part of a deposit. Annoyingly, I’m having to forfeit 25% of it as the property we found is £475,000. It’s ridiculous that the threshold has not been bumped up. All my bonus and some of my growth (stocks & shares LISA) is being forfeited. It’s a good scheme, but will die a death if they don’t review the limit.

“I began saving into the Lifetime ISA some five years ago when they were first introduced, and I definitely felt I needed the support at the time. Had we been able to find a house which met our needs under the threshold, we’d have preferred it, but prices in that region have risen >20% in the past two years alone. If we didn’t have a mortgage offer already agreed at a decent rate, then on today’s rates, we couldn’t afford this property. Forfeiting just the bonus would be acceptable, though I still feel this threshold should have been rising with market prices since it was introduced.”

- MSE Forum user

”

Annex

Data tables used in this report

Table 1: Average property prices at LISA launch, and in November 2022 (the most recent data available at the time of writing).

Location	April 2017	November 2022	% increase
England	£235,021	£315,073	34
Scotland	£141,091	£191,492	36
Wales	£149,900	£220,366	47
NI	£127,178	£176,131	38
London	£479,790	£542,311	13
UK	£218,642	£294,910	35

Source: [UK House Price Index](#), accessed 18 January 2023.

Table 2: Average property prices for first-time buyers at LISA launch, and in November 2022 (the most recent average first-time buyer property prices available at the time of writing).
Data is not available for Northern Ireland.

Location	April 2017	November 2022	% increase
England	£197,716	£261,377	32
Scotland	£114,352	£152,726	34
Wales	£129,555	£189,969	47
London	£420,479	£466,460	11
Great Britain	£184,597	£245,522	33

Source: [UK House Price Index](#), accessed 18 January 2023.