PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

SAVINGS (GOVERNMENT CONTRIBUTIONS) BILL

First Sitting

Tuesday 25 October 2016

(Morning)

CONTENTS

PBC (Bill 059) 2016 - 2017

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 29 October 2016

The Committee consisted of the following Members:

Chairs: † Mr Christopher Chope, Sir Roger Gale, Albert Owen, Phil Wilson

† Barclay, Stephen *(Lord Commissioner of Her Majesty's Treasury)*
† Blackford, Ian *(Ross, Skye and Lochaber)* (SNP)
† Cartlidge, James *(South Suffolk)* (Con)
† Caulfield, Maria *(Lewes)* (Con)
† Dowd, Peter *(Bootle)* (Lab)
† Ellison, Jane *(Financial Secretary to the Treasury)*
† Frazer, Lucy *(South East Cambridgeshire)* (Con)
Hepburn, Mr Stephen *(Jarrow)* (Lab)
† Hopkins, Kelvin *(Luton North)* (Lab)
† Howell, John *(Henley)* (Con)
Long Bailey, Rebecca *(Salford and Eccles)* (Lab)
† Merriman, Huw *(Bexhill and Battle)* (Con)
† Onn, Melanie *(Great Grimsby)* (Lab)
† Quin, Jeremy *(Horsham)* (Con)
† Rutley, David *(Macclesfield)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Whiteford, Dr Eilidh *(Banff and Buchan)* (SNP)
† Williams, Craig *(Cardiff North)* (Con)

Katy Stout, *Committee Clerk*

† attended the Committee

Witnesses

Carol Knight, Chief Operations Officer, Tax Incentivised Savings Association

Yvonne Braun, Director of Long-term Savings and Protection, Association of British Insurers

David Wren, Policy Director, British Bankers Association

Tom McPhail, Head of Retirement Policy, Hargreaves Lansdown

Public Bill Committee

Tuesday 25 October 2016

(Morning)

[MR CHRISTOPHER CHOPE *in the Chair*]

Savings (Government Contributions) Bill

10 am

The Chair: Before we start, I remind everyone that there will be severe sanctions against anybody who uses their mobile phone or who allows their mobile phone to go off in this room. There will also be sanctions against those who drink tea or coffee rather than water. I hope that we will be able to take the Committee through in an orderly and quick fashion.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 10.00 am on Tuesday 25 October) meet—

(a) at 2.00 pm on Tuesday 25 October;

(b) at 11.30 am and 2.00 pm on Thursday 27 October;

(c) at 9.25 am and 2.00 pm on Tuesday 1 November;

(2) the Committee shall hear oral evidence in accordance with the following Table:

Table

Date	Time	Witness
Tuesday 25 October	Until no later than 10.45 am	The Tax Incentivised Savings Association The Association of British Insurers
Tuesday 25 October	Until no later than 11.25 am	The British Banking Association Hargreaves Lansdown
Tuesday 25 October	Until no later than 2.30 pm	StepChange Centre for Social Justice
Tuesday 25 October	Until no later than 3.00 pm	Union Pension Services Limited
Tuesday 25 October	Until no later than 3.30 pm	Scottish Friendly
Tuesday 25 October	Until no later than 4.00 pm	MoneySavingExpert.com The Women's Budget Group

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clause 1; Schedule 1; Clause 2; Schedule 2; Clauses 3 to 6; new Clauses; new Schedules; remaining proceedings on the Bill;

(4) the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 1 November.—*(Jane Ellison.)*

The Chair: We know that the first deadline for tabling amendments has already passed, but the Chair will consider accepting starred amendments in special cases.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Jane Ellison.)*

The Chair: Copies of the written evidence that the Committee receives will be made available in the Committee Room.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Jane Ellison.)*

10.1 am

The Committee deliberated in private.

Examination of Witnesses

Carol Knight and Yvonne Braun gave evidence.

10.5 am

The Chair: Good morning, everybody. We will now resume our public sitting and we will hear evidence from the Tax Incentivised Savings Association and the Association of British Insurers.

I remind Members that questions should be limited to matters within the scope of the Bill and that this session of questions cannot go beyond 10.45 am.

Will the witnesses please introduce themselves? Carol Knight first.

Carol Knight: Good morning. I am Carol Knight, the chief operations officer of the Tax Incentivised Savings Association.

The Chair: Can I straight away say that you will have to raise your voice a bit more than that, because the acoustics in this room are notoriously bad?

Yvonne Braun: I am Yvonne Braun. I am director of policy, long-term savings and protection at the ABI.

The Chair: Thank you. I think Peter Dowd has the first question.

Q1 Peter Dowd (Bootle) (Lab): This is to Ms Knight. In a press release response to the Budget, you welcomed the lifetime individual savings account and said:

"The Lifetime ISA will encourage further tax-exempt saving and a dedicated account to save for a home and save for retirement."

How do you perceive the marketing of the LISA in relation to traditional pension products?

Carol Knight: We do not really see the lifetime ISA as a direct competitor to pensions. We believe there is a cohort of the public for which the LISA will be an attractive proposition, particularly those who are in low-paid income and who fall outside the bracket for auto-enrolment. Self-employed people have an opportunity with the LISA that is not available with a workplace pension. So we believe there are a number of people who would be attracted by a matching proposition and who do not automatically have the opportunity to benefit necessarily from a pension product.

Peter Dowd: Ms Braun, would you like to comment on that question?

Yvonne Braun: For us, what is most important is that there is no confusion between automatic enrolment and the lifetime ISA, so we see it as a complementary product. What is quite important is how it is communicated to people, particularly employees, because we are very clear that there is no employee who will be better off if they switch out of their automatic enrolment pension into a LISA, because with automatic enrolment in a workplace pension scheme they get the employer contributions. If they decide to switch out of that into a LISA, they would lose quite a lot; in fact, we calculated that they could lose up to a third once they get to the age of 60. We think that is really, really important. Communication will also be very critical by the Government, by the guidance services and through providers themselves.

Q2 Peter Dowd: You mentioned the potential confusion. How do you think that could be avoided, because there is concern that these things will either meld or send out a confusing message?

Yvonne Braun: I think there are a number of mechanisms, such as what the Government put forward in terms of what the LISA is for, but also using the new guidance service, which will be the successor to the Money Advice Service, the Pensions Advisory Service and so on and so forth in 2018. That could also steer people and help them to make the right decision for their circumstances because, as Carol just said, for some people—the self-employed, people who have already maxed out the employer contributions on their pensions or people who may be fortunate enough already to have used up their annual allowance—it is a very positive thing, but it is important that every person makes a decision based on their own circumstances. For most people, switching out of a pension into a LISA will be a very bad decision.

Q3 Peter Dowd: To follow up on Carol's comment earlier, you have expressed disappointment about the early withdrawal charges.

The Chair: Peter, sorry, can you please project your voice? There may be people at the back and at this end who are finding it hard to hear.

Peter Dowd: Okay. In the past you have expressed disappointment about early withdrawal charges. What would you suggest instead?

Carol Knight: We believe that the necessity to pay back a bonus if money is withdrawn outside the allowed circumstances is a great enough disincentive to withdrawal at inappropriate times. We believe that the 5% charge across the whole of a savings account is disproportionately difficult, particularly if we are looking at this as a product for people who are low paid and accessing a savings product that they would not use other products for, because of the 25% bonus.

A person's life circumstances might mean that suddenly they have a need to take their money out. There are all sorts of events that happen during the course of a life, when someone has an urgent need to get some cash to help them through difficult times—for example, being made redundant. To have a 5% charge seems to us to be an inappropriate and harsh penalty to pay. We understand that it is there to encourage people to keep their money in it. As Yvonne said, we would not want to see the LISA used as an alternative to a pension. We believe that it is a complementary product, so keeping the distinction between the two is important. However, we feel that that can be addressed by means such as having to pay back the bonus, rather than having a 5% charge across the whole account.

Q4 Peter Dowd: Okay. It has been reported that many financial providers may not want or be able to offer a lifetime ISA by the time of its launch. Some have ruled out participating in it altogether. What is your organisation's view on that?

Carol Knight: There are some organisations that will be ready in April. There is always the need for a lead-in period for people to get systems in place and get trained. To have clarity on the guidance and regulations at the earliest possible opportunity is critical. We have had a short lead-in period for this particular product and some people will be ready, some will not—unfortunately, that is the nature of the game.

Q5 Peter Dowd: Do you think that the proposed lead-in time is reasonable?

Carol Knight: We would normally ask for a year, but we have not had that opportunity this time.

Q6 Peter Dowd: I will come to Ms Braun in a second, but on that point, what is your assessment of the awareness of employees and employers of this particular scheme—the lifetime ISA? It is a short run-in period.

Carol Knight: We do not think it will affect employers. This is a personal individual savings account. We do not see it being marketed as an alternative to auto-enrolment. We do not necessarily see it being offered by employers.

Q7 Peter Dowd: How about awareness, given that you think the run-in period is pretty tight?

Carol Knight: Yes. The publicity to get the scheme in place is important for the public as well as for the industry. There has been a lot of publicity about it. Getting that clarification for people is really important, but the whole question of advice and guidance needs addressing. There is a lot of work going on in other areas looking at this, but it is really important to put more work into enabling people to get the information they need to make informed decisions. Those need to run hand in hand alongside each other.

Yvonne Braun: If I could come back on the lead-in times you mentioned, this was announced at the last fiscal event in April, to be coming into force next April. As the Tax Incentivised Savings Association has done, we have worked with the Treasury and HMRC officials over the summer, to understand better how the detail will work. We are still waiting for clarity from the Financial Conduct Authority about what the conduct rules are going to be. That inevitably puts pressure on providers who are trying to get this ready for next April. As I have said publicly, there will be quite a few who will not be ready for next April. That does not mean that they do not want to offer it, just that from the perspective of their own lead time and systems build time, they need longer.

Q8 Peter Dowd: I will ask you both to answer this one, if I may. Would you welcome a deferral for a period of time, beyond the suggested introduction date?

Yvonne Braun: In terms of the monthly bonus contributions from Government, there is an argument to defer it until April 2018.

Carol Knight: At this point in the game, a lot of people have put a lot of work into getting it delivered for April 2017, so a change at this point is going to be detrimental to those firms. I think it is too late in the game to make that change, personally.

Q9 Melanie Onn (Great Grimsby) (Lab): I wonder whether I could follow up on the point about some financial providers choosing not to participate in the scheme at all. Do you have any further information on that? Do you have any percentage figures for organisations that are either not going to be ready or are not choosing to participate in the scheme at all?

Yvonne Braun: No, I don't.

Q10 Jeremy Quin (Horsham) (Con): May I pick up on a couple of points made by the witnesses? First, a powerful point was made that, although auto-enrolment has been a success, the self-employed do not have access to it, and this is an option, a vehicle, for the self-employed to improve their long-term savings. Could you expand on that?

Carol Knight: I think that is absolutely true. However, some of the data from the Office for National Statistics indicates that 15% of our workforce are self-employed. But of that 15%, over 50% are over 50 years old, so the lifetime ISA is not a vehicle available to them. To enable those people to benefit from it, there is an opportunity to expand the age at which you can open a lifetime ISA.

Yvonne Braun: I would make exactly that point. A lot of self-employed people do not fit the age restrictions on the product, so for them it is not going to be available. Of course, if they are higher rate taxpayers, the pension tax relief on offer to them looks better than the bonus they would have received under the lifetime ISA. That is also worth saying: for self-employed people, the lifetime ISA is particularly attractive if they are basic rate taxpayers, but not so much if they are higher rate taxpayers.

Q11 Jeremy Quin: I am grateful—it is 15% and 50%. I am a glass-half-full type of person, but I am sure the points were noted.

The other point I want to tease out is the reference to not everybody being ready, and the potential for delay. Hearing what Carol was saying, in particular, I take it that there is no sign that there will be an insufficient number of people to provide a market. There will be a market, and if people have to catch up they will have to catch up. We are offering a good product at an early stage—would that be fair?

Yvonne Braun: That is absolutely right. Our members very much want to make this work for their customers.

Q12 Ian Blackford (Ross, Skye and Lochaber) (SNP): A lot has been said about auto-enrolment and those who have been left behind in the process up till now—the self-employed. Given that we know there is going to be a review of auto-enrolment in 2017, is there an argument for postponing this until we deal with auto-enrolment and those who need to be included?

Carol Knight: Not necessarily, no. We need to monitor the effects, without a doubt. We need to look at the take-up of auto-enrolment to see whether there is any discernible drop-out and a corresponding number of people going into the LISA. There are so many unknowns with auto-enrolment that it is difficult to say that we should postpone the LISA because of that.

There are a lot of people who are not going to get caught by auto-enrolment. One of my biggest concerns is about people who earn too little to even fall into that bracket. An increasing number of people have multiple income streams, each of which is too low to get caught. Auto-enrolment is not going to solve the problem for them, but a lifetime ISA could.

Yvonne Braun: I think that question of people with multiple employment will be one that we will have to return to in the automatic enrolment review, because I think that is the very point of the review—to see whether some tweaks need to be made to make it work better for more people.

The point that Carol made about monitoring the outcome is absolutely right. I think the view has been expressed that the risk of higher opt-out rates from automatic enrolment is small, because that has not occurred with the introduction of the help to buy ISA. However, I think it is important to remember that the help to buy ISA is quite a different proposition, because the maximum bonus is much, much lower, and also the bonus is not paid into the actual account, whereas here it actually goes into the individual's account. So I think the experience with the help to buy ISA should not give us false comfort that the lifetime ISA will not have an impact on automatic enrolment.

It will be really important that we look at what happens from next April, when the lifetime ISA is introduced, and, as I said earlier, it will also be really important that the information and guidance that people receive is very, very clear about the importance of the employer contribution and about not losing that through a switch into a lifetime ISA.

Q13 Ian Blackford: How concerned would you be on that issue, Yvonne, particularly given what you said previously—that nobody will be better off with an ISA than they would be with investing in a pension scheme? I think that the figures that you gave to the Work and Pensions Committee were quite illuminating, because they demonstrated that someone earning £25,000 a year and putting 4% of their salary in over a 40-year period would be 33% worse off with a LISA. How concerned are you that people may be seduced into investing in a LISA over the opportunities and the benefits of investing in a pension?

Yvonne Braun: I think that is absolutely not the intention of the policy, because the Government have been very clear, from day one, that the LISA was not intended to supplant automatic enrolment but was intended to work as a complement to it. I think that if we can stay with that, and if the communication to people is clear on that point, then that risk is mitigated, although we should still monitor what actually happens on the ground, because it is easy to get confused about the numbers. We are talking about 25% Government bonus, which sounds better than 20% basic rate tax relief but is in fact exactly the same.

So clarity of the message is really important in all of this, and as I said, we think it is important that we use the guidance services for that, and also that the work that is done by the financial advice market review on rules of thumb considers what could be communicated to people about a workplace pension vis-à-vis a lifetime ISA. I think the two should be seen as the lifetime ISA being on top of—in addition to—the workplace pension, rather than there being some sort of binary choice.

Q14 Ian Blackford: In order to achieve that, how would you architect the guidance and advice that consumers need to get, to make sure that they don't fall into the trap of investing in an ISA when a pension would be better for them?

Yvonne Braun: I think there needs to be a strong signpost towards the guidance services, and the guidance services need to be clear about the complementary nature of the two products—that it is not an either/or, much like it should not really be an either/or for people whether they save for retirement or for a house deposit.

Q15 Dr Eilidh Whiteford (Banff and Buchan) (SNP): I want to continue along very similar lines to the previous questioner, because I was also very struck by the evidence that the Association of British Insurers submitted to the Work and Pensions Committee. I particularly note that a £25,000-a-year salary would be roughly the average female salary in this country. There has also been quite a lot of talk today about people on lower incomes, and it seems to me quite striking that if you are a person on an average or below-average salary, it is unlikely that you are going to "max out" your employer contributions or your annual allowance in any given year. So it does not seem to me that there are many advantages for a low or average-wage person in the LISA, and it seems that they would be better advised to invest in a pension. Looking at the discrepancy pointed out in the evidence, that could be £53,000 over a lifetime's saving. Is it really advisable from a financial perspective to encourage anyone to invest in a LISA if they are on a low or average income?

Yvonne Braun: I think what is also important here is that we consider people's individual choices. As long as people are clear about what they are giving up, we cannot stop them from potentially opting for a lifetime ISA if that makes sense. Ultimately, this is about giving people more options—that is the intention—but I think there has to be a very clear message of, "If you opt for a lifetime ISA over a workplace pension, the downsides look like that." That is quite important to draw out.

Carol Knight: That is absolutely right. When you are looking at a workplace pension where you have got the employer contribution going in, that definitely changes the dynamic. So I think it would be very hard to justify anyone using a LISA as an alternative to that because of that extra contribution going in. However, for people for whom that is not an option—those people may be comparatively young and not necessarily have any sure view of how their life is going to pan out—the concept of putting money into a pension that is completely locked away might just stop them saving altogether, because their lifestyle is such that they want the option to be able to have access to money at a point at which they need it, and within a pension they cannot do that. The lifetime ISA gives them that flexibility, where they have the opportunity to save money and the opportunity for a 25% bonus that is easy to understand—matching contributions is an easy concept—and, if their lifestyle is such that a crisis arises where they need access to money, they can get to it. The lifetime ISA will give them that, but a pension will not.

Q16 Dr Whiteford: Would you agree that there is a serious risk of mis-selling in this context?

Carol Knight: There is always that risk. It is down to how it is communicated to people, and I think that clear, simple guidelines are going to be really important for people to help them understand the difference between the two and the benefits of both.

Q17 James Cartlidge (South Suffolk) (Con): This is continuing on the same point but looking at it from the other point of view, as someone who has been involved in the housing market a lot. Surely it is not unreasonable that a young person who lives in an area where property is very expensive has an opportunity at last for their savings to be protected, other than in extreme circumstances, from house price inflation, and to be able to play catch-up. The biggest problem in the boom years was that you could save, but prices would be roaring ahead of what you could realistically save. Therefore, quite understandably, someone in that position who is many decades from retirement might think to themselves, "I'm going to put everything into this, because I am desperate to get a home. It is very expensive, but this is an opportunity." To me, it is surely not unreasonable for someone in that position to make that choice.

Yvonne Braun: As long as they are clear about what is involved—to me that is the key.

Carol Knight: I think a lot of evidence shows that for a lot of young people the focus is their home, without a doubt.

Q18 James Cartlidge: Obviously if someone gets on the property ladder with a capital repayment mortgage at the age of, say, 25, in theory when they retire they should not have any housing costs—that was the old idea. So we should remember that there is an extra benefit in this. There are many other benefits to home ownership and many aspirations, but I take your point that we have to have the advice in such a way that anyone making the choice knows what the choices are. That, as always, will be the challenge.

Yvonne Braun: I think there is an additional point that it is important not to overlook. We know that the earlier you start retirement saving, the less effort you have to make later. If you start at 20—the rule of thumb always is that it is about half your age when you start saving—it will cost you an awful lot less and it will be an awful lot less painful to save for retirement than if you start at 30 or 40. That has to be in the equation for people. Actually, at the moment opt-out rates are lowest for young people, so automatic enrolment has worked very well for young people especially, and it is important that that success story does not get stopped.

Carol Knight: I think that is absolutely right. When you look at the savings culture in this country, a lot of savings go into cash and a comparatively small percentage go into investment. It is difficult for people to understand the investment cycle, and they are scared of it because it is not easy to understand. In something like auto-enrolment, it is done for you. It is a nice, easy way to enable people to move into that market. If you can inculcate a savings habit at an early age, it gives them a really good building base to go on. Auto-enrolment does provide people with that platform to get into an investment environment that they may be a little wary of going into individually. That is why we think that the lifetime ISA is complementary rather than "instead of", because you have to choose that actively, whereas auto-enrolment is there for you if you are in that cohort of people who are caught.

Q19 Kelvin Hopkins (Luton North) (Lab): I am concerned about the whole idea of persuading people to save when they are young. Is it not the sensible way forward to have a compulsory state scheme for everybody based on income? Young people with either high rent or a mortgage or children are constantly up against it financially—even those with an income better than £23,000 a year, which is a tiny amount for mortgages in particular. Is it not time to say that the Government have got it completely wrong, that all these complicated schemes will not actually benefit the people who really need help—those on low incomes with high expenditures they have to meet—and that replacing all those schemes with a compulsory state scheme with defined contributions and benefits at the end would be much better? If the better-off want to go and invest somewhere else, that is fine, but we are talking about ordinary people on relatively low incomes. Do tell the Government that they have got it completely wrong if you want to—no need to be too polite.

Carol Knight: Would you like that honour, Yvonne?

Yvonne Braun: I think that is the state pension, though. Ultimately the state pension is your safety net. Everybody is going to get the same, and especially for people on lower incomes, the state pension provides quite a good replacement rate.

If we look at some of the projections that the Department for Work and Pensions did, I think, two years ago when it looked at the adequacy problem in the population at different salary ranges, it found that the problem is between £22,000 and £52,000 of annual income. Lower than that, you have a lot of replacement income through the state pension, and higher than that people can usually sort themselves out. So that is where additional savings are more important.

I would say that the Government have not got it wrong. Automatic enrolment is a very good policy, and making it compulsory is also perhaps not terribly British, I suppose. The state pension provides the underpinning that you describe of an income that is there for everybody as a safety net.

Q20 Kelvin Hopkins: But the state pension is not earnings-related; it is for everyone. I agree with you—a much higher basic state pension would be a good idea as well—but earnings-related income on top of that means that those on better incomes do not suddenly drop down to the basic state pension when they reach retirement. They are compelled to save so that they can have a comfortable retirement.

Yvonne Braun: That is in many ways how automatic enrolment is supposed to work—it is a percentage of salary, so people with higher salaries will contribute more. There is then a question about whether 8%, as it is meant to end up in 2019, is the right percentage. We firmly believe it is not; it should be quite a bit more. That is the subject of the automatic enrolment review that will happen next year.

At this point I would not argue that it needs to be compulsory. Because the opt-out rates are so low, there is a question as to why you would go for a compulsory savings scheme.

Q21 Kelvin Hopkins: I have just one more question. If it were a compulsory state scheme with defined benefits, it would not be stock market-related; it would be a state fund. It would be extremely efficient, like national insurance is extremely efficient in how it works, and the whole thing would be better for those retiring at the end of their working lives and also provide a wonderful fund for Government investment in infrastructure or whatever, which would have returns. It is not a new idea. Barbara Castle, a great hero of mine, was talking about this sort of thing 40 years ago, and we are still fiddling around with all sorts of complicated schemes that do not actually provide the benefits that they should.

Yvonne Braun: I doubt that the Government would wish to take that on their balance sheet.

Q22 Kelvin Hopkins: I agree that the Government would not wish to do it for other reasons, but would it not be a sensible idea?

Carol Knight: I think it is a fiscal question more than anything else. It is a hard one to justify, if you could actually cover those costs.

Kelvin Hopkins: I have made my point.

Q23 Lucy Frazer (South East Cambridgeshire) (Con): The Bill provides that you can take your savings out to buy your first home. Are there any other circumstances in which you think you ought to be able to take your money out?

Carol Knight: Yes. We ran a survey to get feedback from consumers and the industry. There were two, or maybe three, other areas where the feedback indicated that including additional lifetime events would be beneficial. One was critical illness and the other was redundancy. Those are incidents that are outside people's control and that place a huge demand on finances. The other one was buying a second home, too. It is not just about your first-time purchase, but when you start a family and want to move on. Those are three additional lifetime events that we believe could be incorporated within the scheme.

Q24 Lucy Frazer: If you were an independent financial adviser and you were assessing the risk for a client, on a scale of one to 10, where 10 is the most risky and one is the least risky, what would you assess the risk as?

Yvonne Braun: The risk of?

Lucy Frazer: Of investing in a lifetime ISA.

David Rutley (Macclesfield) (Con): How risky is the investment?

Carol Knight: A lifetime ISA can have anything within it, so the risk would be determined by the assets you choose to put in it. They will go from low to high. There is no restriction on the investments that can go into a lifetime ISA. It depends on what you choose to put in it, really.

Lucy Frazer: Is there anything that you would like to add?

Yvonne Braun: I completely agree that it will depend on the asset mix in the lifetime ISA. I am sure that an adviser would also take into account that 25% will be added, which will help to balance out the risk a bit. We are not sure that, beyond a first home purchase and terminal illness, which are currently in the Bill, additional lifetime events need to be included. If you take redundancy, there are other savings vehicles for that, so I am not necessarily sure that the state needs to step in with a Government contribution to support that. I would probably say the same for buying a second home—I take it that by that you do not mean buying an additional home, but moving the next step up and buying a bigger home.

Carol Knight: Not a holiday home, no.

Yvonne Braun: I think that the main pressure point in terms of housing seems to be for people to get on to the housing ladder in the first place because they are taking so long to get their deposit together. I think that issue is alleviated once people make the second step up.

Q25 Huw Merriman (Bexhill and Battle) (Con): I want to pick up on something that Ms Knight said, and I have two questions as a result. First, the complexity of this product has been talked about. If you add the critical illness and redundancy rationales for withdrawal, have you not just made it more complex and are you not turning it more into an assurance or insurance-based product as a result?

Carol Knight: I think it depends on how much you want to support people going through their life, and if it is going to be the fundamental of the lifetime ISA to help fund those important events as people go through them. It is a balancing game, really.

Q26 Huw Merriman: The second point was with regard to your suggestion to permit the product to be used for second home owners. Is there not a danger that we already have challenges as it is with first-time buyers getting into the housing market? Effectively giving Government subsidies to help second home purchasers would perhaps strike some as a bit much. What is your observation on that comment?

Carol Knight: Housing is a big problem in this country, without a doubt, and I think it needs to be part and parcel of a much bigger picture. People use housing as part of their retirement planning, which is an important factor to throw in. When you talk to people about how they are going to fund their retirement, the value of their house is very often part of that. The whole question of how housing is used as a source of income on retirement is very important.

It is very difficult for people to get a clear view of how much income they can take out of their home at the point of retirement. If they are not in a position where they can gradually build the value of their home during their working life, they will have less available through an equity release product or whatever mechanism is available to them. They will have less available in the way of funds for retirement. It is part and parcel of a much bigger picture. We should be looking at retirement saving as a whole and helping people to put different types of assets towards funding later life.

Huw Merriman: Thank you.

Q27 Ian Blackford: I want to come back to the issue of risk. We all know that when you invest in a pension scheme, the trustees will then look at the appreciation of risk that you would expect to take on board. They obviously look at the timeline of when you expect to retire and gear any assets according to that assessment.

If we have a situation here where an individual can invest in an ISA, and can invest up to 100% in equities, they may decide to draw down that pot at any time for a particular type of event. We know that there is always a risk of a downturn in the market. Most actuaries will tell you there is a one in seven year risk of a downturn in the market. Are we not inadvertently exposing consumers to risk? Does it not come back to the point that was raised by my hon. Friend the Member for Banff and Buchan that we are exposing consumers to risk, not just of mis-selling, but of investing in an asset where there could be a risk of a downturn in the market seriously impacting the choices that they then make?

Carol Knight: There is always that risk, but I do not think we are looking at the lifetime ISA as an alternative to a pension. We are looking at it as complementary to a pension. Firstly, the lifetime ISA could go into a cash ISA, but as a long-term savings product it is generally accepted that cash is not necessarily the best way to do that. Again, it points to getting good guidance and information to people to help them make informed decisions as to the type of assets they are going to put into that product.

Q28 David Rutley: You have talked about some of the issues around signposting and also discussed the pros and cons versus pensions. That is clearly a very big issue. This issue is not quite as big, but do you have any views about the LISA versus the help to buy ISA, and any potential confusion that could cause in the minds of first-time buyers?

Yvonne Braun: As I understand it, the help to buy ISA lapses in 2019. This is the successor vehicle. It is important that the lifetime ISA, from the perspective of a house purchaser, is structured in a much more attractive way, because you actually get the payment of the Government contribution into your account, whereas with the help to buy ISA, the Government contribution goes through your conveyancer or solicitor towards the house purchase. It is a completely different ball game.

This is why I was saying it is difficult to draw comfort from the experience with automatic enrolment and the help to buy ISA, because it is not as attractive as the lifetime ISA. But yes, I see it as a successor vehicle. There is still a question around the transition and transfer of funds that sit in help to buy ISAs into lifetime ISAs, but I am sure that will be resolved.

Carol Knight: The other difference is that the help to buy ISA is just a cash ISA, whereas within a lifetime ISA you can have investments which, in the longer term, are generally considered to be a better option.

The Chair: I am afraid that brings us to the end of the session. On behalf of the Committee, I thank the witnesses for assisting us in the way that they have.

Examination of Witnesses

David Wren and Tom McPhail gave evidence.

10.45 am

The Chair: Good morning and thank you for coming along. Can you please introduce yourselves? First, Mr McPhail.

Tom McPhail: Hello. I am Tom McPhail. I am the head of retirement policy for Hargreaves Lansdown.

The Chair: And Mr Wren.

David Wren: Good morning. I am David Wren from the British Bankers Association, where I look after tax policy.

Q29 Peter Dowd: Mr McPhail, in the information you provided, you give your views on the Bill, and then you say:

> "However, in the longer term we believe that the LISA is a misguided policy, emerging from a fudged review of pension taxation and that its introduction makes the decision making process for investors harder rather than easier and that it will therefore potentially undermine savings behaviour."

Could you elaborate on that, please?

Tom McPhail: Yes. The context the lifetime ISA came from was a review of pension taxation, which was aborted, to a large extent, in that it did not ultimately change the overall structure of the taxation. It largely left pension taxation unchanged and it introduced a new product as an alternative.

An important point to acknowledge is that all the problems, inconsistencies and illogicalities that exist within pension taxation are still there and still unaddressed. What we have instead is a product that, as we heard from the previous witnesses, will serve purposes for some investors in some circumstances—for a minority of self-employed people, for example, and for people who cannot benefit from an employer contribution into a pension. It will have some benefits but, in the process, it will make the investment landscape more challenging for most investors.

We are in danger of sending ISAs down the same road as pensions, making them more and more complicated. Our business is to make it simple for people to save and invest and do the right thing—to invest responsibly for the future—and when clients ring up now and say, "I've got £100 a month I want to save," we are going to be faced with asking, "Do you have access to a workplace pension? Do you want an individual pension? Do you want a cash ISA, an innovative finance ISA, a stocks and shares ISA or a lifetime ISA? Are you saving for the short term or the medium term? How soon will you need to have access to the money?" It is getting more and more complicated and, frankly, in terms of the big picture in the long term, I think we are going down the wrong road.

Q30 Peter Dowd: You referred to the fact that there are more challenges for investors, and to the effect that those challenges will have. Can you elaborate on what the effects of the challenges will be?

Tom McPhail: The more complicated you make the decision-making process, the more you put people off doing the right thing. One of the things we have worked very hard at as a business is to make it simple for people to save and invest. Going back 10 or 20 years, a typical pension application for someone who wanted to save for their retirement would run to 20 pages. We have stripped that down to one sheet of A4, and more people are investing in pensions as a consequence. We have 800,000-plus private investor clients—ordinary individuals—and more of them now log into their investment accounts using an app rather than online. We are making it simple for them to save and invest. Every time we have to ask them another question, every time we knock them back by making them think about one more thing, it slows the process down and we lose a few of them. It makes it more complicated. So half of the challenge for all of us here is to make it as simple as possible for people to save and invest for the long term.

Q31 Peter Dowd: Are you concerned, in the light of the fact that you believe that the area is becoming increasing complex, that there is the capacity out there to give the good information and advice that we seem to be getting told we need? It seems to me that the answer to everything we asked was, "More information, more information, good information, good information," without it being said exactly what that meant. Would you agree?

Tom McPhail: A lot of the time, the answer is less information. I could send you a 50-page document and you might well not read it. We had that problem with the open market option on pensions: people would get to retirement and we would send them a big stack of papers saying, "You have a right to shop around," but there was so much paper that people did not shop around, so they bought a poor-value annuity. Actually, the answer is to send them less information but to make sure it is the right information. The Government's recent work around the financial advice market review was enormously encouraging. It gives us more latitude to give people simple, helpful information that will steer them towards making a good decision.

However, your point is absolutely right: if we do not give them that information and that support to steer them towards the right answers, risks do exist. We heard about workplace pensions earlier and the risks of people opting out of them; that is a good example of where it is really important that we support them with good information, to make sure that they do not do the wrong thing.

Q32 Peter Dowd: I have a final point and, if I may, Chair, I will ask Mr Wren to make an observation as well. You say that this will potentially undermine savings behaviour, which is exactly the opposite of what anybody wants. Could you tease that out more? It is fine to say that it is complex, but could you put some more meat on the bones? Why will this undermine savings behaviour?

Tom McPhail: We have a lot of people putting long-term money into cash. They are being excessively conservative. The bulk of ISA money sits in cash accounts. Auto-enrolment works from an inertia point of view: it gets people into pensions and it is proving to be a great success. The challenge thereafter is to encourage people to take some responsibility for that pot of money, to take an interest in their long-term savings and, as they move into their 50s and 60s, to think about what they are going to do with that pot of money, whether it is adequate, whether they have been saving enough and how they are going to apply it to draw an income in retirement.

Currently, we have a lot of people just putting money into cash ISAs—short-term money—and sometimes it ends up sitting there for 20 years. That is not a good outcome. It is about striking that balance: making it simple for people, but also drawing them in and getting them increasingly engaged. So the answer to your question is that the more complicated it is, the more we will lose people and the greater the risk that they will just make no decisions at all, as we saw with the open market option on annuities, for example.

Peter Dowd: Mr Wren, have you any observations on that question?

David Wren: Yes, I think a few of the questions that Tom has answered are things we are concerned about. The introduction of the lifetime ISA adds considerable complexity to a market that is not simple anyway. This will be the sixth type of ISA on the market. It directly competes with the help to buy ISA for certain savers with certain aims, and it has an overlap with pensions, savings and various other products. The hybrid nature of the product—between saving for a house and saving long term for retirement—also adds considerable complexity for people who are choosing where to save and what to do. For a single product to try to do both things, which are often competing aims in terms of what someone is saving for, is really challenging.

One of the things Tom spoke about was whether you save in cash or in stocks and shares. Saving for retirement is typically a long-term activity. Stocks and shares are probably a better investment for many people in that context, if not funds and others. Saving for a home was historically a short-term activity. Unfortunately, for many people it is probably becoming a mid-term activity, but the security that cash and similar investments bring is still probably more suitable. Balancing that within a lifetime ISA is going to be very challenging for savers and for organisations that want to offer them to their customers.

Q33 Peter Dowd: In the information you provided, you say:

> "There are concerns that savers may end up with the wrong investments leading to the wrong outcomes as a result of the route through which they enter the market rather than as a result of a conscious investment decision."

Again, it is important to try to unwrap that. Could you unwrap it a little more for us, please?

David Wren: Absolutely. There were some questions in the previous session about the risks in a lifetime ISA. Ultimately, the lifetime ISA is a wrapper around some assets, and the assets are for you to decide. There will be people who offer only cash lifetime ISAs; they do not offer stocks and shares to any customers, and they will not be offering it for this. There will, presumably, be people who offer only stocks and shares lifetime ISAs. The fact that you have picked up the phone to someone who offers only one particular product may not mean that that is the best product for you. There will hopefully be information out there, and we very much hope the Government will work with us to provide good information to customers on getting the right product.

To answer Tom's point, to have cash sitting somewhere for 20 years is probably a bad idea, particularly with interest rates as they are at the moment. Similarly, going into stocks and shares for three years is a bad idea—there were questions earlier about the risks that people were exposing themselves to. Helping people get the right access to the right product at the right time is going to be a critical part of making sure that the lifetime ISA is successful.

Q34 Maria Caulfield (Lewes) (Con): Tom, I want to go back to your point that this would make the market too complicated and crowded in terms of what products are available. Is it not true that for a long time, many people have been left out of savings altogether—I am particularly thinking of people on low incomes, the self-employed and those with multiple, low-paid occupations? Actually, there is a lack of culture around savings; it is just not the norm for some people. While the auto-enrolment pension will go some way to addressing the pensions issue, as we heard in the previous session, this is in addition to, not instead of, auto-enrolment. Is it not that the product is right, but the key is getting that advice available to people so they can make that decision? This will open up the market to people for whom savings have not been an option before.

Tom McPhail: Given where we are now, six months before the intended launch, our starting point would be to go ahead with this. However, in the longer term we are still of the opinion that it is not going to achieve those aims you have just described.

We also looked at the 2017 auto-enrolment review as an opportunity to adjust some of the thresholds to recognise the changes that have come about as a result of the pensions freedoms and the importance of giving more people more access to retirement savings, to bring some of the lower paid into the pensions system. We have looked at ways to revisit those questions that were not answered around pension tax reliefs and ways to reward people for saving for retirement, but the lifetime ISA is not going to achieve that.

You heard some numbers about the self-employed. Actually, two thirds of the self-employed are already ineligible for the lifetime ISA. So we have a situation where the one group of the population that, more than any other, sets to benefit from the lifetime ISA is ineligible for it. In what way is this a good policy?

You are right about the low-paid: we need to do more for them. We think there are ways we can do that through the pensions system. I am sure you will hear later about Help to Save, which is not an area I want to comment on, but there are other ways to address that. The lifetime ISA is not going to fix those problems.

Q35 Maria Caulfield: You say that in the short term it might work, but in the long term it is not going to help. Why is that?

Tom McPhail: Just because we keep moving the goalposts. It was really interesting doing some consumer focus groups around the pension freedoms. When we talked to people about all the risks around pension freedoms, we thought they would say they were worried about running out of money or not knowing where to invest, but pretty much everybody we spoke to said that their main worry was that the politicians would move the goalposts again, that they would change the rules again. It happens particularly with pensions, but it happens elsewhere as well. Every time this happens, it undermines people's confidence and trust in the system.

The recent decision around the secondary annuity market was interesting. We think that was a good decision. We are actually quite glad that the Government made the decision to pull back from the secondary annuity market, but what did we see then? We saw headlines in the *Daily Mail* saying, "People have been denied pension freedoms—once more the opportunity has been snatched away from them". Every time we do this, it chips away at people's confidence. We need to think about how and when we make these decisions and these changes. Our preferred option would be to go ahead with the lifetime ISA, because this is where we are at now, but in the longer term to move towards consolidating all these different ISAs we have been hearing about into one simple super ISA and, separately, to go back and address the questions around pension taxation that we failed to deal with last time around.

Q36 Maria Caulfield: To push you a bit further on that, a lot of people only have a pension thanks to auto-enrolment. Do you not agree that anything that gets people saving and that encourages them into a culture of saving, whether it be for their first home or for later in life, is a good thing?

Tom McPhail: But it is not a zero-sum. We could give people a 100% top-up on their money, but we cannot afford to do that, so we have to make choices about how we go about doing things.

Q37 Maria Caulfield: Is it not better that they have a savings scheme rather than not save at all?

Tom McPhail: We need to get them into the auto-enrolment system. That is the way to help them save for the longer term. If we want to address their short-term savings, there are other ways to do that.

Q38 Dr Whiteford: I can see why lifetime ISAs are a very attractive savings option for the very wealthy, high-earning young people, and those who have maxed out their pensions allowance, but to my mind, the real challenge has been encouraging people on low and middle incomes to save for retirement purposes. From what I have heard in evidence so far, you seem to agree that auto-enrolment is an important step forward. Reflecting back on the questions I asked the earlier panel, would you agree that most people on low and middle incomes would be better advised to invest in pension schemes?

Tom McPhail: The numbers overwhelmingly point to the fact that, if you have any kind of employer contribution, you are almost invariably better off going through the auto-enrolment system at work and saving in a pension than going into a lifetime ISA. Separately, we think that there is more we can do with the incentives to save in a pension that would improve that equation even further. Yes, absolutely, for most people most of the time, for long-term savings, the pension should be, and is, a better answer.

Q39 Dr Whiteford: Could you say a bit more about the sort of incentives that you think might actually help?

Tom McPhail: There was a lot of work done last year around the idea of a flat-rate incentive—breaking the link between pension incentives and the tax system altogether. There was quite a lot of support across the industry for that concept, with talk of around a 30% top-up as an alternative to tax relief. All contributions would be made out of net income, and when you made a contribution to a pension you would get a flat-rate top-up. I think there was quite a lot of traction for that idea.

I think we can go further, and it would be quite desirable to weight those incentives particularly towards younger savers. You could get the benefit of compounding. If the incentive were progressively reduced the older you got, it would provide a behavioural incentive, because with every year that passed, you would lose out. That is a very powerful message that the industry and the Government could harness: to say to people, "If you wait another year, your incentive will drop a little bit." We have been working through some ideas on how we could develop that as an alternative incentive. Either way, you are taking it away from the current messy, unfair, lumpy, illogical tax-relief system that continues to operate today.

David Wren: I think complexity is definitely the enemy of success in getting people to save. There are lots of subdivisions of pensions and savings. Helping people to find the right place within that for their needs is really challenging. The risk of complexity is not just that people go into the wrong product for them at the start, but that they are put off by the whole experience. To give an analogy, it is very similar to internet sign-up processes: each additional question you add to an internet sign-up process puts off a disproportionate number of people from continuing through that process. Having a dozen different products out there with different features does not necessarily push people to the wrong one; it encourages inertia, where you simply cannot decide and therefore do not invest in any of them.

Q40 Huw Merriman: You keep touching on the complexity of this product. I have read the blurb in the overview of the Bill and I understand the eligibility criteria—I am too old—and the withdrawal terms. I am inviting you to bamboozle me, as it were. What is so complicated about this product that I am missing?

Tom McPhail: To the credit of the Treasury team that worked on this, they listened to feedback from the industry and were really good at working to create as simple a product as possible. My answer to you is that it is a lot simpler than it might have been.

When you ring us up, we will still have to walk you through the circumstances in which you will be eligible to take the money out without a penalty, and the circumstances in which you will be able to take money out but would have to pay a penalty, so there is still a customer engagement process that will have to be undertaken at the front end. I think I made the point in the brief written submission I sent in ahead of this session that the problem is not the product itself. The product itself is reasonably simple—there are simpler products, such as the cash ISA; that is really simple—but you have dropped a moderately simple product into a complicated landscape, and you have just made it more complicated.

That is exactly what happened when we launched stakeholder pensions getting on for 20 years ago. Stakeholder was simple, but it was dropped into a complicated landscape, and—guess what?—it made life more complicated. This is analogous to that.

David Wren: That is what will really cause the challenge. When someone tries to open one of these products, the first question is going to be, "What are you saving for? Is it a home or a pension?" If it is neither of those, this is probably not the right product for you. If you pick house purchase, you have to decide between the lifetime ISA and, at least in the short term, help to buy. People have said that the lifetime ISA looks better, because you are getting the Government top-up and earning growth on that, but you cannot have the money back without a Government penalty. The help to buy ISA does not have that, so if you need flexibility, help to buy might be better for you. If you go down the pensions route, we need to ask about whether you have maxed out auto-enrolment and taken full advantage of employer contributions, and whether a different pension route might be better for you, again recognising that there are different features as to whether you benefit or not.

It is worth adding that I have been involved in this since it was announced in March—my work has a tax background—and it is not immediately obvious to me whether I would be better off topping up my pension or putting money into a lifetime ISA. The reason for that is that I would need to know what tax rate I would pay on that money when I retire, and I do not know that. It is far from simple in any one of those particular places to work out which is the right thing for you. It requires value judgments about a number of the elements. The risk is that complexity leads to inertia and dissuades people from saving at all. There is not just the risk of going into the wrong product.

Just one final thing, which the previous panel touched on: because of the Government penalty on withdrawals—you lose not only the bonus, but 6.25% of your contributions, because of the way the numbers work—there is no easy exit route from a lifetime ISA. If you make a mistake and a month down the road you say, "Gosh, I've made a terrible mistake. I should have gone into a different product," you will lose some of your money in getting that money back out and into another product. Again, we have real concerns about that and what it will mean for customers.

Q41 Huw Merriman: I have one more question. This takes me back to my misspent youth, more than 25 years ago, when for four years as a student I worked for Abbey National as a cashier and customer service adviser. We would sell this type of product. We had a whole suite of products that had penalties if, say, you were five years into a bond and withdrew early. This is not rocket science. We could explain that to our customers, and that was without the benefits of the internet. I am still a bit sceptical about why this landscape is so complex to your members; it does not seem that different, and we were easily able to sell things 25 years ago.

David Wren: The landscape has probably changed slightly in 25 years. We very much welcome the Financial Conduct Authority consultation on this, because its view on how we engage with customers and make sure that they get the right protections is really important. Yes, a range of products are available, but as Tom said earlier, a lot of people will now buy online, through a call centre or through an app, so they are not going to see someone face to face. Again, we need to make sure that people are given access to the right information to allow them to make the right decisions. That is absolutely doable, and, as I said earlier, we hope that the Government will work with us on getting the right information to people. It is the landscape that is complex, as opposed to the individual products.

Q42 Ian Blackford: David, in your submission, you say:

> "In particular, there is a concern that cash held in LISAs will only be suitable for those looking to buy a home, whilst stocks and shares will be more suitable for those investing for later life, looking towards retirement."

Is there not a risk that if an individual invests in stocks and shares and then buys a home at the wrong time because the market has fallen, we inadvertently expose consumers to risk as a consequence of this policy?

David Wren: I think that is exactly right. That is exactly why we need to make sure that people are getting the right support in picking a product, and in the underlying investment for that product. I am sure that Tom is more expert in this than I am, but for pensions, stocks and shares are typically viewed as the right investment. Those ups and downs will average out over the course of your life. I assume that most people are saving for a home in a relatively short time-window—five to 10 years. Stocks and shares are inherently more risky. The point at which you are starting a family and want to buy a home may be the point at which the market is not going through a particularly buoyant phase.

We also need to recognise that for a lot of people—bear in mind that lifetime ISAs are available from 18—buying a house is a medium-term activity. That may well be over a more than 10-year timeframe. That becomes a very challenging time. It is not obvious that cash is the right investment; it is not obvious that stocks and shares are the right investment. That is a very difficult decision for someone to make.

Q43 Ian Blackford: There was this debate about moving from "exempt, exempt, taxed" to "taxed, exempt, exempt", which was taken off the table. Was this not really just a back-door way for the previous Chancellor to bring forward this policy?

David Wren: I do not think I could comment on what the previous Chancellor was thinking when he introduced this. This is a "taxed, exempt, exempt" product. When I said earlier that it was difficult for me to work out whether I should open a lifetime ISA or pay into my pension, it is for exactly that reason: it is the difference between the money being exempt when I take it out, hopefully, at 60, versus paying tax on a pension at 60. Having both products in the market is incredibly complicated. Explaining the concept of "taxed, exempt, exempt" or "exempt, exempt, taxed" to someone is challenging. The Institute for Fiscal Studies wrote a very good study earlier in the year, in March-time, in which they talked about how this worked for different investments, but it is a thick document, and it requires a dark room and a lot of peace and quiet to really get into the detail.

Tom McPhail: We did some client research early this year on entry; everybody was under 40 and did not own a house. However, they were all Hargreaves Lansdown customers, so I cannot claim that this is representative of the population as a whole. Having said that, 14% of them said that they would look to use the lifetime ISA to save for a property, and 68% were looking to save for their future, so there was an emphasis on the longer term there.

The majority who expressed a preference did so for stocks and shares investing, rather than looking to cash, so there was a weighting—a sense that people were seeing this as a longer-term savings product, rather than a short-term cash product, in contrast to something like the help to buy ISA. This suggested to us that they were seeing it as being closer to a pension than a help to buy ISA. Clearly, there was a bit of both going on in there in the mix.

On your point about taxation, clearly we have different personnel at the helm now, so perhaps priorities and agendas have changed, but I think that it is worth reiterating that all the reasons why pension taxation was examined in the first place are still there and are unresolved.

Q44 James Cartlidge: I want to carry on with this point about complexity, because it seems to me that you are using the word "complexity" where others might use the word "flexibility", dare I say. As we discussed with the previous witnesses, it is surely not unreasonable for a young family to be entirely focused on buying property, particularly if they live in areas that are very expensive. Perhaps they are on a short-hold tenancy with less security, and so on. Therefore, when presented with a savings option, they will want to opt for a deposit.

I take your point about help to buy ISAs, but they are going in two years, we understand. Do you accept that the flexibility that comes from a pseudo-pension product that could be used for a mid-life event—in other words, buying a house—is what makes LISAs unique, unlike auto-enrolment? There is a big market for this, and there are a lot of people who would welcome that choice.

Tom McPhail: We think there are other and better ways of addressing that problem that would be simpler and more sympathetic to investors' needs. We support the auto-enrolment agenda, and we think it is important to get as many of the people you have just talked about as possible into an arrangement where they are saving for their retirement. Some of them may choose to opt out of a pension and eschew the benefit of an employer contribution, and to save into an ISA instead. For some, that might be a logical, rational and appropriate decision to make. That would, of course, mean that they were not saving for retirement in the most tax-efficient way available to them. In fact, potentially, they would not be saving for retirement at all, if they had opted out of a pension to achieve that goal.

One of the risks is that the lifetime ISA will subvert the pension-saving agenda. It is critical that pension providers and human resources managers—anyone involved in pensions—are communicating effectively around those trade-offs, the risks of giving up the benefits of the employer contribution, and the long-term consequences of that.

The help to buy product gave people taxpayer support in buying a house. There was actually relatively little wrong with it. It was there as a vehicle for saving in the short term, to build up a cash pot specifically to buy a house. The idea of trying to have your cake and eat it—of trying to save up for a house and for retirement within one product—that is where the complexity comes from, and that is where you are trying to do two things with one bag of money. If you use it to buy your house, it is not a savings product anymore.

We have already talked about eligibility for the lifetime ISA, and the fact that most self-employed people—for whom this could be a really good idea—are not eligible because of the age restriction. So I agree with you, but I am not sure that we are going about this in the best way.

David Wren: We really like the help to buy ISA; it is clear and unambiguous. Are you saving for a house? Are you a first-time buyer? Put money in. It is cash, and there is no confusion about whether you are also saving for your pension at the same time, because that is not a feature of the product. It is a really nice, neat product, which says, "Here's what I do; here's how I help you; and the Government will provide you with some help to buy your first house." It is a shame that it will be removed in 2019. It has been very successful, and something like 250,000 were opened in the first six months of the product. That kind of really clear labelling and signposting that others have talked about is something that help to buy really had, and that the lifetime ISA risks not having.

Q45 Maria Caulfield: From an industry point of view, which product would make you most money from selling it, a lifetime ISA or a pension scheme?

Tom McPhail: We make the same money on all of them.

Maria Caulfield: Even a lifetime ISA?

Tom McPhail: Correct. We have the same platform charge, irrespective of the arrangements you are going into. Where we lose money, or where we potentially end up having to charge the customer more money, is when things get complicated. The more complicated it is, the more it costs us money, and the more, potentially, we have to pass on to the customer in costs, but we will make no more money on any of these products.

David Wren: As a trade body, I do not think that we have access to that kind of information.

Q46 Kelvin Hopkins: I have listened to you both with interest. I have to say that this scheme will do nothing for a high proportion of our population who are less well off and less sophisticated. Again, all these schemes seem to be designed for the better-off and the more articulate. I have had to ask to have my life insurance schemes explained to me two or three times, but I have not got a clue what those who explained it were talking about—and I am a graduate in economics and mathematics. Half the population are not numerate, and a fifth of the population are not functionally literate. We need a state automatic scheme to help people like that, going beyond auto-enrolment—a defined-benefit scheme, and that can only be done in the state sector.

The Chair: Do you want to comment on that?

Tom McPhail: I am not sure that it was a question, but I think the simpler and more accessible we can make things for investors, the better. It is beyond my remit to talk about the state pension here today.

The Chair: If there are no further questions, may I thank our two witnesses for a very informative session?

Ordered, That further consideration be now adjourned.—*(Stephen Barclay.)*

11.18 am

Adjourned till this day at Two o'clock.