Savings Champion

FACTSHEET

Lifetime ISA

Lifetime ISA for 18 to 40 year olds

The Lifetime ISA can be opened by all savers aged between 18 and 40

£4000 + £1000 = £5000 pa

Up to £4,000 can be invested annually and a 25% bonus will be added by the Government until the age of 50, i.e. a bonus of up to £1,000 a year

Help for first home or retirement

The bonus can be used to buy your first home or for your retirement, but the bonus is only available once

You can save as little or as much as you want

You can save as little or as much as you want each month, although you are limited to a maximum contribution of £4,000 per year

An alternative ISA for younger savers

Introduced in April 2017, the Lifetime ISA offers a much needed boost for younger savers who are looking to save for a deposit on a house or for retirement

- You can save as little or as much as you want each month, although you are limited to a maximum contribution of £4,000 per year.
- Savings held in the account and the bonus can be used towards the deposit on a first home, up to a maximum property value of £450,000, at any time from 12 months after opening the account.
- Lifetime ISAs are not limited to one per home, so this means that a couple who are buying a property together can each receive a bonus on the same property.
- Savings already held in a Help to Buy ISA can be transferred into a Lifetime ISA or you can save into both, although you can only use the bonus from one of the accounts when you buy a property.
- If you do not use the funds and bonus for a deposit on a first home, funds can be taken out tax and penalty free after your 60th birthday.
- Funds can be withdrawn before the age of 60, but if this is not for the purchase of your first home, you will lose 25% of any money withdrawn, which could mean that you receive back less than you paid in.
- Lifetime ISAs can be used in addition to a pension, so individuals will be able to contribute to both.
- Savers have the option to invest in either stocks and shares or cash as part of a Lifetime ISA, though the terms and conditions and interest rates of the accounts are set by the individual providers.
- If you are considering a stocks and shares Lifetime ISA, you should be aware that the value of your investment could go up and down over time and you may not get back what you have invested.

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Save for your first home or retirement

Since April 2017, savers aged between 18 and 40 have been able to open a Lifetime ISA, which offers a generous incentive that can be put towards a deposit for the purchase of their first home or used to save for retirement.

The Government will add a 25% bonus to funds of up to £4,000 saved per year, until the age of 50. This bonus will be added to the Lifetime ISA monthly, so that savers will also benefit from tax-free interest or growth on the bonus from the time it is added.

You are able to save as little or as much as you want each month, although you are limited to a maximum contribution of £4,000 per year. This amount will also count towards your annual ISA allowance, which is currently £20,000.

Funds can be taken out of the Lifetime ISA before the age of 60, although if it is for anything other than the purchase of a first home, you will lose 25% of any money withdrawn, which could mean that you receive back less than you paid in.

The Lifetime ISA means that younger savers don't have to immediately choose between saving for a deposit on their first home or putting money aside for their retirement.

Whilst the government bonus can only be used for one of these goals at the moment, savers do not have to choose between them at the onset, unlike the Help to Buy ISA, which was designed solely to help first time buyers get into the property market.

This new initiative caters for those already on the property ladder but who are also planning for retirement.

The Lifetime ISA should be seen as another option for savers to consider, but you would be wise to seek advice from an Independent Financial Adviser for bespoke retirement planning, as using just the Lifetime ISA may not be the best option available, especially if you are eligible for a workplace pension.

You should also seek advice from an Independent Financial Adviser if you are considering a stocks and shares Lifetime ISA, as investments can fall as well as rise in value and you may not get back what you have invested.

On death, the proceeds from the Lifetime ISA will fall into your estate, which may not be the case with a pension.

For further assistance, get in touch

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