Savings Champion

FACTSHEET

Lifetime ISA or Pension?

From 6 April 2017, there was a new addition to the ISA family called a Lifetime ISA (LISA).

It has all the benefits of a standard ISA, whilst also benefitting from a Government bonus of up to £1,000 per annum for eligible savers.

The introduction of the LISA sparked an ongoing debate around which would be the better option, a LISA or a pension, so this factsheet will set out the differences between them and some of the key points to consider.

This factsheet is not intended to give a clear-cut answer as to which would be more suitable to your individual circumstances, but rather to make you aware of the differences, enabling you to make an informed decision.

What is a Lifetime ISA?

Before looking at comparisons with pension funding, what is a Lifetime ISA?

Below is a summary of some of the key features of the Lifetime ISA, for more information, please contact us for a copy of our Lifetime ISA Factsheet.

- You can save up to £4,000 each year and receive a Government bonus of up to £1,000 a year.
- You can use some or all of the money to buy your first home or keep it until you reach the age of 60 – it's up to you.
- A LISA can be opened between the ages of 18 and 40 and any savings deposited before your 50th birthday will receive an added 25% bonus.
- The maximum you can save into a LISA each year is £4,000 and it will form part of your total ISA allowance, which is currently £20,000.
- You can invest in stocks and shares or cash.
- 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.

If saving for a first home:

- You can use your savings and bonus towards a deposit on a first home worth up to £450,000 (if two first time buyers are buying together, they can each use their LISA towards the purchase).
- If you have a Help to Buy ISA already, you can transfer those savings into a LISA or save into both, but you can only use the bonus from one of them to buy a house.

If saving for retirement:

- You can access your LISA tax free after your 60th birthday.
- You can access money held in a LISA at any time before the age of 60 but there is a 25% charge.

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Comparison between Pensions and LISAs

How does a Pension and a LISA compare?

Feature	Pension	LISA
Maximum annual savings	Up to £40,000 gross, dependent on earnings	£4,000 (and counts towards £20,000 ISA limit)
Government Contribution	Tax relief on contributions at marginal rate of tax	25% of the investment up to a maximum of £1,000 p.a.
Third party contributions?	Yes	No – must be self-funded
Tax-free growth?	Yes	Yes
Tax-free income during the investment (reinvested income)	Yes	Yes
Included in estate for IHT purposes?	No	Yes
Tax free when drawing benefits?	Up to 25% tax free; remainder taxed as income	Yes
Access	From age 55	From age 60 or on first home purchase if earlier, without penalty. Accessible at any time with a penalty.
Penalties on withdrawal	Dependent on contractual terms but no more than 1% when aged over 55	Clawback of 25% Government bonus unless aged 60 or have used it to purchase a qualifying first house
Minimum age at entry	0	18
Maximum age to open	None (but personal tax relief on contributions only available up to age 75)	Before 40th birthday
Government contribution ends at age	75 (for personal contributions)	50th birthday

So, where can a LISA be particularly useful as an additional planning tool for individuals perhaps caught out by other issues?

- High earners under the age of 40 might find a LISA a useful alternative or complementary savings vehicle to a pension, particularly if they are affected by the tapered annual allowance, as a LISA is an opportunity to get a 25% uplift on up to £4,000 of savings up to the age of 50.
- For those who are fully funding pensions and under the age of 40, the LISA gives individuals an opportunity to get a further 25% uplift in savings of up to £4,000 per annum to age 50 but, unlike a pension, they will need to accept a slightly longer investment horizon to age 60, rather than age 55 under a pension.
- Parents or Grandparents who are wanting to help young adults save for a first home may wish to consider gifting to their children or grandchildren. It should be remembered that a LISA must be self-funded, so parents or grandparents may wish to consider using their annual exemption to IHT (£3,000 per annum) or gifts from surplus income over and above normal expenditure to help facilitate this, otherwise it would be a Potentially Exempt Transfer (PET).

One final point to note is that many providers are still yet to confirm when or if they will offer a cash LISA, but hopefully the market will open up over time. We will, of course, keep you up to date on the best cash options on the market, as they become available.

For further assistance, get in touch

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