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Public Bill Committee

SAVINGS (GOVERNMENT CONTRIBUTIONS) BILL

Second Sitting

Tuesday 25 October 2016

(Afternoon)

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PBC (Bill 059) 2016 - 2017

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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

Joseph Surtees, Senior Public Policy Advocate, StepChange

Ed Boyd, Political Director, Centre for Social Justice

Bryn Davies, Director and Actuary, Union Pension Services Limited

Calum Bennie, Communications Manager, Scottish Friendly

Martin Lewis OBE, MoneySavingExpert.com

Jonquil Lowe, Women's Budget Group

Public Bill Committee

Tuesday 25 October 2016

(Afternoon)

[PHIL WILSON *in the Chair*]

Savings (Government Contributions) Bill

Examination of Witnesses

Joseph Surtees and Ed Boyd gave evidence.

2 pm

The Chair: We will now hear oral evidence from StepChange and the Centre for Social Justice. Would the witnesses please introduce themselves for the record? I call Ed Boyd first.

Ed Boyd: My name is Ed Boyd and I am the managing director of the Centre for Social Justice think-tank.

Joseph Surtees: Joseph Surtees, senior public policy advocate for the StepChange debt charity.

The Chair: Welcome to this afternoon's hearings. I call Peter Dowd to start the first set of questions.

Q47 Peter Dowd (Bootle) (Lab): The proposal for the lifetime individual savings account followed a wider public consultation about the future of tax relief in pension provision. How do you think the LISA, as proposed, fits into that wider public debate? Mr Surtees first.

Joseph Surtees: I am afraid that, as an organisation, we have no particular views on the LISA. We are very keen on any proposals that the Government can bring forward to boost both short-term and long-term savings, and I think with the LISA we are still going over detail.

Ed Boyd: I am afraid I will not be much more help. Our focus has very much been Help to Save, and that is what we have been doing research on. I can give a personal view, but it probably won't be too beneficial.

However, the one thing I think it would be worth saying on the LISA side, and it is more of a comment than anything else, is that if you look at the panoply of savings products within LISA and Help to Save, in 2021, only 8% of those funds are budgeted in the impact statement to go towards Help to Save. That falls within an approach that this is about the "just about managing". Those who are on universal credit—they are kind of in-work, but we would love them to be earning more and trying to progress up the earnings ladder—are the "just about managing", I think. The majority of the people on universal credit when it is fully rolled out will be in deciles two to five. So it's just a question about the balance between the two—LISA and Help to Save—but I am afraid I have no detailed comments on the LISA itself.

Q48 Peter Dowd: Given that response, I will try another angle. Some of the suggestions that we have had about the LISA are that although it might well be a simple product on its own, in the context of a wider market full of God knows how many products it just complicates things. Do you have a view on that?

Joseph Surtees: I suppose that in terms of how it fits into the wider market, the point Ed makes is very interesting, which is that if you refer back to the ISA itself, people earning about £80,000 are twice as likely to have an ISA as people earning the average income, which is £26,000. So the savings crisis, if I can put it like that, is among the very low earners. When products come forward in tandem, like LISA and Help to Save, it is important to ensure that they both have equal weight and an equal offer, and that they both appeal to the right markets.

Q49 Peter Dowd: Okay. If we're talking about encouraging people to save in one fashion or another, do you think that Help to Save adds to that in any substantial way? Will people save significantly more as a result of it?

Ed Boyd: So the question is: do we think that it will help? I think the answer is yes. There are always little bits to tweak and improve, I guess, as the Bill goes through, but as a whole—I mean, the idea of Help to Save is a fantastic one. When you look, as the CSJ does, at the root causes of poverty, we very purposefully have as one of the five—alongside worklessness, addiction, family breakdown and things of that ilk—problem debt. The majority of the people who we are talking about, especially when they have just moved into work, are only working 16 hours on the national living wage, which this will apply to, and will often have very little savings.

It is about the unexpected shots, and StepChange's research on this is brilliant. It shows that every six months or so there might be something, such as a washing machine that breaks down, or something else, and if you have no savings, the effect that can have on you—not just in terms of, "Oh, we have to go to slightly higher-cost credit", but on your mental health, and how productive and efficient you are at your work because your mind is continually filled with the debt problems that you are trying to carry—is hugely significant. So, anything that can try to create a culture of saving and provide some Government backing to incentivise people to save more is a wonderful thing. It is a great thing to add to the armoury.

Joseph Surtees: I certainly agree. We are very big supporters of Help to Save. The research that we carried out, which Ed is referring to, found that if a family has £1,000 saved, that reduces the chance of them falling into problem debt by 44%—so we think that Help to Save will really help in this area. To agree with Ed again, there are little tweaks that would help to increase its appeal. When it was introduced in the Budget, the potential eligibility for the scheme was 3.5 million, but the impact assessment says that it will probably only reach about 500,000. When looking at the Bill and the way that Help to Save and its features are going to be rolled out, the question is: how do we get that 500,000 closer to the 3.5 million figure?

Q50 Peter Dowd: Can I just ask, on that basis, how well targeted you think Help to Save is on those with the lowest income? It is all very well to say "Save", but if you have no money because you are on benefits or have a low income, how well targeted is that particular product?

Joseph Surtees: I think it is almost as well targeted as it could be without putting a huge onus on banks and, in a scenario in this case, running de facto means testing.

We could possibly open up the eligibility. I know that the Institute for Fiscal Studies has done some work on this—which I have one or two questions about—but as a basic proposition it is pretty well targeted at the group that needs the savings the most. If you look at the figures, almost half of families with an income below £14,000, a category that a lot of the Help to Save target families fall into, do not have savings. We have one specific issue, which is to do with how it will help people under 25. That is very much to do with the benefits rules, which I can either discuss now or come back to later.

Q51 Maria Caulfield (Lewes) (Con): I want to touch on one of the points raised in our previous evidence session, which was that someone can withdraw money from this lifetime ISA if they want to buy a home, but if they want to withdraw money for any other reason—you touched on some examples, such as if their washing machine breaks down or they have an urgent need to get money quickly—they face a penalty of between 5% and 6%. Are there certain criteria you would like to see where there are other options to withdraw money without hitting a penalty?

Ed Boyd: As I said before, the detailed knowledge, in terms of the research that the CSJ has done, is on the Help to Save side rather than the ISA side of things. There is a valuable question about the accessibility and flexibility of accessing savings within Help to Save. I could give a comment on that—perhaps it is applicable across to ISAs. I would need you to be the judge of that.

Q52 Maria Caulfield: But do you think that there should be an option for those people to withdraw money quickly rather than just having being able to buy property as a penalty-free reason?

Ed Boyd: On ISAs?

Maria Caulfield: Yes, on the lifetime ISA.

Ed Boyd: We have not done the research on the ISA, so we do not have a view. I can probably only help with the Help to Save side of things.

Joseph Surtees: On that point, I would say—and this is applicable to both—that a lot of the behavioural research in this area talks about a process called hyperbolic discounting, which is to do with the fact that the further away something is, the less appealing it will be. So, any mechanisms we can have in any of these products that allow people to access them before two years, in the case of Help to Save, or before much further in the future, in terms of the LISA, will appeal and widen the eligibility a lot more.

Q53 Dr Eilidh Whiteford (Banff and Buchan) (SNP): Some of the evidence we have taken this morning has already been more about long-term savings. In the evidence you presented just now, you emphasised the issue of accessibility and the need for people to be able to access their savings quickly to deal with external shocks. What kind of products do you think would be beneficial for people on low and average incomes for longer-term saving?

Ed Boyd: On the flexibility point in terms of accessibility of savings, there is a question. We produced a short paper on Help to Save off the back of a round table of experts in this area. One of the questions that kept coming up was whether there should be some friction for people taking out the money. For example, if someone starts to save for two years with the best intentions to make sure they get their Government bonus, but has one day of giving up on that plan, it would completely undermine it and they would not get the Government bonus. Potential frictions can be put in such as a 24-hour delay in taking out the money. I think that would be completely reasonable.

Where appropriate, someone could name a third party—a family member, husband, wife, carer or whoever—and when they say, "I want to bring it down in 24 hours", that person is texted to make sure that there is enough friction to ensure that when the money is drawn down as a rainy-day fund, it is used for rainy-day activities and things that they really need the money for, rather than just for general expenditure. This would encourage people to save and make sure the money is used to help stop them getting into problem debt.

Joseph Surtees: I think there are two interesting points here, one of which is on Help to Save. There is a system in the UK that has proved very good at encouraging low-income people to save over a long period, and that is pensions auto-enrolment. So far, the opt-out rate for that is far lower than anticipated. It is only 10% when it was anticipated to be a quarter. People who are enrolled and have not opted out are those just above the enrolment limits.

That sort of approach is incredibly useful in this area, particularly for low-income people. When you look at products such as Help to Save, such as LISA, perhaps, if you can look at how to incorporate an auto-enrolment element into that—with Help to Save, you can in particular do it through the universal credit system. Universal credit has personal budgeting support which helps you to do that. Those sorts of little behavioural incentives will help to make it appeal and work better for these lower-income individuals.

Q54 Huw Merriman (Bexhill and Battle) (Con): I am conscious that half of UK adults have less than £500 set aside for emergencies. Do you believe that the financial services market has done enough to attract and incentivise savers who are perhaps struggling with income? Do you think that the Help to Save initiative will help to plug that gap?

Joseph Surtees: In answer to the first question, I do not think the financial services sector has done enough to attract these customers and offer them a service. I will give two examples.

You may have heard of a product called prize-linked savings, which has proved to be incredibly successful in the United States. I can send you some information later, if that would be useful. It is incredibly successful at appealing to low-income families. For many years, people have talked about introducing such a system into the UK—a sort of slightly better premium bond offered via commercial providers. This was introduced in the UK by a bank, but only for people who already had £5,000 saved. To me that says that they were not really thinking about lower-income consumers.

The second example is Help to Save itself. One of the suggestions was that it would be offered by commercial high-street providers. Without giving anything away, my understanding is that most commercial providers displayed absolutely no interest in offering this product, but did display interest in taking on these customers once they had £2,000 saved at the end of two years.

Ed Boyd: There is a big problem here, which is that people are getting stuck in problem debt. It is a growing problem. I will check my stats on this—30 million people in the UK lack savings to keep up with essential bills for just one month if their income dropped by a quarter. Within the confines of that, rather than saying, "Do I think it is the financial services' fault that we have not done enough, or the Government's, or someone else's?", there is a real opportunity with products such as Help to Save for everyone to pull together and do what they need to do to help solve the problem together.

There is an opportunity for credit unions and community development financial institutions to play a big role, as well as mainstream financial institutions, not just in helping people to save but in helping to ensure that they are financially included. You have wider debates around issues such as the poverty premium—that is, the fact that people who have insecure incomes end up paying far more because they cannot do direct debits.

I do not think it is as simple as saying, "It's just the financial services sector that needs to deal with this and help more." I think there is a contribution needed from Government, from the private sector and from the voluntary sector as well to work together to help increase people's ability to budget, to increase people's incentives and ability to save and to ensure that people are financially included as they go on that journey.

Joseph Surtees: On that point, I always think about the famous Morecambe and Wise sketch: all the right notes, but not necessarily in the right order. Actually, out there you have lots of the products and approaches such as Help to Save, LISA and auto-enrolment and there are banks—and especially credit unions—that do very innovative things in these areas, but I think it is important to bring these things together so that people have access at the time they need it and can see the products laid out in front of them and make the right choices.

Q55 Huw Merriman: Have you made recommendations to Government about how they can link up with benefit payment providers, local authorities and the third sector to ensure that the market we are talking about is signposted adequately to this type of product?

Ed Boyd: Not in the work that we did, but we are really happy to help where we can. For example, we have an alliance of 350 front-line poverty-fighting voluntary organisations and they are a great avenue through which to ensure that things are articulated well to clients who might benefit from products such as this. If we can help in any way, we will be really happy to.

Joseph Surtees: We work very closely with the Money Advice Service on these issues; we worked very well with them on the single financial statement, which includes the savings element, throughout the process of Help to Save. We have also spoken to quite a lot of Treasury officials on this and I think they listened to what we had to say. There is one issue emerging from Help to Save that people and the Treasury may want to look at going forward: a very technical issue about financial advice and how debt advice providers and financial advisers can recommend products and whether they will be able to recommend things like Help to Save.

Q56 Ian Blackford (Ross, Skye and Lochaber) (SNP): Have you done any analysis of how many in this target market are currently in the area that would benefit from auto-enrolment? How do you see the interaction between auto-enrolment and Help to Save in that regard? What comments would you make on the incentives there for pension investment against the incentives there for Help to Save?

Ed Boyd: Before I come to that question, there is a point of context. One of the important things we stress in our research briefing is not seeing Help to Save in isolation. We are big fans of auto-enrolment as well. You look at the success with pensions and say, "This is important. Why wouldn't we use that mechanism here, or at least try to tie that in?"

That brings up a question in our minds looking at things like contributory benefits. Over decades and decades and all kinds of Government, the generosity of them has slightly reduced continually and, actually, if you look at universal credit, the architecture is very different from legacy benefits, ensuring that people have the appropriate support if they fall out of work through their national insurance contributions. It is difficult to see how that ties up. One of the potential answers, and the reason I mention that, is to look at auto-enrolment and rainy-day guarantee funds being set up through employers in the same way you have done with pensions to provide insurance for people against smaller income shocks such as washing machine breakdowns and also for larger ones such as falling out of work.

To consider Help to Save in isolation from that wider debate would be a mistake. There is a great opportunity here to tie together different things that are happening around Government to ensure that you have a very clear, succinct, offer and approach to people who are in work but on low incomes, who we are encouraging to save. Combining those things together through Government thought would be useful.

As an organisation, we are not at a point yet to say, "Here is how we think it could work and here is the big solution," but we are developing a lot of our agenda on this at the moment. Again, as the Bill is going through we are happy to contribute, but it feels like a really important thing to discuss as the Bill goes on its passage through the House of Lords and the House of Commons.

Joseph Surtees: In terms of the success and appeal of auto-enrolment, I referred earlier to the National Employment Savings Trust figures and auto-enrolment figures that say that there is more success and less opt-out from those with less income than from those with higher income. I would also refer you to a lot of work done in the United States by a couple of academics called Madrian and Shea, who looked at how auto-enrolment increases savings rates in businesses through payroll deduction. They found huge impacts, such as the number of people saving within a company doubling within a very short period of time once auto-enrolment was introduced.

On Help to Save, as I have said, auto-enrolment would really help, especially from the benefits side of things. There are even smaller tweaks that will help get that 500,000 figure closer to 3.5 million. Moving the bonus to getting it every six months would have a huge beneficial impact, as would allowing people to pay in an average of £50 a month rather than a maximum of

£50 a month and looking at the issue of under 25-year-olds being excluded from Help to Save by the benefits rules concerning working tax credits. There are small changes you can make now that would have a big impact.

Q57 Ian Blackford: Thank you for that. Those were interesting answers from both of you. Ed, when you talk about how you see that auto-enrolment can deal with some of the challenges that you have outlined, I wonder whether you would see as an example something like an insurance wrapper that would give the kind of benefits that you are talking about as an advancement of auto-enrolment.

Ed Boyd: Could you say that again? I did not quite get that.

Ian Blackford: Maybe something like an insurance wrapper could give the kind of benefits that you are talking about—people losing their job and benefits and what they could get. There are things you could do perhaps to auto-enrolment that would give the kind of opportunities for people that we are talking about.

Ed Boyd: There is a number of ways you could do it. We have not yet got to the point to say, "This is specifically how you should do it." We are at the stage of saying that maybe your question implies that there is an opportunity to do insurance wrappers or auto-enrol. There are a few different approaches that you could take. That is definitely one you would look at; I think that is what we would say.

Q58 James Cartlidge (South Suffolk) (Con): I just wanted to ask you about the interaction with debt. You are talking about people who will potentially have payday loans or whatever. First, will there be legal protection for the savings that they have in respect of those lenders? On the other hand, it may well be the case that the most sensible thing for them to do with their savings, once they get bonuses et cetera, is to pay off some of their debt, especially if it is at a very high annual percentage rate. I wondered what sort of advice there would be.

You mentioned universal credit, where there is quite an important point. The thing that is really good here is that you are getting people into a habit but this is initially clearly for short-term savings, which I think will actually incentivise them more on the realisation that it can help them. It is a matter of how it interacts with the debt dynamic, because a lot of them will be in that area.

Joseph Surtees: That is a very good point because there is a very specific point here about the risk that these accounts are under if somebody who has one either goes insolvent or does not go insolvent but falls into debt. That will mean they are at risk both of having the money taken during insolvency proceedings or taken by a third-party debt order. In the same way that was done with pensions under the Welfare Reform and Pensions Act 1999, where there was a wraparound of pension savings, it would be useful to have a think about whether the bonus, or even all the money in the account, should be protected if somebody begins to go insolvent, or is threatened by insolvency or their creditors.

On the second point, this is an ongoing conundrum. I know you are seeing Martin Lewis later and he will probably have a slightly different view on this. All of the research and lived experience of organisations such as ours show that, while it is crucial to pay back your debts, people also need some savings or fall-back for sudden shocks. That does not only do their financial position well; it does their mental health position incredibly well. It has been proven by the work of the single financial statement that you can save while paying back debt. Yes, in terms of a purely rational decision, occasionally people saving instead of repaying debt may not be 100% the best thing to do but, in terms of the common-sense best thing to do, I think it should be allowed.

Ed Boyd: Likewise, if someone has a significant level of debt and we say, "We think you should save the full amount because you have just moved into work. You're working 18 hours at the national living wage on universal credit," for example—the advice needs to be tailored case by case. That is why I think the training experience of work coaches as they engage with these people is going to be absolutely crucial. You can say, "This is what the advice should be," but the people who are advising people face to face and saying, "These are your options in terms of savings, paying off debt" are absolutely crucial. It will be really important to get that interface right.

This links with a programme that is being rolled out by the Department for Work and Pensions called universal support, which is the idea that when somebody comes into a jobcentre, they will not just get advice—"This is a job you can go for and we'll try to push you into that"—but we will try to understand the root causes of why they are out of work. Debt is often one of those causes, so making sure that people have appropriate support for debt is really important.

I do not think I can say this is how it should happen in every situation. Building up savings is important, but you would not encourage someone to save the maximum amount in their scheme they could if they were paying off lots of debs separately. You would encourage them, if they have some spare capacity in terms of income, to use that to pay off the debt as part of the repayment plan. The interface with the work coach becomes very important to make sure that the advice is right.

The Chair: We have four minutes now and three Members who still want to ask questions. Can we bear that in mind?

Q59 Melanie Onn (Great Grimsby) (Lab): I have a quick question. I am pleased that the line of questioning has taken us to problem debt. I am slightly worried that the way in which we are viewing this is through a prism where people are in regular work, on reasonable incomes and perhaps where, if they experience debt, it is a one-off emergency. In fact, a lot of families experience debt over an incremental, lengthier period of time, so they are regularly exceeding their income and then find themselves in a difficult position.

When it comes to the lifetime ISA, is it not the case that lots of people on lower incomes and struggling are not going to get the best deal? They will take the cash LISA rather than the investment ISA and will not benefit as much as other people who are in regular work, who are higher earners and already in a much better financial position than people on lower incomes.

Ed Boyd: On the general point, the reason why our focus has been on Help to Save rather than LISAs is that if you look at those who are just about managing, those who are really in need of just building up savings because they could be hit hardest by some of these shocks, the overwhelming majority of people who will be on universal credit when it is fully rolled out are in deciles 2 to 5. If you are thinking about those people who would really benefit from this, this is the avenue through which we should be pouring our support and efforts in order to try and help them. As I said before, we have not looked specifically at LISAs so it is difficult to comment on the cross-over and effect that they will have on that group, but going back to the previous question of targeting, Help to Save targets that group pretty well.

Joseph Surtees: It is an excellent point that most or a lot of saving products, certainly up to now, have not really thought about the best way to appeal to low-income consumers and the best way they can work with their lives. That is certainly a problem with ISAs and should be a slight problem with lifetime ISAs as well. The really good thing about Help to Save is that it has thought about how to appeal to this group and the bonus is the way that it has settled on that. All the evidence shows that that is overwhelmingly a great incentive and a much better incentive for this group, rather than interest rates or tax deductions or tax relief.

Other things could be looked at in future, such as prize-linked savings or even more innovative ideas such as adapting the auto-enrolment pension system, so that it has an accessible savings pot within in. I think that is slightly further down the road.

Q60 Lucy Frazer (South East Cambridgeshire) (Con): You have identified that the two different measures, the LISA and Help to Save, are targeted at different people in society. If that is the case, do you see these measures as adding not complexity to the system but more choice?

Joseph Surtees: I would agree that they would both be useful. I emphasise that we are big supporters of Help to Save. It is introducing an option for these low-income families that does not exist at the moment, so it is not more complexity; it is, for many, their only choice.

Ed Boyd: They are both hugely welcome, especially Help to Save.

Lucy Frazer: I have another question, but I presume that that is it.

The Chair: I am sorry—that brings us to the end of the time allocated for the Committee to ask questions. On behalf of the Committee, I thank the witnesses for their evidence.

Examination of Witness

Bryn Davies gave evidence.

2.30 pm

The Chair: We will now hear oral evidence from Union Pension Services Limited. Will the witness please introduce himself for the record?

Bryn Davies: My name is Bryn Davies. I am the director and actuary of Union Pension Services, which is a specialist consultancy helping trade unions with a range of issues involving pensions, both state and occupational, and of course saving.

Q61 Peter Dowd: I wanted a sense in the round of how you think the proposals in the Bill for LISA and Help to Save demonstrate a coherent approach to the Government's objective of making it easier for everyone to build up savings as they need. How do they fit into that landscape?

Bryn Davies: It has to be recognised that these measures come out of the more fundamental review that was undertaken of taxation and provision for retirement. I do not think it would have come out now and in this form, particularly the LISA, without that preceding process. That process identified that it is difficult—the whole issue of how tax advantages are used to encourage people to provide adequately for their retirement is difficult. There was plenty of speculation in the press that the last Chancellor had made up his mind about some fundamental changes, primarily in pension taxation. He pulled back from that and came up with the three-pronged approach of increasing the ISA limit, introducing the LISA and Help to Save—which, set against that background, are relatively minor and unco-ordinated. I do not think anyone would say that they are a comprehensive approach to making sure that people provide properly for their retirement.

The LISA is functionally equivalent to the proposed pension ISA, which was much debated, though it has a different name. The particulars may not be as was proposed by the arch-proponents of a pension ISA, but functionally it is a pension ISA. Seen globally though, it is a pretty trivial contribution towards the much bigger problem. There is widespread acceptance that pension tax relief is a problem that needs to be dealt with. In that context the LISA is pretty limited, and Help to Save is obviously a very limited proposal that does not really fit within that scope at all. In terms of a comprehensive approach to the problems of making sure people save what they need, it is lacking—and I do not think anyone would be able to pretend otherwise.

This is something that I do not often say, but I very much agree with Richard Graham MP that we need a comprehensive approach. He has spread it a bit wider than I would: he is proposing that there should be a commission on saving. What I have argued for is that there should be a continuation of the Pensions Commission in one form or another to tackle the specific issue of tax relief. The Pensions Commission, which must be regarded in many ways as a great success, pulled back from tax relief—they sort of dodged it—but I think they or some successor should take on that issue and produce a comprehensive review. Set against that, the LISA is too little and too early. Unless you undertake a fundamental review of pension taxation, I do not think that the LISA really makes a lot of sense.

Q62 Peter Dowd: In that sense, given that there does not appear to be any appetite for any substantial review of the sort that you are talking about, let us take it at face value that that will not happen. Do you get the sense that this is—I will not say a gimmick, but simply the Government feeling that they have got to do something by chucking another product into the market as a smokescreen, or call it what you will?

Bryn Davies: I would not like to use the word "gimmick" but it was a policy in search of a solution rather than the other way round. The proposal for the LISA was seen as something that could be said to have come out of that earlier process, and not coming out with anything would have given the appearance of a significant failure in policy making. In that sense, it was seen as the least that could be done as part of that process.

The problem with it is not just that it does not fit—the argument I am making is that it does not fit within this broader review of how savings for retirement should be tackled—it is also problematic in itself. I watched your sessions this morning and I think the case has been made. There was some evidence in support but also, to my mind, powerful evidence pointing out the problems with the LISA, particularly in the context of the roll-out of automatic enrolment, which is a major concern in the trade union movement.

It is absolutely crucial that whatever comes out of the legislation should not in any way interfere with the completion of the process of automatic enrolment. It is particularly concerning that LISAs will start hitting the streets, as it were, at the same time as automatic enrolment is going to face its biggest test, when the contribution rates go up from their present very low rates to the full joint 8%. That is my major concern.

There will be such mixed messages that a lot of people will make wrong decisions at that time. The two processes should be disentangled. That is the simplest way. I know we are a long way down the road and evidence this morning from the industry was strongly that they just want to get on with the job and get these things delivered, as promised by the Government, from next year, but sufficient concerns have been raised about the interaction with automatic enrolment that it would be worth putting it off, to disentangle those two processes of people starting to sell LISAs at the same time as people start getting these increases in their contributions from the current level, as far as individuals are concerned, of up to 5% gross.

Q63 Peter Dowd: Can I take this in a slightly different direction? I suppose it is linked, to some extent, to some people's concern about self-employment. That is perfectly legitimate and okay, but there are many people in effect being forced, de facto, down the self-employment line to take pressure off employers to pay national insurance and so on. Are there concerns that employers will encourage their employees to choose a LISA instead of a workplace pension, in effect reducing their contributions?

Bryn Davies: Of course, there are rules about enticing people away from automatic enrolment, and we want to see those enforced. The implication is that if people were offered a genuine choice, LISA would have to be better than the automatic enrolment offer. I am sure there will be some employers who decide to go down that road.

On the question of the self-employed, it has been identified that automatic enrolment does not really work for them. It is possible that something like a LISA would offer them something that can work alongside automatic enrolment for employees. That is leaving to one side the whole issue of whether this growth in self-employment is genuine self-employment or just a way of evading employment law by forcing people into self-employment when they should be employed—but that is a much broader issue, on which I am not an expert.

Q64 Huw Merriman: Mr Davies, could you help me a little? I have not come across Union Pension Services Limited before. Is there a formal link to the trade unions or do you represent anyone?

Bryn Davies: No, no—I am just an honest professional working to make my bread, but working just for trade unions. I work as a consultant to individual unions.

Huw Merriman: So your clients are the trade unions?

Bryn Davies: Exactly.

Q65 Huw Merriman: That means my next question is relevant—I wanted to make sure. I would have thought that, for a lot of trade union members who are trying to save up, perhaps for their first home, the LISA would be absolutely tailor-made. Also, for those trade union members on very low wages, Help to Save should be a boost to help them save and get some income in place. Is that welcomed by the trade union movement that you represent?

Bryn Davies: I think my function here this afternoon is to pour on a bit of cold water, on the whole. To be helpful, I should be the doubting voice. You have heard a lot in favour. It is quite clear that many people do welcome the LISA, and I am sure there are many trade unions among them. After all, who would not favour being able to buy £5 notes for £4? It is a no-brainer. Whether that has a proper role within an overall system of providing people's retirement income is a separate issue. So, if they are there, I am sure they will be popular.

However, I would reiterate that there is a big concern that the introduction of the LISA, in the ways that are perhaps being suggested, interferes with the successful expansion of automatic enrolment to its full extent, to everyone paying the 8%. That would be of major concern. It is universally the view within the trade union movement that the best approach to providing people with retirement income is through collective schemes of one sort or another—perhaps a defined-benefit or defined-contribution scheme under automatic enrolment. There is a tension between those two objectives. There is no objection to a LISA in itself; it is where it fits within the overall landscape of provision for retirement that is the major concern.

On Help to Save, again, it is difficult to attack it. As usual, the House of Commons Library has provided a very useful briefing, which highlights the report from the Institute for Fiscal Studies. It has identified that of the 3.5 million people—I am not sure how the figures match up—more than half already reach the level of rainy-day fund, to put it crudely, that is sought by the policy. It strikes me that it is more than likely that the great majority of people who will go for Help to Save are people who are already in that position.

What the whole Help to Save discussion misses is the sheer difficulty of managing a budget on low and variable incomes and the ability to help people in that situation. The reason they do not save, obviously, is because they are poor, and poor people have to make all sorts of difficult decisions, some of which might not seem all that sensible to those who are more comfortably off. Should you spend your rainy-day money on having a summer holiday? That sort of decision is incredibly difficult and it is difficult to put yourself in the position of people of who have to make it.

It is also worth saying that the £70 million is not to be sniffed at, but in the context of public policy it is an insignificant amount. It could well be that a better way of helping the families that are truly under pressure—who do not have, and will not be attracted to, a rainy-day fund—is to look at the way in which the social fund, if it is still called that, helps families in poverty. To me, that seems a much better way of spending the money, but I have broadened out your question much wider than it started.

Q66 Huw Merriman: Perhaps I can just ask one more question—maybe it is more of a point. Surely one of the issues is that Help to Save will be targeted at many people who will be on benefits, but what has not been offered is a commercial product that treats them exactly the same as some of the people who may read the adverts in the financial press, who may not require help so much. Again, I would have thought it would play to the sector that you are representing that, all of a sudden, those people are in the game as well and being supported.

Bryn Davies: Yes, I do not want to be too much of a wet blanket. I am sure there are some people out there for whom the Help to Save scheme will be of great assistance. I do not think it will be that many—I do not think it will be a lot of help—and many of them are not the people who do not already have a rainy-day fund. Did I get that the right way round? Most of those it will help already have a rainy-day fund. So how is that money actually being used effectively to provide more people with rainy-day funds? We really do not know, from the evidence that is available.

Q67 Ian Blackford: I wonder, Mr Davies, whether you would agree that it is unlikely that there could be a scenario where a saver would be better off in a LISA than they would be in a workplace pension scheme. Could you just comment on the fact that we have not got the final architecture of automatic enrolment, in so far as it affects low-paid workers and the self-employed, and there is a danger in the short term, if this were adopted, that workers could be seduced into taking out LISAs when their best interests would be served through a workplace pension?

Bryn Davies: There is no doubt that the LISA is an attractive offer. People will be attracted by it, although whether they are seduced—that suggests it is against their best interests. It is difficult to know exactly how it will work.

One of my main criticisms of the LISA is that it is a sort of bait-and-switch for a change in pension taxation, because its finances are unsustainable. Those of you who are familiar with the jargon will know that the existing occupational pension scheme taxation is known as EET—exempt, exempt, taxed—so the roll up, the accumulation, is tax free and then it is taxed when the money is paid out. That is compared to an ISA, which is taxed on the way in and the roll up and pay out are tax free. You are either taxed at the beginning or taxed at the end. The oddity about the LISA for a standard rate taxpayer is that there is no tax at all—it is actually EEE—and, as such, I do not think it is a sustainable basis. That is why I am saying it should be looked at as an overall view of how people save for retirement.

A system that was entirely based on the pension LISA system for provision for retirement would be economically unsustainable. In that sense, it is a loss leader. It is not sustainable as a long-term policy, because it is so generous. That is the answer to the question. It is very generous and possibly some people in the short term might do well, depending on the expenses that are charged. We do not know how expensive LISAs are going to be. They could offer a financially attractive deal, but if that is at the cost of destroying an adequate pensions system in the long term, the whole of society will be losers.

It is not difficult to sustain a case that everyone will lose out because they choose a LISA rather than an automatically enrolled pension, particularly if employers choose to contribute to the LISA as well. There is nothing to stop them, if they see it as a way of avoiding the legislation.

The Chair: I call James Cartlidge. Four people still want to ask questions and we have nine minutes.

Q68 James Cartlidge: In respect of Help to Save, it seems to me that there is a real crisis of people who are living week to week, who are often using payday lenders or other forms of debt which are not sustainable for them and who are near the precipice all the time. I take your point that some may not have any spare income at all, but if a savings product such as this, which is so generous, is not going to help them save for those emergency funds that give them greater independence and less reliance on the lenders, which is important, what possibly could?

Bryn Davies: You are right. The work done by StepChange and the Centre for Social Justice very much endorses much of the evidence that you received in the previous session. There is no doubt that it can help people. How targeted it is on people who do not already have a rainy-day fund is unclear. The first point is that many of those people who would take it up already have their rainy-day fund. In that sense, the extra money is not solving that problem.

The other problem is the sheer difficulty of operating on limited budgets. It is not a case of saying, "Let's give everyone the opportunity to save for a rainy-day fund and that will solve the problem." I think that underrates the difficulty people face in running their day-to-day budgets and the competing demands that they have. I think that reflects the point that was made here earlier.

Q69 Kelvin Hopkins (Luton North) (Lab): We are old colleagues from the TUC, so I have to say that I have great sympathy with everything you have said so far. It has always struck me that these alleged savings schemes—tax-exempt special savings accounts, personal equity plans and ISAs—help at the margin with people who are relatively comfortably off, but do not help those people who cannot save anything at all because they are too poor. Is this another of those schemes, which will help some people but not those in the most desperate need? They will be the people who are slightly better off and can afford to save something. Would it not be better to have some sort of universal state scheme for pensions, for one thing, but also, on the other hand, to have an emergency scheme where you can give more money to poor people one way or another? Raising their incomes is what the problem really is.

Bryn Davies: Yes, absolutely. These people do not save because they are poor. A hyped-up social fund would do much more directly to help people with these crisis problems. As was mentioned, it is the day-to-day grind of being poor that is the problem. It is not just crises—people are not just poor in crises; they are poor all the time. In those circumstances, there are very tough decisions to be made about how people use their money. Saving is sometimes seen by those people themselves as a luxury. They would rather run the risk than go without some relatively innocuous discretionary spending. We should, in a sense, respect their decisions. We may warn them that they are heading to a crisis but, ultimately, we need to trust people to make their decisions.

On the broader issue, you well know my views on state provision. I think that the market does fail and that it fails, in terms of saving and pension provision, for a much larger proportion of the population. There are very few people who could get by with just the new state pension. Everyone needs to save something for retirement but the market is a bad way of saving for a large proportion of the working population. I could speak on that at length.

Kelvin Hopkins: I would like to ask several more questions, but I will not.

Q70 Maria Caulfield: In your professional capacity, do you advise your clients to have pensions or savings or do you advise them to have both?

Bryn Davies: I do not give independent financial advice. I have to be very careful on that. I always promote the advantages of collective schemes and point out the advantages of having occupational schemes, and support unions when they are negotiating the best possible collective provision. I do not advise individuals about how to use their money.

Q71 Maria Caulfield: I am interested in why industry experts seem so against these schemes to encourage people to save, when we have heard from the experts in social mobility that these are good schemes to start people off on the savings process. Do you have a reason why that difference would be?

Bryn Davies: It is this interaction. There are all these different vehicles for providing it and the way they interact is not entirely clear. That is why we do need some sort of overarching review—a review of saving sounds quite attractive—specifically of pensions tax relief, so that we do not have these one-off initiatives where it is unclear exactly how they fit into the overall approach of encouraging saving. Taken individually, you could well say this is a good idea, but it is how they all work together that is the problem we face. That is why I am saying that, at this crucial stage of automatic enrolment, we should take a bit more time over introducing LISAs.

The Chair: We have two minutes and two Members who want to ask questions. Jeremy Quin.

Q72 Jeremy Quin (Horsham) (Con): You mentioned earlier, Mr Davies, that we had to respect the decisions made by people. I am totally with you that pensions are the right way for most people to save for their retirement. You have spoken eloquently about the problems and difficulties faced by the people who most need to save but find it most difficult to do so. Do you really want to deprive them of that ability to get £5 from £4 for another year?

Bryn Davies: No, no. I am not saying that this should not be included in the Bill. I do think probably that it is a bit tokenistic and that stronger measures to deal with poverty and crises caused by poverty within the social security system would be a more effective way of using the money, but I am not saying don't do it.

Jeremy Quin: You would not stand against the principle of doing this, but you would like to do more things—I hear that.

Q73 Jane Ellison (Battersea) (Con): I have just a brief comment. Does Mr Davies have any modelling or research that he has done to support his concerns around the interaction of these products and auto-enrolment? It would be useful if we could have that.

Bryn Davies: The short answer is that I do not and would not pretend that I did. If I were the only person saying this, I would be worried, but there is a broad swathe of opinion, not least including at least one Member in your own party, expressing these fears, so I do think they need to be taken seriously.

The Chair: Order. If there are no further questions, I thank the witness. Will he now make way for the next panel, please? Thanks very much.

Examination of Witness

Calum Bennie gave evidence.

3 pm

The Chair: We will now take oral evidence from Scottish Friendly. Could the witness introduce himself for the record?

Calum Bennie: Good afternoon. My name is Calum Bennie. I am a communications manager at Scottish Friendly.

Q74 Peter Dowd: You have indicated in the past that,

> "We at Scottish Friendly, while recognising LISA will not garner universal support, are enthusiastic about the initiative. It deals with one of the biggest problems society faces in the UK: trying to get under 40s to engage with planning for their retirement."

The Chair: Could I ask the hon. Member to speak up?

Peter Dowd: Yes, I beg your pardon. When Paul Johnson of the Institute for Fiscal Studies came to address the Treasury Committee, he said he did not think that the lifetime ISA would encourage new savers. There seems to be a difference of opinion, although I am not saying that there is. Why are you so enthusiastic about it?

Calum Bennie: New savers are one issue, but we are supportive of the LISA because what it could do is attract people who are currently put off saving for life after work. They are not enamoured of pensions—they have been put off pensions for whatever reason, be it a bad experience of their own or bad experiences that their families have had. They are not interested in pensions per se. The lifetime ISA could be a way of them putting money aside for their retirement, which otherwise they would not have done. That is where we come from here.

Q75 Peter Dowd: Following on from that—I was trying to tease this out earlier—I get the sense that this is another product: "This one hasn't worked, so let's introduce another one; that one hasn't worked, so let's introduce another one," or, "People aren't saving for retirement, let's introduce another one." It begins to sound as if we are saying, "Let's just try another thing. None of them work particularly well, but let's just chuck this into the mix."

Calum Bennie: I do not think we would disagree with that. As several people have said in the time that I have been in the meeting this afternoon, a more holistic approach to savings and pensions—or saving for life after work, as we would perhaps put it—needs to be looked at. In the meantime, though, we need to do something to get more people putting money aside for that period in their life. As has been raised several times, a key group of people who have not been saving for life after work or have been disadvantaged in doing so is the self-employed. There is a clear benefit from the lifetime ISA, at least for that group. From our point of view, it is quite clear that there is a group of people who are not interested in pensions. They have been put off pensions. This represents a way for them to put money aside for their future.

Q76 Peter Dowd: I have another quick question. The witness speaking before you was asked about evidence. I would ask you, what is your evidence that this will make people save? What evidence is there? You say that there is a flexibility in the system, but what is the evidence for encouraging this specific product to encourage people to save more? That was clumsy, but you get the gist.

Calum Bennie: When you introduce a product or investment that has clear advantages, as this one does, it will attract people to save. We have got quite a long experience of incentivised investment products for all sections of the community. In particular, our focus is on those with low to modest incomes. As a company with roots as a friendly society, for the last 30 years we have focused, initially, on friendly society tax-exempt savings plans. There was a clear tax advantage with those.

Twenty-five years ago, the minimum investment was £10 a month, and that attracted a substantial proportion of C2 and DE investors to put their money in those plans. In more recent years, the child trust fund was introduced. That is certainly going to help a reasonable group of people when they reach 18 with a reasonable start in life, and that has obviously then translated into the junior ISA. We were also a proponent of the insurance ISA that is no longer here, which attracted a mid-group part of the population that may have been put off by stocks and shares ISAs before.

That is why we are pretty certain that this product will also be taken up. It will not be by everyone, because there are going to be clear wealth warnings against it. If we were to introduce it, we would certainly need to make clear what you would be getting yourself into if you decided to try to access the fund before age 60—if you were saving for that length of time. But, all things being equal, savers do know what they are letting themselves in for. In our experience, a lot of savers like the discipline that they cannot touch the money. We have done focus group after focus group and that constantly comes up. That is why they like some of the products we offer—because they are long-term—and that could be a key incentive for something like this.

Q77 James Cartlidge: I was very interested in your main point. May I just clarify? Obviously there is this attraction for those who are self-employed, but are you suggesting that, perhaps because of a lack of faith or trust in pensions, even those who might actually be better off focusing on the pension side will simply be attracted to this, as it is something they have more trust and understanding in? Is that your basic point?

Calum Bennie: Yes. There are clearly some people who just do not want to touch pensions for whatever reason. The fact that we are having to force people into pensions is almost an indication that for many people, pensions are broke. We are not saying that pensions are bad and LISA is good; we are just recognising what is out there with people and that some people are very comfortable with ISAs.

We were one of the first friendly societies to introduce several ISAs in 1999 when they came out. More recently, we have moved away from friendly society tax-exempt plans, because they were inflexible, to a much more flexible ISA. We launched that five years ago. That was quite a risk. We did not quite know whether the market that we were aiming at—as I said, that is very much the low to mid-income group of people—would take ISAs, because it is a stocks and shares ISA that we market; it is not a cash ISA, because we are offering people growth potential. So there is a learning experience that people perhaps have got to think about before they invest in this, because it is a stocks and shares ISA, but it has been very successful in terms of the take-up of those ISAs.

In our experience anyway, because we are not focusing on the wealthy and well-advised, people are comfortable with ISAs; not everyone is comfortable with pensions. Therefore, this product, in the short-term perhaps—until a more holistic set of savings plans and investment plans, which perhaps has cross-party support, comes about—could attract lots of people who would otherwise not put money aside for life after work.

Q78 James Cartlidge: When this measure was originally brought in, the point was made by the previous Chancellor about the lack of consensus for the big, overarching reform, so these sorts of reforms were proposed. I do not think anyone disputes that they are not a complete answer. Of course, another part of it is Help to Save. You talked about many low-income savers. I just wonder what you think the impact will be of Help to Save on those on the really low incomes, who we want to see saving more.

Calum Bennie: We do a quarterly survey called the disposable income index survey and we look at people across the UK, and it is quite clear that particularly the 18 to 25 group are really struggling financially. About a quarter of them are spending more than their income. That is not to say that they are all in debt, because they may have other savings or family support to fall back on. Anything that can be done for them to help with a house purchase, which for young people today is a horrendous situation that they are faced with, compared with what many in this room faced when they were first buying their first house—they need all the help they can get, so Help to Save and the ISA are a boon for them.

Q79 Ian Blackford: You talk about some issues that people have with investing in pensions. Why do you think that is? You described pensions as "broke". Can you just expand upon what you mean by that?

Calum Bennie: I said that for many people, pensions are broke. The reasons could be manifold. People I talk to have experienced problems, and their parents have had problems with pensions. They were saving in a pension and whatever has happened to it—maybe the company has gone bust, or something like that—they have not got the pension that they thought they would get. For many, final salary schemes have disappeared. The pension age has gone up. Women have perhaps been affected by the age going up quite recently, which they had not expected. It could be all those issues. Pensions have been tinkered with for quite a long time. The amount you could save and the lifetime limit had gone up, and now it has come down. Tax relief is being looked at. It is for all these reasons that some people feel, "I am just not comfortable with saving in a pension."

Q80 Ian Blackford: A lot of these things, of course, are because of a change in Government policy.

Calum Bennie: Yes.

Q81 Ian Blackford: If you were talking to your clients about the advantages of an auto-enrolment pension, as opposed to looking at a lifetime ISA, how would you explain the different tax incentives?

Calum Bennie: We do not do pensions ourselves, and we do not give advice. We market our products directly to customers and they make their own decision. We do not actually give that advice. They would need to get that advice from a financial adviser.

Q82 Ian Blackford: So you do not sell pensions, but you would benefit directly from the offering of a LISA?

Calum Bennie: Yes.

Ian Blackford: Thank you.

Q83 David Rutley (Macclesfield) (Con): You talk about the focus groups that you run, and there seems to be real interest in the LISA product.

Calum Bennie: ISAs in general. We have not specifically asked our groups about LISAs. Savings in general and the discipline of savings—that is the kind of thing that we have asked people about.

Q84 David Rutley: But your business has a keen interest in LISAs and believes that there is an opportunity.

Calum Bennie: In ISAs in general, yes.

Q85 David Rutley: We are talking about LISAs today. With the lifetime ISA, is your business keen and supportive?

Calum Bennie: In general, yes.

Q86 David Rutley: As you think about this product, you realise that the inertia out there in the financial services market is sometimes used by financial services companies in an unhelpful way. Clearly, this is an opportunity to help change people's behaviours for the better. With your own operation, how would you seek to differentiate this product and get behind it to have the best possible success with your potential customers?

Calum Bennie: I think the key thing here is to make sure that people have enough savings before they commit to a LISA. Obviously, if they are investing in an ISA in general, there is always a risk that they could be disadvantaged if they take their money out in the early years. Even a stocks and shares ISA is very much a longer-term investment. You are talking about people being advised to put their money in a stocks and shares ISA for at least, say, seven years, and ideally 10 or more, but at least they are not going to be penalised with 25% coming off.

Any marketing that we would do on the LISA, and I have to clarify that the LISA would not necessarily be a focus of our marketing—our focus would be on our core products, which are our investment ISAs, as the LISA would not be for everyone—would certainly ask people to make sure that they have enough in their ISA to meet their general savings requirements, and any emergency fund requirements too.

Q87 Dr Whiteford: Good afternoon. One of the key issues we are grappling with today is the potential for the lifetime ISA to derail or undermine auto-enrolment. I have been listening very carefully to your evidence. Am I right to infer that you see the LISA as a viable alternative to pensions, rather than a complement to pensions, for some low to modest income people?

Calum Bennie: Can I just clarify what you are trying to find out from me here? Are you asking whether we would be promoting having a LISA over and above a pension?

Dr Whiteford: Not really. I am asking whether I am hearing you right when you promote the lifetime ISA to people as a product instead of a pension.

Calum Bennie: For those who do not want to go into a pension, it is there and it is complementary. We would certainly not want to take away from pensions. As they stand in the current framework, pensions are right. Auto-enrolment is right and is working for so many people; it is a success and has been more successful than the many detractors perhaps thought it would be. We would certainly not want to denigrate that at all. What we are saying is that there are some people who are just not attracted to pensions. They do not want to be forced into pensions and the LISA represents an alternative for them.

Q88 Dr Whiteford: Thanks, that is a helpful clarification. I also wanted to come back to something you said earlier about self-employed people. We took evidence earlier today that around two thirds of self-employed people would not actually qualify for a lifetime ISA.

I just wondered whether Scottish Friendly had done alternative modelling or had an alternative assessment of the market.

Calum Bennie: No, we have not.

Q89 Melanie Onn: I will follow up along the lines of what the hon. Member for Banff and Buchan asked. Earlier we heard evidence from the Tax Incentivised Savings Association and the Association of British Insurers and their view was very much that a LISA would be complementary to a pension, not in isolation from a pension. Can you clarify your view that people may not actually have a pension and may exclusively go for a LISA? Do you think that will be a secure route for them, in terms of planning for their long-term older age?

Calum Bennie: In essence, yes. The whole traditional world of retirement is changing and a range of products for people to put money aside for their later years makes total sense. We have done research. With the many customers we have who are saving in ISAs and in other savings plans, when we do the research to find out what they are saving for—financial services companies traditionally market for the holiday of a lifetime, a car, or a home improvement and things like that—our research shows that people are actually saving for retirement. They may have a pension, but they are also saving independently in an investment plan. You cannot just force people to save for their later years in pensions; they are saving in all sorts of vehicles for their later years.

Q90 Melanie Onn: But it is very much, for you, a complementary product to pensions—

Calum Bennie: Yes.

Melanie Onn: Not in isolation.

Calum Bennie: No.

Q91 Kelvin Hopkins: I am somewhat sceptical about the myriad private savings schemes and have argued the case for a much more comprehensive compulsory state savings scheme for everyone, on top of which people could save in other ways as well as in stocks and shares. What would be the case against having a universal state earnings-related system with defined contributions and defined benefits, which would be extremely efficient to operate, easy to administrate and which everybody would know they were going to get a good deal from? What would be the argument against that?

Calum Bennie: I don't think there is an argument against that.

Q92 Maria Caulfield: I want to get to the bottom of the evidence that we were given earlier, especially from the experts and professionals in this sector, that these schemes—whether it is Help to Save or the LISA—are too complicated for those on a lower income really to grapple with, and therefore won't be taken up and won't be of use. What's your experience? Do you think the way that these schemes are being set up is easily understandable and will encourage those on a low income to save?

Calum Bennie: We certainly don't see any issue with that. If it's us who are going to be promoting these schemes, then we will certainly make sure that our communications are clear and that they are researched in the first place. For instance, our ISAs—that is the basis of this product; it's an ISA, with various add-ons—are as complicated or as non-complicated as you want them to be, and they are understood extremely well by our customers.

Q93 Maria Caulfield: Can you understand why some professionals in the financial industry sector are so against these measures, and yet those who promote social mobility are quite supportive of them? Can you understand the rationale as to why some people in your sector are not so supportive?

Calum Bennie: Perhaps they haven't actually had the experience of working with lower to mid-income groups.

The Chair: Would any more Members like to ask questions? If not, I thank the witness for the evidence that he has given. We will now move on to the next panel.

Examination of Witnesses

Martin Lewis OBE and Jonquil Lowe gave evidence.

3.27 pm

The Chair: We will now hear oral evidence from MoneySavingExpert.com and the Women's Budget Group. Could the witnesses please introduce themselves for the record? I start with Martin Lewis.

Martin Lewis: Yes, I am Martin Lewis, founder and executive chair of MoneySavingExpert.com.

Jonquil Lowe: Hi, I'm Jonquil Lowe and I am senior lecturer in economics and personal finance at the Open University, and part of the policy advisory group for the Women's Budget Group.

Q94 Peter Dowd: I will make an assertion here: I think the consensus of opinion today is that the pensions landscape is broken. However, in the absence of more structural change to that landscape, any product that helps—even if it is only a little bit and even if it's for a limited number of people—is welcome. Mr Lewis, you have made this comment about the LISA:

> "For retirement savings it works the same way, but whether it beats a pension or not is a much trickier conversation."

Could you give us a view about that consensus claim that I just made?

Martin Lewis: If we just look at lifetime ISAs as a pension product and ignore the homebuying element, which of course is a substantial element, based on pure numbers—well, actually there isn't really anybody who should get the lifetime ISA, if you're contrasting it with a pension. Certainly, if you are employed, you want to be auto-enrolled. If you are not employed and are a higher-rate taxpayer, there is a clear distinction—it is far better to be in a pension than it is to be in a lifetime ISA. If you are a basic rate taxpayer, the numbers are much of a muchness, but you have the two key factors: one, in your inheritance tax planning, the LISA is part of your estate, whereas your pension isn't; and, two, LISA counts for benefit cap purposes, which could have a massive effect on many people, whereas the pension doesn't. Those two factors mean that if you really break it down and make this a black-and-white binary decision, don't put your money in a LISA.

Having said that, there are some people, especially self-employed basic rate taxpayers, for whom the idea of putting money away into one of these schemes is attractive, and therefore I support this as a good concept. Remember, we are only talking about pension saving there; not the other side, where it is a complete, utter no-brainer. Do you want a house? Put your money in a lifetime ISA. There are some arguments about whether Help to Buy is not in those transitional arrangements and I have issues with the help to buy ISA, but overall it is a no brainer.

I think my great concern over the lifetime ISA, though, is the one that goes back to the point about explaining a product that has a level of complexity, although it is not that complex. In my career, I have learned that what people want—I have just told you what it is—is a trusted source. That is enough for most people—a trusted source who says, "Don't put your money in a lifetime ISA rather than in a pension unless you are a basic rate taxpayer who is self-employed." There you go. People do not really need to know why. You have put the proofs: you've seen it on the website, so you are therefore on it. That is pretty much all you need.

All products are complicated, so we make them simple. You get trusted sources to do that, and it works. My great concern, and I have the same concern with Help to Save, is not the product in itself—I support both of them—but that there are certain dangers in misprioritising your finances. In the lifetime ISA, the danger is in wrongly opting out of auto-enrolment and putting your money into a lifetime ISA. In Help to Save, it is not paying off your expensive debts, and saving when you should be paying off the expensive debts.

I am aware that there is a new guidance system being set up, which is right and I approve of that. The problem with that is that you have to be proactive to go there. I would strongly urge you, when you set these up—it is much easier with the National Savings and Investments product—to ensure that at the point of application, whether that be online, by phone or in branch, the questions are asked, and that people are forced to ask them. So at NS&I, when you are setting up the Help to Save, it asks you, "Do you have debts? Are they expensive?". If they are, some information is given about the fact that you may be better off paying those down. You do that not in a leaflet, but at the point of application.

With the lifetime ISA, which in many cases will be an online or on-the-phone product, rather than a branch product, I would say at that point in the online form, the question should be asked, "Are you an employee? Does the employer have auto-enrolment? Are you planning to do this instead of a pension?" and at that point, information is given that explains that generally you will not be better off with the lifetime ISA.

There is no problem with the product; there is a problem with how we communicate it and how we stop people making bad decisions. The way that you do that in the world that I work in is you signpost it once, you signpost it again, and then you signpost it a third time, and now you might just be starting to start the process. I will tell them when I talk about it on the telly or on the website; you will have it in a brochure for the product; and you will hear it from the pension guys. Then when you are signing up, you will have a final warning. If we do that, we will probably touch 50% of the people we should, but not all of them. That is my biggest caution to you today: just make sure that people know when it is not right for them. Then we can all be very excited about two new products that are out there, and which should, in general, be beneficial to the people who should be using them and are a good thing.

Q95 Peter Dowd: Can I pick up that last point on knowledge? That is another issue we have touched on today. In an ideal world, people have complete control of their faculties and decision making, and have capacity and so on, but out there, that does not always happen. The concern that has been expressed today is about that knowledge landscape, and people's ability to grasp that, without it sounding patronising. Do you think that, out there in the world that this product will be sold in, there is enough information and knowledge for most people to make a reasonable decision?

Martin Lewis: I do not think there is now, because the products are not out there. The truth is that it is mainly people in this room and the industry, and a few nerds like me, who will be interested in them before they launch—why would you be? Once they launch, we need to get it right. For my TV show, next February, I have already got a lifetime ISA special booked in; it will probably be the second or third week of February—half an hour of prime time on ITV—and we will get the message out, because people need to understand how it works. We will get that out, but that communication needs to be right and consistent; the messaging needs to be right.

My concern is about product-provider level, where product providers and different people within businesses have incentives to sell products. Even in wonderful building societies, the savings managers do not ask their customers whether they have debts before they encourage them to save. Will you do it as a blanket? That is not the right way for anybody to go.

As we are starting two new products, we have a very interesting point where you can set up the regulation before we start to make it proactive, which is what I am encouraging. With Help to Save, the message is: "If you save £50 a month, after a couple of years, we will give you 50% on top." Yes, I know there are complexities about exactly how much you have saved and whether you can take it out, but that is all you really need to know. For the lifetime ISA, it is: "You can save up to £4,000 a year. You have to be under 40 when you start it. Then you can use it towards a house, in which case we will give you the bonus then, or at the age of 60, when we will give you the 25% on top, with a maximum bonus. If you have ifs and buts, do your reading—but do your reading." Those are all the messages that you need to get people interested in it.

These two products have a very simple advantage: it is called free money. Go and have a look at the green deal. Until the cashback section came in, no one was interested in the green deal. Once you started giving people free money, suddenly it became very popular. Well, you have two free money schemes. Done right, talked about right and communicated right, they will be very popular. Unintended consequences are possible—the lifetime ISA might pump the housing market, which is a concern, and we have already seen it somewhat with Help to Buy—but done right, this is free money for people. As for looking at this at a macroeconomic level—are we skewing it? Are we giving it to the wrong people? Does it have the right political consequences?—that is not necessarily my bag, but I have some concerns over it. However, if you are talking about whether you can communicate these products in such a way that people will take them up, free money does a pretty good job of getting people interested.

Q96 Peter Dowd: Thanks. I have a question for Ms Lowe. I do not know whether you have a comment on my original statement. If you do, please feel free to give it. Also, a distributional analysis by the Women's Budget Group shows that by 2020, single female pensioners will experience a whopping drop in living standards. Is there anything in this product, for the sake of argument, that you think will help to deal with, alleviate or mitigate that?

Jonquil Lowe: No, we do not. That is the short answer. Martin touched on this: is the money being given to the right people? Certainly the lifetime ISA is less regressive than the existing system of pension tax reliefs, in that it gives a flat-rate 25% bonus to everybody. However, we still think that this is a very regressive way to use taxpayers' money. Simply making a product available to everyone does not make it gender-neutral. You also need to take into account people's opportunity to take up these products.

The lifetime ISA targets people who can already afford to save. There are huge swathes of people, mainly women but some men, who are contributing to the economy in the form of unpaid work, rather than paid work. Their decisions on care—caring for children and adults—mean that they are more likely to be in part-time work and are more likely to have periods out of work. When in work, they are more likely to be in sectors where their earnings are low, which tends to affect them not just at that time but for the rest of their working life. It is much more difficult for women to take advantage of these products, so we do not really see the lifetime ISA as a solution to women's poverty.

We are also concerned, as Martin said, that the lifetime ISA may be a simple product, but it throws up complex decisions. The worry is that people may well choose to go with the lifetime ISA, rather than a pension, simply because it seems a simple product and they feel that they have more control, but in doing so, they are going to lose the employer's contribution under automatic enrolment. They will be making decisions that are actually not in their best interests, which is a concern to us.

Q97 David Rutley: Mr Lewis, you mentioned some concerns about transitional arrangements between help to buy ISAs and LISAs. Could you expand a little on that? I then have a question to both of you. One of the issues with financial service products is getting younger people interested in them. The great thing about the lifetime ISA is that it applies to youngsters at 18. We have some young people in the audience from Macclesfield. How would we seek to get young people more interested in these products early on?

Martin Lewis: First, there is a difference between the two. The help to buy ISA is available at 16, which is one issue. The second issue is that help to buy ISAs are limited to properties worth £250,000, or £450,000 in London, but for the lifetime ISA it is £450,000 across the country, which is a good thing.

Here's where it gets rather complicated. You can use a help to buy ISA effectively after three months. You need £1,600 in it; that's £1,200 in the first month, and £200 each month for two months. We have some people who have done it in two months and thirty days. We are allowing people to transfer their help to buy ISA into the lifetime ISA within the first year, which is a good rule, because it allows people to move it across and then they can put more in their lifetime ISA. However, the lifetime ISA has a one-year minimum hold before it can be used on cash, so I could have had a help to buy ISA for three years, transfer it across into the lifetime ISA and then save more money in, and then suddenly discover that I cannot buy the house that I want and have found, even though I have been saving in the help to buy ISA for three years, because I have to have held the lifetime ISA for a year.

A simple arrangement to fix that would be to ensure that the trigger-point, if you transfer a help to buy ISA into a lifetime ISA, is the start-point of the help to buy ISA, not the start-point of the lifetime ISA, so you would have had your year. Those are the types of transitional arrangements I am talking about. They are not big-picture, I think, even at this stage of a Bill Committee, and they are ones that we have had a discussion on the phone about.

The other classic thing that I would be very wary of—I will throw this in while we are talking about this—is that, as I have suggested, both these products will not be perfect. There will be unintended issues, such as the help to buy ISA issue—that it was a mortgage deposit, and some people thought it would exchange. It always was at that point, but it was revealed by the newspapers. I would strongly suggest that with both these products, there is a pre-arranged one-year review, where minor terms can be tweaked to make better products, and where we discover the things that none of the clever people who have given evidence or who are sitting around the table have thought of yet. That's a sensible way to introduce products such as these, which are so complicated—especially the lifetime ISA—to be honest with you. Those are the types of transitional arrangements I am talking about. Forgive me, what was the second part of your question?

Q98 David Rutley: With young people, how do you get them interested in these sorts of products early on?

Martin Lewis: Young people are interested in buying a house, but it won't be their financial priority. For many of the young people who have help to buy ISAs, it is money put in by their parents, and we need to be straight on that. That has a distributional impact too, because the people who are able to do that are people whose parents have the spare money, and you have to question whether that is right or wrong.

With help to buy ISAs, it depends on your definition of young people. It is a great product for 18-to-30s. If that is "young people", it is a good product, and potentially, once they have started saving in their lifetime ISA, they may then continue it for their retirement savings. I again sound the caution, because of auto-enrolment, that we want it to be a complement, as opposed to an either/or.

There are problems with the help to buy ISA. I cannot put more than £5,000 a year into it, so I then have to have another ISA product. I would not mandate that all providers had to do that, because if you did, we would have lower interest rates on the lifetime ISA than we would have otherwise in the savings version.

As an aside, I have to tell you that when I tweeted and Facebooked that I was coming here today, the big point that everybody made was that I should tell you—I'm sure you know this, but I will tell you anyway—that interest rates are horrendous. People cannot earn money on their savings. You are helping two small blocks at the moment. People feel that our interest rate policy is penalising savers right now. Even with all the tricks in the world that I can play, we have worked out that you can put £35,000 away at 2% interest. That is the best you can get with every single trick in the book played. That is it right now. That is horrendous—a disincentive to save. Of course, a 25%, 55% or 50% bonus is a great encouragement on the back of that, but savings in the United Kingdom at the moment are in a crisis that we have never seen before, and there is a bigger picture here than the two Government-supported saving schemes—I am aware what this Bill Committee is for—that are going on right now.

The honest truth is that this will encourage some, but it will not encourage many. Children's savings—even Halifax Kids' Regular Saver, the last bastion of good rates for children at 6%, has now dropped down to 4%. There are big issues in the savings market, and this won't fix them. This will help some people.

Jonquil Lowe: Perhaps we ought to keep in mind what the whole aim underlying all these schemes is. Certainly, when you are looking at housing, it is affordable, high-quality housing for all. Will the lifetime ISA deliver that? Will it excite young people? I think it will not, because what we are likely to see is that the people who can afford to save can save in it, and the people who have wealthy parents will see their parents transfer money into it. I think it will be very important to evaluate this scheme, to see whether it really does generate new saving that improves people's financial resilience.

Help to Save is very similar to Saving Gateway. I do not know whether you recall this, but the Institute for Fiscal Studies did some evaluation work on the pilots for Saving Gateway and, in contrast to some of the other evaluation, came to the conclusion that Saving Gateway did not generate new saving. What it did was encourage people who had already built up a stock of saving to transfer that into that scheme, and I fear that we might see that with the lifetime ISA as well. It is just shuffling the money on the balance sheets; it is not actually generating new saving.

I think the lifetime ISA is not necessarily going to help more young people to buy the house that they may aspire to. The money can be drawn out for use not only on new build housing but existing housing stock, so there is a danger that it will just push house prices up. Although it may help some people at the margin to transfer from being renters to being owners, for other people, it is going to put the dream of home ownership even further out of reach.

We also have another concern, which is whether this is just another part of the transition of moving away from the collective risk that society bears to individualising risk. The lifetime ISA legislation allows the Government to consider early withdrawals without penalty for reasons other than house purchase. At the moment, that is not something that they are going to do when the scheme is first introduced, but schedule 1, part 3 allows for that option.

That starts to look very similar to a scheme that was tried in the Netherlands and abandoned in 2012, called the life-course savings scheme. The idea was that employees could build up some savings, tax-free, through deductions from their salary, and that those savings could be withdrawn to pay for periods caring for a frail relative, for example, or for the cost of childcare. Again, that is absolutely fine if you can afford to save, but if you cannot, that form of welfare is not helpful and excludes a lot of people. The evaluation of that Dutch scheme found that, as you might expect, fewer women and part-time workers took part. The amount saved went up dramatically with earnings, and the vast majority of people said that they were doing it because it was tax-free and would allow them to retire early. That scheme did not really address the aims that had been set out and was, again, a very regressive form of welfare.

Martin Lewis: I do not fully agree with this analysis. I think there are certain parts, and on the distribution part, I absolutely accept where you are going. Of course there is an issue of distribution, but we have to be very careful. Certainly there is a feeling out there in the country that it is the people who struggle and push to sort themselves out on their own who get the least help. Some of this does go towards addressing that; it goes towards addressing the fact that those people who have struggled all their lives and would like their children to buy houses will get some help with that within the lifetime ISA.

Where I perhaps disagree most strongly is that I think the help to buy ISA has encouraged people to save for a home; some of them would not have done so anyway, and for some, it would have taken a lot longer and been a rather depressing period of their life with no wellbeing. We already have a problem with disaffected young people who feel that they are not being given a chance out there, and this does go some way towards redressing that. You paint too dark a picture; I agree with some of the analysis, but I think that is too dark a picture.

The help to buy ISA has been a very positive thing that people have liked. There was this glitch over the exchange versus mortgage deposit point, which I think was a communication glitch from some of the product companies. I know it was in our guide from very early on that it could only be used at mortgage deposit. Actually, the lifetime ISA allows you to do both those points. We need to be very careful. If we look at a product in isolation, we see there are certainly distributive problems and there are certainly gender distribution problems. Looking at this product and simply saying not to do it for those reasons, rather than redressing that balance in a more direct manner, is not the right way to go forward.

Yes, I think this will have an impact on house prices, but because it affects only first-time buyers and we are talking about a level of deposit as opposed to the overall price, it would take a far better economist than me to work out how much will trickle down into the system. I do not think that every £1,000 the Government put in as a bonus will increase the need for a deposit by £1,000. I do not think it will work on that basis. I suspect a far, far smaller figure—way below 50% and probably below 20%—will trickle across. I am not sure that is a reason not to do it.

We need to try something to encourage people to save and there is a bigger picture out there. Whenever I talk about saving on the television, I am asked, "Why are you helping all those people who have got money?", and I get lots of people saying, "Who can afford to save?". The fact is there are something like five to six times more savings accounts in the UK than debt accounts. Those people are a big part of our population and in many ways they have been relatively the worst done by since 2008 because of interest rates. Our policy is so down on people who have saved hard all their working lives to put money across. I think we must be very careful not to bite off our nose to spite our face.

I think you are right and all the points you make have some semblance of good distributional analysis and good economics, but the bigger picture is that these are not bad products that are trying to do good things. Yes, they will certainly help some people whom we should perhaps not be helping, but they will also help other people whom we should be helping.

Jonquil Lowe: The point is that taxpayers' money is scarce, so you must be careful how you use it. There isn't even a great deal of evidence that tax incentives work. After all, we have automatic enrolment because decades and decades of tax incentives did not persuade people to put enough savings into pensions.

Martin Lewis: But the help to buy ISA has been a huge success for a huge number of people.

The Chair: Can we have one person at a time? Have you finished, Mr Rutley?

David Rutley: I think I have.

The Chair: Six more Members want to ask questions, so perhaps everyone could be concise.

Q99 Ian Blackford: Thank you, Mr Wilson. We have talked about the need to save and the success of auto-enrolment. Should we not be targeting those who are being missed out, such as the self-employed and those earning less than £10,000—many women are caught up in that? That is the priority we should address first.

Secondly, when you talk about the exercise people will go through to apply for an ISA and those who can engage in auto-enrolment but choose not to, do you not think there will be an issue of people ending up in a LISA when they would be better off in auto-enrolment?

Jonquil Lowe: Is that for me?

Ian Blackford: Both of you.

Jonquil Lowe: Automatic enrolment, yes, is definitely superior. The employer's subsidy is very valuable so it would be extremely concerning if people switched to lifetime ISAs. The problem for women with caring responsibilities is that they simply do not have a lot of money to save. It is very nice that they can have a bonus if they can save, but if they cannot save, where does that leave them?

The value of unpaid caring is huge. The Office for National Statistics tries to measure it and reckons the value of unpaid childcare is about £320 billion a year and unpaid adult care about £57 billion a year. The figures are huge—about a fifth of GDP. Countries address the problem in different ways. For example, Finland has a home care allowance that recognises the value of unpaid work and gives some income that can be used to buy childcare to release the woman for work, or perhaps for other matters, which might be setting money aside to save for emergencies or later life. Simply saying, "If you save, here's a tax bonus," does not solve the problem of the people who cannot afford to save.

Martin Lewis: It doesn't, and some people should be paying off their debts, which again is a problem I mentioned earlier, especially with the Help to Save scheme. I would stretch Help to Save a little lower and allow younger people to engage in the scheme as well as people who work fewer hours but do work. If I were in charge, I would bring it lower down the net. I agree with you on that point.

The problem about the people who do not auto-enrol going into lifetime ISAs when they should auto-enrol is that products, once they become commercial—effectively Help to Save is not because it is from NS&I, but the lifetime ISA is—are sold, and they are sold to encourage people to engage. Therefore, you have competing sales messages.

That goes back to my original point of mandating messages at each point in the journey towards getting it to try to block people out. The person in charge of lifetime ISA savings at one of the big banks is incentivised by how many lifetime ISA savings he brings in and his staff, some way down the line, will be incentivised—or at least their jobs will be contingent on it—to get people to bring in lifetime ISA savings. They will not have a vested interest in telling you to put money in your pension instead, so you need to make sure that they cannot avoid doing so.

That is a subtle point, but it is about misprioritising. Every single product we have on the market, from credit cards to savings accounts and bank accounts, misprioritises someone's finances if used incorrectly. That is not a reason for not doing the product, but this is the joyous point: we are creating a new product in our nice internet and app-based era where it is rather easy to mandate people to give certain messages. That is why I suggest you do so, in a way that you could not when everything was individually sold by incentivised sales staff sitting in a closed-room office of a bank branch, as it was 20 years ago. Now, most of these things can be automated, so make them automated.

Q100 Huw Merriman: Mr Lewis, this morning we heard from some of the representatives from the financial services industry, who seemed to think that this was a complex product.

Martin Lewis: They are not very bright people.

Huw Merriman: I will leave it to you to say that. My question for you—perhaps I should have asked them—is: do you think there is a danger that, as we advance and these products come on stream that people can follow by using the internet, all of a sudden fees will be lost, as people do not need their investment adviser? Perhaps that is why the industry pooh-poohs products such as this and dresses them up as "too complicated".

Martin Lewis: One of the problems you will have with the lifetime ISA for pensions is that the vast majority of money will go into savings, not investments, which over a long period is probably not a good move. That is another issue, whereas pension money really goes into investing. I think most people who put money in a lifetime ISA will put it in a cash version and they will not need an investment manager because of that. I think there is an issue going on there.

Are these products complicated? All products are complicated; all products can be explained. I have always been anti the simplicity agenda—all that does is cut down choice and competition and take away flexibility of lifestyle to enable products to be different for different people. These products are no more complicated than those we have out there. It is always said of the state pension that there are only two people who understand it: one of them is dead and the other is still not sure whether he really does get it.

When you contrast these products with the state pension, they are pretty easy products to understand. They have to be explained and they have to be communicated. They will take time. We need to ensure that we use nice, easy and real terminology and not jargon when we do so. Certainly with the lifetime ISA, it is going to take five, six or seven years before it becomes a steady part of what people do. Certainly on the pensions side, the lifetime ISA is easier because it is really the help to buy ISA with some tweaks—that is all it is—and we have already started to do the education process on that.

The argument that they are too complicated is just a complete load of palpable balderdash. It sounds like an industry that is already making a lot of money from one product that does not want to see competition to it. I do not want to see competition to it when it is not right for punters, but when it is right for them and it is a good product, we should be offering it, and we should be slightly careful not to listen to people making bogus excuses because they are rent-seeking.

The Chair: This will have to be the last question.

Q101 Dr Whiteford: I want to come back to the potential gender differential impacts of the policy and of the LISA in particular, because generally how we ensure that women are able to benefit from public policy decisions is critical. You said that the Women's Budget Group had concerns that not many women would be able to benefit from it. We also know that, in later life, women are far more likely to be on means-tested benefits because they have smaller pension pots or do not have an occupational pension at all. Has the Women's Budget Group crunched numbers on that or modelled that in any consistent way?

Jonquil Lowe: No, I do not think we have the detailed number crunching that you are after. It would be a really interesting thing to do, but it is always difficult to have these discussions because you are talking about different cohorts of people. The women who are currently retired and on low pensions did not experience the same set of circumstances as women today. Certainly, the state pension system now has much better protection for people who are caring, which is unlike the private pension system—

The Chair: Order. I am afraid that brings us to the end of the time allotted for the Committee to ask questions and, indeed, for the sitting. I thank our witnesses on behalf of the Committee for their evidence.

4 pm

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till Thursday 27 October at half-past Eleven o'clock.

Written evidence reported to the House

SGCB 01 StepChange Debt Charity
SGCB 02 Low Income Tax Reform Group