THE INVESTMENT ASSOCIATION

The Investment Association response to The Commons Treasury Committee's Inquiry on the Lifetime ISA

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The Investment Association Response

The Investment Association welcomes the opportunity to contribute to the House of Commons Treasury Committee Inquiry into the Lifetime ISA (LISA). Since their inception in 1999, ISAs have been a considerable success, amassing over £700 billion in cash and stock market investments while helping individuals build financial resilience and achieve long-term goals. However, the wrappers, especially Stocks and Shares ISAs, remain underutilised. Recent research from an IA member, Barclays, reveals that around 13 million UK adults hold £430 billion in cash savings, funds that could be put to better use in improving financial outcomes and providing capital to support investment and growth.[1] This means that they are missing out on the potential investment growth while being exposed to the detrimental impact of inflation. If these consumers had put £10,000 in a cash ISA a decade ago, it would be worth less than £8,500 today due to inflation. If they had *invested* that same £10,000, for instance in a Global Equity Fund, they would have over £18,000. This presents a timely opportunity to explore reforms to the Lifetime ISA and the broader ISA framework, with the aim of increasing participation and fostering a stronger culture of investment.

[1] Empowering retail savers to engage with investing: the role of public policy, Barclays, September 2024.

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We emphasise at the outset, that any reforms undertaken must be done holistically and prioritise simplicity to avoid confusing consumers with new, complex rules. It should build on the success of the ISA brand, safeguarding its strengths, while remaining commercially viable. We also stress the importance of considering the LISA in the context of wider private pension coverage. This will help ensure a joined-up approach that can be most effective for individual savers and for Government in targeting incentives appropriately.

In our response we propose a number of reforms we consider will help drive LISA and ISA uptake, which in turn will foster competition between providers, drive innovation and ultimately deliver better products and services for consumers.

LISA recommendations

The LISA was introduced in April 2017 as a dual-purpose savings product, designed to help individuals save for either a first home or retirement. While the product has successfully supported many consumers in achieving these goals, with 755,000 LISAs subscribed to and 1.87bn invested in 2022/23, there is untapped potential to expand its impact. In particular, addressing challenges faced by key demographics, such as accessibility and flexibility for the self-employed, may improve its effectiveness.[2]

The LISA's current structure also poses limitations, such as outdated property price thresholds and restrictions on contributions due to age limits that may prematurely cut off savings opportunities for many individuals. These issues reduce its relevance as a savings tool and create unnecessary barriers for savers.

To ensure the LISA remains a viable, competitive, and valuable option for savers, targeted reforms are essential. We outline four key recommendations aimed at repositioning the LISA to better meet the needs of savers, particularly the self-employed, first-time homebuyers, and those preparing for retirement. These changes aim to unlock greater participation in LISAs, align them with current economic realities, and improve their overall effectiveness.

- **Align the LISA to the Minimum Pension Age:** One of the significant changes we recommend is to raise the upper age limit for opening and for contributing to the LISA, from its current cutoff at age 40 for opening and 50 for contributing to the Normal Minimum Pension Age (NMPA), currently at 55, which is set to rise to 57 in 2028 for both. This change would significantly enhance the accessibility and relevance of the LISA as a long-term savings tool, particularly for individuals approaching retirement who may have previously been excluded due to age restrictions. Lifting this age cap would also align with the government's ambition to increase homeownership, as there should not be a cut off age for this aspiration. In the IA's 2024 ISA Investor Survey we found that it is a goal for 44% of 18–34-year-olds to purchase a property, and 22% of 35–54-year-olds. The older cohort primarily use the Stocks and Shares ISA to save, in part because of the cut off at 40 years of age.

  Regarding the retirement savings objective of the LISA, this restriction has disproportionately affected certain groups, notably the self-employed. Data from The Association of Independent Professionals and the Self-Employed reveals that 70% of the self-employed workforce were excluded

[2] https://assets.publishing.service.gov.uk/media/67473399a72d7eb7f348c061/Individual_Savings_Account_Tables_2024.ods

from using the LISA when it was launched because they were already over the age limit.[3] This exclusion reduces the product's effectiveness as a savings tool, especially for those who as a result of being left out of Automatic Enrolment do not have access to employer-sponsored pension schemes and need flexible options to build retirement savings.

Raising the age limit to the NMPA would allow savers a longer window to contribute, align the LISA with other retirement-focused products, and better accommodate modern working patterns, which often involve career breaks, shifts in income, and later-life financial planning. The change would particularly benefit individuals in their 40s and 50s, who are often at a stage of life where they have started thinking about their pension more seriously, have greater capacity to save but have missed the opportunity to utilise the LISA due to the current cutoff.

- **Reposition the LISA for the self-employed:** The self-employed population often faces unique challenges in saving for retirement due to irregular income and liquidity needs and they are by definition excluded from Automatic Enrolment (AE), which is applied only to the workplace pensions market. The self-employed have therefore not benefitted from the success of AE in increasing retirement savings. We have therefore previously recommended Government consult on changes to the LISA to reposition and rebrand it as a retirement savings product for the self-employed, especially the self-employed in the 20% tax bracket as they would get an additional government bonus on top of their savings. This may include changes such as allowing penalty-free access to funds before retirement, in recognition that liquidity can be a critical issue for this demographic.
- **Increase the maximum eligible property value to reflect current market conditions**: The LISA has helped 230,300 consumers purchase a property between 2018 and 2024. However, the property price cap has not kept pace with rising house prices. From when the wrapper was introduced in April 2017 to November 2024, UK property prices increased by 32.5%, from £218,642 to £289,707, yet the LISA purchase cap remains fixed at £450,000.[4] In certain regions, particularly London, this cap is insufficient for first-time buyers, as the average price paid often exceeds £450,000.[5] To ensure the LISA remains an effective tool for homeownership across the UK, we propose that the Government consult on indexing the threshold to house prices both nationally and regionally, allowing it to adjust in response to market fluctuations. Additionally, the Government should review whether the withdrawal penalty should be reduced or removed for first-time buyers if the property they are purchasing exceeds the cap.
- **Remove the LISA from the ISA allowance**: Under the current framework, contributions to the LISA count toward an individual's overall ISA allowance, which is capped at £20,000 annually. This linkage creates a trade-off for savers, forcing them to choose between contributing to a LISA or allocating funds to other ISA products, such as a Stocks and Shares ISA or a Cash ISA. This restriction discourages individuals from fully utilising the LISA for its intended purposes, saving for a first home or retirement, while also limiting their ability to diversify their savings across other tax-advantaged investment options.

[3] https://www.ipse.co.uk/articles/ipse-joins-calls-for-lifetime-isa-changes
[4] https://landregistry.data.gov.uk/app/ukhpi/browse?from=2017-04-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Funited-kingdom&to=2024-12-01&lang=en
[5] https://landregistry.data.gov.uk/app/ukhpi/browse?from=2017-04-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2Flondon&to=2024-12-01&lang=en

By removing the LISA from the overall ISA allowance, individuals will have the opportunity to maximise their contributions to the LISA without impacting their ability to invest in other ISA products. This separation will encourage more people to utilise the LISA for its intended purposes of home purchase and retirement savings.

Separating the LISA from the ISA allowance would unlock its full potential, encouraging greater adoption and ensuring it becomes a key tool in supporting homeownership and retirement aspirations for millions of people in the UK.

Without these changes, the Lifetime ISA risks falling short of its potential to address key societal challenges, such as increasing retirement savings for groups not served by Automatic Enrolment and enabling homeownership in a high-cost housing market. These reforms are not just beneficial but essential to foster a culture of inclusive saving and investment.

Recommendations for wider ISA reform

The broader ISA framework plays a critical role in encouraging long-term savings and investments, helping to support individual financial goals while driving economic growth. However, there is significant untapped potential to enhance its impact by expanding access to diverse investment opportunities and improving consumer understanding of its benefits.

Targeted reforms to the Stocks and Shares ISA can address pressing economic challenges, such as the UK's infrastructure funding gap, and foster greater participation in long-term investment products. Additionally, simplifying and rebranding the ISA structure can make it more accessible and appealing to a wider range of savers. Below, we present key recommendations to achieve these goals.

Incentivising Investments

The ISA brand is strong, offering a clear and accessible entry point for individuals to engage with investing and see it as a viable option for "people like me." However, despite this success, ISAs – particularly Stocks and Shares ISAs – remain underutilised. According to the FCA's 2022 Financial Lives survey, over 15 million adults in the UK have investable assets exceeding £10,000, yet more than half hold at least 75% of these assets in cash. HMRC data further highlights this imbalance: in the 2022/23 tax year, the number of Cash ISAs subscribed to was more than double that of Stocks and Shares ISAs, with total deposits into Cash ISAs exceeding investments into Stocks and Shares ISAs by 48%.[6]

This preference for cash means many households are missing out on the potential long-term returns that investing can offer, limiting their ability to grow wealth in real terms, while the UK economy is losing out on vital capital that could be helping deepen domestic capital markets and diversify sources of funding for investment by the private sector.

[6] https://www.fca.org.uk/publications/financial-lives/financial-lives-survey-2022-key-findings
https://assets.publishing.service.gov.uk/media/67473399a72d7eb7f348c061/Individual_Savings_Account_Tables_2024.ods

The challenge lies in changing public perceptions and encouraging greater engagement with ISAs. At present, many people find ISAs, especially Stocks and Shares ISAs, complex or intimidating. Polling conducted by Opinium for the Investment Association in August 2024 highlights this issue, revealing that less than half of respondents felt confident about opening a Stocks and Shares ISA. This lack of confidence is particularly stark when contrasted with the often-simple process of accessing credit or taking on debt.

Merely promoting ISAs in general is not enough. While Cash ISAs may provide a safe place for short-term savings, they do not offer the long-term financial security that investing in pursuit of returns can deliver. In fact, relying too heavily on Cash ISAs can leave households at a disadvantage, locking them into below-inflation returns and eroding the value of their savings over time.

To address this imbalance, the focus needs to shift towards encouraging greater use of Stocks and Shares ISAs. Clear and accessible messaging should emphasise that, for most people, Cash ISAs are best suited for short-term rainy-day funds, whereas Stocks and Shares ISAs are a more appropriate vehicle for long-term financial planning. This shift in messaging could be reinforced by policy changes to incentivise investment:

1. **Renaming the 'Stocks and Shares ISA' to the 'Investment ISA'**: The current name of the ISA does not cover the full range of products that can be purchased through the wrapper. This can create a misconception that the product is only suitable for investors who wish to trade in shares, deterring long-term savers from using it as part of their financial strategy. Therefore, the IA recommends the name to be changed to the 'Investment ISA'.

   As well as reducing consumer confusion, it would promote investments as a positive and accessible activity and align with the government's goal of fostering a culture of saving and investing. It simplifies messaging, highlights the wrapper's diversity, and encourages broader participation by emphasising that investing is a key tool for building long-term financial resilience. Any name change should be accompanied by a public communications campaign by government and industry to avoid public confusion.

2. **Reevaluate ISA Contribution Levels**: The government could explore different contribution levels/allowances for Cash ISAs and Stocks and Shares ISAs to encourage investments. This might mean lower limits for Cash ISAs compared to Stocks and Shares ISAs. Consideration will be needed of the different trade-offs that may then arise. We recognise that having separate allowances could create operational challenges and complicate the ISA system for consumers.
3. **Making the LTAF eligible**: The UK is estimated to have an estimated £1 trillion infrastructure funding gap.[7] The Long Term Asset Fund (LTAF) is an FCA-regulated fund structure designed to help plug this gap by allowing wider access to assets such as infrastructure, however they cannot currently be held within most ISAs. Making the LTAF eligible for the Stocks and Shares ISA would offer dual benefits: encouraging long-term savings among investors while helping to finance vital domestic infrastructure projects, many of which are outside of London. This change would require adjusting ISA rules to allow products with longer redemption periods of over 30 days. The IA continues to advocate for these changes to HM Treasury and HMRC.

[7] The power of pensions: How pension savings can help to build the UK's infrastructure and drive growth in all regions, Legal & General, June 2020.

Conclusion

The Investment Association's recommendations take a holistic approach to ISA reform, ensuring that the regime remains simple, effective, and aligned with the evolving needs of savers. While we propose targeted changes to improve the Lifetime ISA, such as increasing accessibility for the self-employed and updating outdated thresholds, these must be considered within the broader context of strengthening the entire ISA framework.

A well-functioning ISA regime should encourage long-term investment, foster financial resilience, and support economic growth. By enhancing the attractiveness and usability of ISAs, including Stocks and Shares ISAs, we can help more individuals move beyond cash savings and into investment products that better protect them from inflation while also contributing to productive capital markets.

The IA looks forward to engaging with policymakers to ensure that future reforms strike the right balance between continuity and innovation, preserving the strengths of ISAs while making them more effective for modern savers.

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