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Public Bill Committee

SAVINGS (GOVERNMENT CONTRIBUTIONS) BILL

Third Sitting

Thursday 27 October 2016

(Morning)

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PBC (Bill 059) 2016 - 2017

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Monday 31 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

Public Bill Committee

Thursday 27 October 2016

(Morning)

[Mr Christopher Chope *in the Chair*]

Savings (Government Contributions) Bill

Clause 1

Government contributions to Lifetime ISAs

Question proposed, That the clause stand part of the Bill.

11.30 am

The Chair: With this it will be convenient to discuss the following:

New clause 1—*Impact review: automatic enrolment and pensions savings*—

"(1) HMRC must review the impact of Lifetime ISAs on workplace pensions automatic enrolment and pensions savings within one year of this Act coming into force and every year thereafter.

(2) The conclusions of the review must be made publicly available and laid before each House of Parliament."

This new clause would place a duty on HMRC to review annually the impact of Lifetime ISAs on automatic enrolment.

New clause 2—*Lifetime ISAs: Advice for applicants*—

"(1) The Secretary of State must make provision by regulations for all applicants for a Lifetime ISA to have independent financial advice regarding the decision to save in a Lifetime ISA or through a pension made available to them.

(2) Any applicant that opts in to the services offered under subsection (1) shall be given a signed declaration by that service provider outlining the financial advice that applicant has received.

(3) Any provider of a Lifetime ISA must confirm whether the applicant—

(a) intends to use the Lifetime ISA for the purposes of paragraph 7 (1)(b) of Schedule 1,

(b) has a signed declaration of financial advice under subsection (2),

(c) is enrolled on a workplace pension scheme or is self-employed.

(4) Where the provider determines that the applicant is—

(a) self-employed and does not participate in a pension scheme,

(b) not enrolled on a workplace pension scheme,

(c) does not intend to use the Lifetime ISA for the purposes of paragraph 7(1)(b) of Schedule 1, or

(d) does not have a signed declaration of financial advice under subsection (2)

the provider must provide information to the applicant about the independent financial advice available to them under subsection (1)."

This new clause would place a duty on the Secretary of State to make regulations that ensure all applicants for a Lifetime ISA receive independent financial advice.

Peter Dowd (Bootle) (Lab): The Opposition's new clauses 1 and 2 are designed to address the concern expressed across the board, including by the pensions industry, the trade union movement, Select Committees of this House and the Office for Budget Responsibility, that the lifetime individual savings account poses a threat to traditional pension savings, and most significantly to auto-enrolment.

Auto-enrolment has been a success story in the pensions environment. As Members will recall, witnesses who gave evidence to the Committee had one or two things to say about LISAs. For example, some made it clear that there is concern about the LISA interfering with the roll-out of auto-enrolment. Mr Davies suggested that although few object to the LISA, there is concern about

"where it fits within the overall landscape of provision for retirement".—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 38, Q65.]

Given that, it is incumbent on us to ensure that any reasonable concerns are assuaged. The cost to the taxpayer, certainly in the longer term, was also of concern, given that for a standard taxpayer, the LISA is tax-free going in and going out, so to speak. Mr Davies of Union Pension Services certainly alluded to that.

New clause 1 would require Her Majesty's Revenue and Customs to conduct a review of the impact of the lifetime ISA on automatic enrolment in workplace pensions and pension savings within one year of the Act coming into force and every year thereafter. The conclusions of that review would have to be made publicly available and laid before both Houses of Parliament.

It is patently obviously that automatic enrolment, which was brought in by the Labour Government, is an outstanding initiative and is starting to achieve the objectives set for it as the years pass by. It has been rolled out to large businesses and is well on its way into the small business sector. That is clearly good news, as I am sure the Minister will acknowledge. I appreciate that neither she nor other Committee members are partisan on that matter. However, not all employees will be auto-enrolled until February 2018, and the increase in minimum contributions to 8% will not be completed until April 2019. Drop-out is relatively low among younger people. We do not want anything in the meantime to jeopardise the maximum possible number of people enrolling, or to provide an incentive to opt out; that is not an unreasonable position to take.

Auto-enrolment is one of the few success stories in the pension landscape, and is widely acknowledged in all sectors to be right. I fear that the Government's policy—intentionally or not; I do not point the finger—may put the wider landscape in jeopardy and be a dangerous path, and the history of pensions suggests that that will be recognised only in years to come. By that time, it will be too late to turn back. As my hon. Friend the Member for Salford and Eccles highlighted on Second Reading, the OBR agrees with that assessment, and has reported that the Government's pensions and savings policies have

"shifted incentives in a way that makes pensions saving less attractive—particularly for higher earners—and non-pension savings more attractive—often in ways that can most readily be taken up by the same higher earners."

The Minister may respond that this is not an either/or situation, but of course she would say that. I respectfully suggest that that demonstrates a potential lack of appreciation that many people out there cannot afford to pay into both a pension and a LISA. In fact, many can do neither. The Work and Pensions Committee has warned the Government that

"Opting out of AE to save for retirement in a LISA will leave people worse off. Government messages on this issue have been mixed. While the DWP has been very clear that the LISA is not a pension product, the Treasury has proffered an alternative view."

Those are not my words, but those of the Work and Pensions Committee. That simply affirms that there is confusion over the matter. At the very least, that is the perception abroad, and as some people say, perception is reality. If we have learned one thing over the years, it is that confusion in the market simply puts people off.

Moreover, we heard in evidence from Ms Lowe of the Women's Budget Group that making a LISA

"available to everyone does not make it gender-neutral"—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 51, Q96.]

She said that account had to be taken of people's capacity to access the LISA, and in that regard, many women would be left out. That is a salutary observation.

Although Mr Bennie from Scottish Friendly supported the LISA, he recognised that people's experience of pensions was sometime bad, which could be a problem for take up. In response to the hon. Member for Ross, Skye and Lochaber, he said that he recognised that for some, given their experience, pensions are a broken product. He also indicated that he saw LISAs as being complementary to a main pension, as did Ms Knight of the Tax Incentivised Saving Association, hence the Opposition's caution about pushing on with this product without appropriate review.

It is fair to say that messing about with the pension system over the years has left people sceptical and blaming politicians for the mess. I worry that that we will be seen as messing about again, even with the best intentions. Our proposals today are a form of inoculation against the problem. The Women Against State Pension Inequality campaign is an example of a pension issue, albeit a public pension one, coming back to haunt us—or rather, it is the women concerned who are coming back to haunt us. That has shown the scepticism about pensions in general.

The Work and Pensions Committee recommended that the Government conduct urgent research into any effect of LISA on pension savings through auto-enrolment. That is another sensible bipartisan approach to the issue, which, political banter apart, is worthy of consideration by the Government. After all, the wisdom of Conservative Members on that Committee—and on this Committee—is always welcome on these matters.

Our new clause 1 would require the Government to carry out the review every year after the passing of this Bill. I hope that the Minister will consider accepting the new clause, or at least take it away for consideration.

The purpose of new clause 2 is to ensure that those opening a lifetime ISA for retirement savings receive independent financial advice. Advice is a crucial in purchasing any expensive product, be it a car, house, university education, or holiday. The advice would be offered automatically through an opt-in service, and the service provider would sign a declaration outlining the advice that the applicant received. Any provider would have to confirm the status of the applicant, whether they were enrolled in a workplace pension scheme, whether they had signed a declaration of financial advice, and whether they plan to use the lifetime ISA for a first-time residential purchase. The Opposition believe that it is only right that anyone considering a lifetime ISA is given the opportunity to see its benefits, compared with those of other schemes on the market.

The new clause would: ensure that people make an informed choice, with the benefit of independent financial advice; create parity in the quality of advice for all those entering the scheme; and offer much-needed oversight and education about the benefits of the scheme. The purchase of a pension is perhaps one of the most important purchases a person makes. That issue has exercised the minds of many people in Government, the regulatory sector and the product sector. The history of mis-selling has left a long, deep shadow across the financial product sector, and we must take that into account. It is fair to say that all witnesses made this point, either directly or indirectly.

There was more consensus among the witnesses on the issue of complexity than a first assessment would suggest. Hon. Members may recall me asking Mr McPhail of Hargreaves Lansdown about his assertion that the LISA was a misguided policy. His response was that the product was not complicated—the point that the hon. Member for Bexhill and Battle made to Mr Lewis—but that the pension landscape was complex. Mr McPhail said:

"The product itself is reasonably simple…but you have dropped it…into a complicated landscape."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 20, Q40.]

I repeat that he never said that the product was complicated. The assertion from the hon. Member for Bexhill and Battle that

"this morning we heard from some of the representatives from the financial services industry, who seemed to think that this was a complex product"

was seized on by Mr Lewis, who called that view "palpable balderdash". However, Mr McPhail did not say that. What Mr Lewis said, which is more than reasonable, is that people need to understand what they are buying. He said of LISA:

"All products are complicated; all products can be explained…They have to be explained and they have to be communicated. They will take time."

That reinforces the reason for supporting the new clause, and the need for independent robust advice, which, as Mr Lewis advised, should be given in

"nice, easy and real terminology and not jargon".

Huw Merriman (Bexhill and Battle) (Con): I am grateful to the hon. Gentleman for reading those passages. I was also struck by Mr Lewis's comment that

"When you contrast these products with the state pension, they are pretty easy products to understand."

Would the hon. Gentleman like to comment on that section of Mr Lewis's assessment?

Peter Dowd: Yes, I am happy to. The point that we were discussing was that while the products may or may not be complicated, the environment and landscape in which they are being sold is complicated, as there are all sorts of other financial products out there. That was the issue.

The primary point is that if people are to make a decision about something so important in their lives, and especially a pension, they need as much simple advice as they can get, with

"nice, easy and real terminology and not jargon".

Huw Merriman: It may seem a strange analogy, but there are lots of laws passed by this House that could be quite complicated; that does not stop us passing more laws that may help people, though. I find the defeatist attitude somewhat baffling.

Peter Dowd: I genuinely do not think that ours is a defeatist attitude. The responsibility of this House when we pass complicated laws, which we do all the time, is to make clear what they mean. I would rather we spent more time in here dealing with these matters, teasing and winkling out the issues, and being clear about what we mean. I would rather spend 10 hours in here dealing with an issue and sorting it out than one hour in here and 10 hours out there trying to unravel it.

David Rutley (Macclesfield) (Con): I understand the hon. Gentleman's point. However, I agree with my hon. Friend the Member for Bexhill and Battle in his previous comments. In the *Hansard* of the witness hearings, Martin Lewis is very clear:

> "The argument that they are too complicated is just a complete load of palpable balderdash."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 56-7, Q100.]

Those are not my words but his. He went on to say that there might be sections of the industry that think that they have products that could compete with those in the Bill, but if there is a product that is right, we should be getting on with introducing it.

Peter Dowd: There is a danger of an "angels dancing on a pinhead" argument here. Mr Lewis said that an assertion had been made—an assertion attributed to Mr McPhail—that this was a complicated product, and that has clouded the issue. I am trying to get clarity that that was not what was said. It is not the product per se that is complicated; it is the landscape in which it is delivered. There are so many products that people may get confused, depending on how much information and simple terminology they are provided with. All I am trying to do is pin this issue down.

If, having been auto-enrolled in a pension, someone opts out of it to go into a LISA, it is important that they have all the boxes ticked and understand exactly what they are doing. I say that only because of the point I made earlier. There have been so many scams and so much mis-selling in the past that when we introduce a product that some see, rightly or wrongly, as being in direct competition with a pension, we must ensure that people make their decision in full knowledge. We are trying to tie independent financial advice into the legislation. The Government may or may not accept that; that is a matter for them. I am trying to put the idea into the mix and get discussion on it.

11.45 am

Kelvin Hopkins (Luton North) (Lab): I absolutely agree with what my hon. Friend is saying and support the new clauses. We have had a recent history of appalling mis-selling, with billions having to be paid back to people who were mis-sold savings instruments and schemes over the years. Even though this scheme may be simple in itself, it could have serious knock-on effects on other parts of the industry. He is right in what he has been saying.

Peter Dowd: I am grateful to my hon. Friend for bringing that in. I reaffirm the point: we have a responsibility and duty to ensure that we nail this issue down. The last thing any of us wants is, in three, four, five or six years' time, to have to unravel and unpick a problem we could have avoided in the first place. That is our intention. The new clause is not a spoiler; it is a genuine attempt to get the issue into the open.

Ian Blackford (Ross, Skye and Lochaber) (SNP): Should we not reflect on what experts in the industry have said? Zurich said there is a danger that the LISA

> "would derail auto-enrolment and reverse"

the progress made

> "in encouraging…people to save"

for later life. We heard evidence on Tuesday that nobody would be better off coming out of auto-enrolment and investing in a LISA.

Specifically on mis-selling, do we not run the risk of ending up with financial institutions marketing the LISA in a way that is to its detriment? I cannot put it any other way: that is creating the circumstances for mis-selling, and having shaped the Bill in this way, the Government are responsible for that.

Peter Dowd: I thank the hon. Gentleman for his intervention. That reinforces the concern out there. If his point was completely off the wall, I would say so, but it is not. Millions of people out there have completely lost confidence in much of the sector. That is partly why, as was alluded to by the witnesses, if people are saving, they are often doing so in cash ISAs—because they are not sure about stocks and shares and other things. They therefore put their savings in products that give them a return of 0%, 0.1%, 0.2%, 0.3%, or 1% if they are lucky. We must create an environment in which people save and feel confident that they will get a reasonable return on their investment, especially if that investment is for their later years. That is perfectly reasonable.

This is not a question of protecting people from themselves. We are saying, "If you want to buy a product, look it over, and we will set up mechanisms to enable that to happen." In a sense, it is for the Government to decide whether they believe that what they are doing is enough.

The Work and Pensions Committee said:

> "We recommend the Government develop a communications campaign that highlights the differences between the LISA and workplace pensions. It should make it clear that the LISA is not a pension and that, for employees who have been automatically enrolled, any decision to opt-out is likely to result in a worse outcome for their retirement."

It is not just the Labour party, the Scottish Nationalists or anyone else saying that; a bipartisan Committee that includes Government Members is saying it. That is why I said that there is a little wisdom there that we should tap into.

Opposition Members are concerned that the Government are not doing enough to ensure that people who are considering opening a LISA are fully aware of all the pensions savings options available to them. New clause 2 would require the Government to legislate to ensure that all applicants for a lifetime ISA had to prove that they had received independent financial advice if they intended to use the ISA for retirement savings. If they had not received such advice, the provider of the lifetime ISA would have to direct them to independent financial advice.

With so many bodies from across numerous industries outlining concerns that there is a risk that people will save into a lifetime ISA when it is not the most beneficial retirement savings option, I cannot see a reasonable argument against ensuring that applicants receive independent financial advice before opening an account. To paraphrase Mr Lewis, it seems palpably sensible to take that approach. I hope that the Government give careful consideration to our proposal and take on board the concerns that not only I but many people have expressed.

Ian Blackford: The Scottish National party welcomes the attempts by Peter Dowd, the hon. Member for Bootle, to ask the UK Government—

The Chair: Order. You refer to hon. Members not by their name but by their constituency. He is the hon. Member for Bootle.

Ian Blackford: Indeed. The hon. Member for Bootle is right to ask the UK Government to keep a watchful eye on the impact of automatic enrolment. However, that does not go far enough. The LISA must be paused. It is a gimmick that has not been thought through. The impact assessment states:

"The government could have done nothing more, relying on existing tax incentives to promote saving among younger people and working families on low incomes. However, this would have failed to provide the necessary level of support for those who are unable to use existing support to plan and save for their future."

What a dismal statement. Where is the vision? Where is the hope? Where is the idea of a Government who can architect a pensions savings system that encourages young people to save? Should we not bring forward next year's review of auto-enrolment and make sure that we have the tax incentives and the structure right? That is what we should be doing, not introducing this hopeless gimmick that risks mis-selling to young people in this country. This Government stand charged with creating circumstances that could lead to mis-selling through this product. They should be utterly ashamed of themselves.

The SNP has tabled amendments that ask for the LISA to be halted until workplace savings are enhanced through automatic enrolment, which is the right way to proceed. Stakeholders have picked apart the UK Government's main arguments for the LISA, including that it will be good for self-employed individuals who are left out of automatic enrolment. The British Bankers Association said that

"two thirds of the self-employed are already ineligible for the lifetime ISA."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 18, Q34.]

One of the Government's major arguments has been shown to be fatally flawed. Why do we not reform auto-enrolment to make sure that the self-employed are included? That is the right way to progress.

At present, as a savings model, the LISA only supports the wealthy—those with the ability to save. New clause 2 is a welcome move to promote financial advice. We welcome this amendment. However, an SNP new clause that will be tabled ahead of the next stage will go further and explicitly demand that the advice extends to workplace savings and automatic enrolment and targets young people. We encourage Labour colleagues, and indeed the Government, to join us in supporting that new clause.

In its oral evidence to the Committee, the Association of British Insurers raised concerns about the communication of the difference between automatic enrolment and the LISA. There is a real concern that individuals could switch out of automatic enrolment and into LISA, and that

"they could lose up to a third once they get to the age of 60."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 5, Q1.]

The ABI also said that

"there needs to be a strong signpost towards the guidance services."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 9, Q14.]

Individuals who choose to invest in a LISA, rather than investing through automatic enrolment, could lose a third of their retirement benefits.

Carol Knight of the Tax Incentivised Savings Association said:

"We should be looking at retirement saving as a whole and helping people to put different types of assets towards funding later life."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 14, Q26.]

It is clear that stakeholders are concerned about the confusion that may arrive for savers with the introduction of the LISA. When he gave evidence to the Committee, Tom McPhail from Hargreaves Lansdown said forcefully:

"We are in danger of sending ISAs down the same road as pensions, making them more and more complicated."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 15, Q29.]

He advised of savers that it is

"really important that we support them with good information".—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 16, Q31.]

As well as the potential distractions from auto-enrolment pension schemes, the LISA represents a major missed opportunity to increase the attractiveness of auto-enrolment. In a submission to the Work and Pensions Committee, the union Prospect argues:

"If Government wants to subsidise younger workers saving towards a deposit on a first home it could just as easily do so through changing the rules relating to the taxation of pension schemes as through introducing the Lifetime ISA. Such an approach would greatly increase the attractiveness of automatic enrolment pension schemes."

The submission goes on to say:

"Anecdotally, Prospect members who opt out of automatic enrolment pension schemes sometimes report they do so in order to be able to save towards a deposit for a first home. Research shows a majority of young people would be more inclined to save into a pension scheme or would save more if they could use their pension pot to fund a deposit for a first home."

Prospect also points out:

"In New Zealand the rules of the Kiwisaver allow the withdrawal of savings to purchase a first home",

and research from the Pensions Policy Institute shows that early access and borrowing against funds for the purpose of home purchases are permitted in other countries.

David Wren of the BBA pointed out that the LISA will be the sixth type of ISA on the market. He said:

"The hybrid nature of the product—between saving for a house and saving long term for retirement—also adds considerable complexity for people who are choosing where to save and what to do."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 17, Q32.]

[Ian Blackford]

He also noted that

"complexity is definitely the enemy of success in getting people to save."—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 20, Q39.]

That is why robust financial advice that takes account of an individual's other savings and pension pots is essential. We do not accept that no alternatives to the LISA were considered—the impact assessment for the Bill spells that out clearly. The Government must look at other options. Surely the delay that we are calling for would give the space for a pause.

Since its introduction in 2012, auto-enrolment has been a success, with more than 6.7 million workers successfully enrolled by September 2016 and lower opt-out rates and higher employer compliance than was initially expected. That success has been built on the back of a broad political consensus and thorough planning ahead of its introduction. As the National Audit Office report on auto-enrolment pointed out, the policy faces greater operational risk as it is rolled out to small employers. The phasing in of increases to minimum contribution levels also presents challenges. A separate NAO report identified a potential risk if individual interventions

"are managed separately without adequate consideration of their impact on the overall objective of increasing retirement incomes."

That warning could hardly fit the circumstances of the introduction of the LISA any better.

The Government's main priority should be to build on the success of auto-enrolment to date and deal with the upcoming challenges that have been identified. That work should include strategies for addressing issues with ineligibility for auto-enrolment and for increasing contributions under auto-enrolment. That is particularly important for workers aged under 40, because most will be worse off in retirement as a result of the introduction of the new state pension. Prospect also said that

"the Government is in danger of losing focus on what should be its priority with the introduction of the Lifetime ISA."

Kelvin Hopkins: I rise to support new clauses 1 and 2, along with everything said by my hon. Friend the Member for Bootle and much of what was said by the hon. Member for Ross, Skye and Lochaber. It would be sensible of the Government to accept the new clauses. They are practical and logical, and it is perfectly reasonable that we want a review of the effect of the LISA on auto-enrolment and pensions savings and that anybody choosing to buy a LISA is given proper advice. None of that would undermine the Government's legislation; it would actually improve it considerably and give the necessary protections.

I have considerable doubts about the wisdom of going ahead with lifetime ISAs. The whole pensions and savings world has been far too complicated for far too long. Some 25 or 30 years ago, I reached the age at which I had sufficient income to start to save so that I would have extra income in my later years—I must say that I am now benefiting from that, in spite of having a very generous parliamentary pension as well. At that time it was extremely complicated. There were tax-exempt special savings accounts, personal equity plans, ISAs, national savings certificates and all sorts of tax-free savings instruments, but interestingly they were all perfectly acceptable for people on higher rate tax like me. I have always been concerned about that.

12 noon

Mr Bryn Davies—an old friend whom I used to work with at the TUC—is a very able consultant and adviser on such matters, and he advised us the other day that there is a future pensions problem for people who are poor and cannot afford to save. Tax incentives are pointless for such people because many of them do not pay any tax at all. What is the point of a tax-free savings instrument for people who do not pay any tax? It does not benefit them at all. Government subsidies to the better-off—to people like me—are misplaced. Any subsidies should help the less well-off and the poor to have a decent life in old age, rather than reward the fortunate people like me, who are sufficiently wealthy or who have an income sufficient to invest in all these tax-free schemes.

Dr Eilidh Whiteford (Banff and Buchan) (SNP): Does the hon. Gentleman agree that one of the LISA's major flaws is that the only people who will be able take full advantage of it are people who have a spare £20,000 a year to save? That is an attractive tax break for very wealthy people.

Kelvin Hopkins: The hon. Lady is absolutely right. During the era of TESSAs, PEPs, ISAs and national savings certificates, the wealthy, if they were wise, would have bought all of them for themselves, their partners and their children—anyone within the family for whom they could buy them—every year. They would build up a massive portfolio of tax-free savings over the years and be extremely well off in old age, especially if the savings in those four schemes would otherwise have been taxed at the higher rate. Instead of incentivising poor people to save, the schemes were actually tax-free bunce for the wealthy. I had some TESSAs, PEPs and ISAs, and I still have some national savings certificates today, so I am sitting pretty, but I am comfortably off. I am more concerned about people who are poor, and I am certainly not poor. I am not wealthy, but I am not poor. Mr Davies made the point well.

That is a frontal assault on such instruments, but the concern about damaging auto-enrolment is also serious. I strongly support auto-enrolment, which has been a great success so far. I wanted to go much further, and I have said in the Commons on more than one occasion that I believe we should have a compulsory universal earnings-related savings system for everyone, including the self-employed, so that we all make sure that we save for our old age. I do not stand back from that proposal, which I intend to continue advocating as a step beyond auto-enrolment. Auto-enrolment is a major step forward, but it is still not a defined-benefit scheme and it is still subject to stock market fluctuations, whereas a state system could have guaranteed defined benefits.

David Rutley: The hon. Gentleman makes an important point about self-employed people. We heard in the evidence sessions that LISAs would help a significant element of the self-employed. The Government are carrying out a review of how auto-enrolment could support the self-employed in future. Does he think it is important to think about not just nirvana and what might be, but how we can tangibly help people now? This product will make a difference to a big section of the self-employed.

Kelvin Hopkins: I agree with the hon. Gentleman that there is a serious problem for the self-employed. There is a lot of bogus self-employment, with employers forcing their employees into self-employment. If we counted only genuine self-employment, there would be far fewer self-employed people. We could then make sure that people are paying into the system through taxes and national insurance contributions. They could also be enrolled in a compulsory state system of earnings-related savings. I agree that there is a problem with the self-employed and I am glad that the Government are reviewing the problem, but we have to go far further into that than we are discussing today.

What my hon. Friend the Member for Bootle said is sensible, practical and reasonable. The Government should just accept his argument and say, "Of course, we want a review of the impact on the automatic enrolment and pension savings and we want to have proper advice for people applying for lifetime ISAs."

When I was investing in my middle years—rather than my later years, as I am now—people gave me advice. People came to my door and talked about their savings schemes. I did not understand what they were talking about, even though I used to teach statistics and am mathematically qualified and could understand logic. It became clear to me that the people coming to my door did not understand the instruments either. They were selling something because they had been told to sell and they were on commission: "Just sell it, get the signature on the bit of paper, come away and we will give you 5%." When they did not understand, I thought it was even more terrifying. No wonder we had mis-selling on a gigantic sale. Billions are now having to be paid back, and no doubt billions have been lost for ever and will never be paid back because many people died before compensation was thought about.

We have a problem. We have to make things automatic, simpler, with a state-managed system involved. We also need to ensure that, if there is any kind of subsidy for pensions in old age, it should go to the poor and not to the better-off like me. The gulf between rich and poor in our country has widened. We have a serious problem of poverty in old age and we have to deal with that through the state. I hope to persuade my own party to adopt a policy of that kind, as and when we become the next Government.

The Financial Secretary to the Treasury (Jane Ellison): It is a pleasure to be here with you and the Committee, Mr Chope. I thank everybody for their attention at the very good witness sessions on Tuesday, when we heard from some very interesting people who were good enough to give up their time to come and inform our deliberations.

I will say a general word around lifetime ISAs when speaking to clause 1 and will come on to new clause 2. However, I should say first that there is much about the spirit of the new clauses and amendments proposed with which I agree, as I think we all would. When I come to speak on them, it will be to demonstrate that they are unnecessary or would not work as intended. I do understand the spirit in which they are tabled. I also note, as we all have, that there are areas of significant consensus across the Committee, particularly around auto-enrolment, the success it has been and the wish to see it go from strength to strength.

I will come to that in a moment, but I will first introduce the broader product. We believe the lifetime ISA is a positive addition to the savings landscape. That was a view substantiated by a number of the experts we heard from on Tuesday. It will support younger people to save for a first home and to supplement their long-term savings by topping up individual contributions with a generous 25% Government bonus of up to £1,000 a year.

In 2015, the Government held a full consultation on pension tax relief, which is the background to how we came to the lifetime ISA. The outcome was clear: there was at that time no consensus for fundamental reform to the pension tax system. In some ways, some of the comments that we have heard in speeches this morning reflect the fact that there is still a desire among some people for a fundamental redrawing of the landscape, but the reality is that that is a debate for another time and place. We are in Committee to deal with this Bill, but I acknowledge that that other debate is ongoing.

Throughout the course of the consultation, young people indicated that they wanted more ways to save flexibly for the future. At Budget 2016, therefore, the Government announced the introduction of the lifetime ISA, which has been welcomed by insurers, ISA providers and other industry experts, as we heard on Tuesday. Although some people had some concerns, I think it is fair to say that there was a broad degree of welcome from people across the sector. They see the lifetime ISA as a valuable new vehicle to help young people save.

Ian Blackford: Does not the Minister accept that all the generous bonus will do, in effect, is compensate those who have gone into the LISA for the fact that, in contrast to a pension where people are putting pre-tax income in, the money is coming out of post-tax income, so on a zero-sum basis it comes out more or less the same? Anyone going into a pension can expect to get employer contributions, so anyone saving in a pension will be better off. For the life of me, I cannot understand, given the cross-party consensus about supporting and strengthening auto-enrolment, why on earth she wants to muddy the water so that people might be seduced into this product when they should be investing in a pension.

Jane Ellison: This perhaps goes to the nub of the disagreement we have in Committee: the Government do not see it as an either/or. The hon. Gentleman is very much positing the product versus pensions as an either/or, but we have been quite clear that the lifetime ISA is a complement, and we heard that from witnesses. I also think that, while acknowledging the consensus to protect auto-enrolment, and indeed to encourage people to save with the pension products appropriate for them, to jump from that to the assumption that the lifetime ISA is, by its nature, going to undermine everything else is a jump too far. I would reject some of his language. Later, I will come on to some points to support my assertion.

The clause itself sets out the defining characteristic of the lifetime ISA: a Government bonus will be paid by Her Majesty's Revenue and Customs where a qualifying addition is made to a lifetime ISA in a relevant period. "Lifetime ISA", "qualifying addition" and "relevant

[Jane Ellison]

period" will be defined in regulations, which will also provide that the Government bonus will be 25% of all qualifying additions made to the account. I confirm that those new regulations will be brought to the House for debate ahead of the launch of the new account in April 2017. Further detail on the lifetime ISA is set out in schedule 1.

New clause 1 seeks to place a requirement on the Government to conduct an annual review of whether the lifetime ISA has had any impact on workplace pensions, and in particular automatic enrolment, as we heard from the shadow Minister. The Government are absolutely committed to automatic enrolment, which will help 10 million people to newly save or to save more into pensions by 2018.

The lifetime ISA is designed to be a complement to automatic enrolment and workplace pensions, not a replacement. We are clear about that language, and we will continue to be. The aim of the lifetime ISA is to support younger people to purchase a first home and to supplement their long-term savings, not to choose between the two. The reality is that some of the youngest people who take out this product will be able to take the money out at 60, but that will not be their retirement age. We are talking about people saving for a later phase of their life, perhaps the last phase of their working life, or to do something in their later years that they always wished to do but did not have the chance to do when they were younger.

The Government's different policies on employer contributions to a pension and a lifetime ISA reflect all that, which goes to the point made in an intervention. Employers have a statutory obligation to contribute towards pensions under automatic enrolment. They also have a direct incentive to do so through relief on national insurance contributions. The cost of that to the Exchequer was £13.8 billion in 2014-15, which is a powerful demonstration of the Government's commitment to retain strong incentives in the system. Neither is the case with the lifetime ISA.

We have already conducted an impact assessment, published alongside the Bill, and we clearly do not expect that people will opt out of their workplace pension in order to pay into a lifetime ISA instead. The help to buy ISA already provides a 25% bonus to support people to purchase a first home, but the launch of that did not lead to a surge in opt-outs. I accept that it is a slightly different product, with a different timescale. Nevertheless, there is real-world evidence that it did not lead to that.

12.15 pm

The shadow Minister said that the Government are not doing enough to make people aware of pension savings available to them, but that is not right. The Government automatically enrol eligible employees in pensions. That is more than just making them aware; we are getting them to pay into a pension. As I say, there is considerable consensus across the House about the reasons we all support that. The idea of the lifetime ISA is that it is not an alternative but a top-up.

The opt-out rate for automatic enrolment is still lower than the Government expected, and is currently at 9%. The overall programme assumption for opt-out is 15%, reduced from the original estimate of 28%, which I think we all welcome. The Government estimate was not quite right at first and I am happy that we are undershooting. People—particularly young people—are sticking with auto-enrolment and not opting out at the rates Members thought they might.

Ian Blackford: I agree with the Minister about us all being satisfied by the opt-out rate being lower than anticipated. The real challenge will come in the next few years, as rates going into the auto-enrolment scheme increase. That is why it is important we keep the primary focus on auto-enrolment, to ensure that as contribution levels increase, we do not inadvertently see an increase in the opt-out rate, with people perhaps switching to the LISA.

Jane Ellison: I entirely accept the hon. Gentleman's broad point. He assumes the worst will happen, whereas I have good evidence to show that that is not a reasonable assumption. I will go on to show that we are keeping these things under constant review across the broad piece of pensions and savings.

The lifetime ISA, like all Government policies, will be kept under review to ensure that it is meeting its objectives. We already publish a wide range of details about the take-up of Government-supported savings accounts such as ISAs, and we intend to take a similar approach with the lifetime ISA. Similarly, national statistics and other information such as the Office for National Statistics wealth and assets survey set out information on the savings held across a range of different household types. It is quite granular information.

As the hon. Member for Ross, Skye and Lochaber said earlier, we have a legislative commitment to review certain aspects of auto-enrolment in 2017. In addition, we have the discretion to conduct wider review activity. We recognise that broader challenges and questions have been raised by stakeholders in connection with the review—for example, questions of inclusion and adequacy. It is important we look at the scope and the right sequencing of review activity. The Government are currently scoping the review and hope to update further on that by the end of the year. Of course, the debate we are having in this Committee will inform those deliberations. Because of that, we consider publishing an additional review of the scheme's operation to be unnecessary in terms of its interaction with the product we are discussing in this clause. I therefore urge the hon. Member for Bootle not to press new clause 1.

New clause 2 seeks that the Government provide in regulations that independent financial advice is made available to all customers making an application for a lifetime ISA. I think we all agree with the thrust of the debate on the new clause. We have all seen victims of mis-selling and want to ensure that our constituents go into every financial decision with the best information available. The Government want people to have the information they need to make important financial decisions and we will achieve that by providing clear factual information on gov.uk, as well as working with the Money Advice Service and its successor to ensure they make appropriate and impartial information available.

New clause 2 would require all individuals to take out financial advice before they open a lifetime ISA. I want to demonstrate that that is not practical, however well intentioned it is. Financial advice is relatively expensive. The point has been made that we do not want to disadvantage younger people and basic rate taxpayers who want to take advantage of this product. Our impact assessment and all the work that we have done indicate that the vast majority of people who take up the product will be basic rate taxpayers.

Research carried out by Unbiased shows that the average cost of financial advice for customers is £150 per hour and the average advice process takes around eight hours. That totals £1,200. Even if we assume that that is the upper end of estimates, it is still £200 more than the maximum annual bonus that an individual could receive from the lifetime ISA. That would create a significant barrier to all but the wealthiest individuals opening a lifetime ISA, and I know that that is the opposite of the Opposition's intent.

Kelvin Hopkins: If there was a simple state office where people could obtain such advice from an objective, publicly employed adviser rather than a private financial adviser, would that not be an efficient and relatively cheap way of providing good, reliable advice?

Jane Ellison: I think we would all agree on the broad point about wanting people to have access to financial advice whatever their income, but we are dealing with this Bill. The Government will consult and take soundings on the successor to the Money Advice Service and the other advice services that will be brought together, and I am sure that we will have a good debate about that in due course. The hon. Gentleman may wish to contribute those broader thoughts to that debate.

Let me turn to the current regulatory framework around the LISA. It is worth saying that it is not the Government's role to set that regulatory framework. The hon. Member for Luton North talked about the different regulatory landscape at the time when he was being sold products—not particularly well, apparently. We are all thankful that that landscape has changed greatly since those days, and rightly so, but it is the role of the independent Financial Conduct Authority to regulate the providers of ISAs, and it will likewise set the appropriate framework for the lifetime ISA.

The FCA will consult on the regulatory regime for the lifetime ISA throughout the autumn and will, as is its ordinary remit, ensure that providers are transparent to customers about the products that they are offering and those products are sold with suitable safeguards in place. We heard in some of the evidence sessions on Tuesday about how the industry wants to get advice right. Everyone has been scarred by what has happened in years past. As I said to the hon. Gentleman, we will consult later this year on the scope of the new financial guidance body, as a complement to the industry's advice. We heard people such as Martin Lewis talk about the common-sense advice that people need to hear, and that is also an important part of the landscape from which people can seek guidance. I am sure that Martin Lewis and others will contribute to the debate about the new advice services.

I reassure the hon. Member for Bootle that information about the lifetime ISA will be available so that potential customers can make informed choices about which financial products to use. We want people to understand what the right choices are for them, but it would not be appropriate for the Government to require advice to be provided, as that would create a significant financial barrier to individuals accessing the lifetime ISA. It is the independent FCA's role, not the Government's, to set the regulatory framework for ISAs. For those reasons—not because I disagree with the spirit of his new clause but because I do not think it would work in practice—I encourage him to withdraw new clause 2.

I conclude my remarks about clause 1 by saying that the lifetime ISA will benefit many young people by supporting them to save flexibly for the long term. It is designed to complement the pension system, not replace it. The clause makes provision for the fundamental feature of the lifetime ISA: the Government bonus. We think that is a positive product for young people, and we do not want them to lose out on, for example, a year's worth of saving and the compound interest on that because of the delay that has been called for. I therefore ask Committee members to support clause 1.

Peter Dowd: I welcome some of the Minister's comments on both new clauses, and the spirit in which she made them. In the spirit of trying to move on, we will not push new clause 1 to a Division. We acknowledge that the Minister has said that there will be reviews of some fashion, though maybe not statutory reviews; we will take that away and consider it, and may come back to the question of reviews. Our concerns in relation to auto-enrolment can be appreciated. It has been a good product, to use the jargon, and we do not want to lose that. However, again, in the spirit of moving on, we will pull away from the new clause.

We will push new clause 2, on independent financial advice, to a vote, because this House has to lay down a marker when it comes to people's future and making a significant investment in a product. The lifetime ISA is a significant investment, whatever way we look it. Importantly, it is also a significant investment by taxpayers; that has to be taken into account. If somebody wants a lifetime ISA, and rightly understands that the Government will put a lump sum towards it, it is not unreasonable for us to say that we expect that person to take independent financial advice.

Kelvin Hopkins: I absolutely support what my hon. Friend says, but is it not important to have that commitment in the Bill, rather than just rely on the apparent sympathy of the Government?

Peter Dowd: It is, and that is why I am trying to push that message home. To some extent, we need to draw a line in the sand.

Jane Ellison: Given that some of the debate on new clause 2 has been about the concern that the product would be insufficiently attractive to people on lower pay, the practical nature—not the spirit—of what the hon. Gentleman proposes would essentially be regressive, and make the product less attractive to those on lower incomes, whom we wish to attract.

Peter Dowd: I completely understand that. The Bill is full of principles: we want people to save and to have pensions, to have the Government cough up towards that, and the individual to put money in personally. There is a whole series of things that we say must be part of the process in principle. For us, there is also the principle at stake of seeking independent financial advice. That is not unreasonable.

Dr Whiteford: The hon. Gentleman makes a really important point about independent financial advice. The Minister also made an important point about the cost of that advice. From the evidence we heard, it came across strongly to me that for most people on moderate incomes, this product is a lot less advantageous than putting the money into a pension and attracting employers' contributions. That is why independent advice is so important, and why this product is not very attractive for anybody on a normal salary.

Peter Dowd: That is a reasonable point to make. The question is: what is the reasonableness of the argument? The Minister, again perfectly reasonably, makes her point. I do not necessarily accept the figures that she gave, but I take at face value the point that she makes. On balance, people have found that not taking independent advice on such matters was a little costly in the short term, but in the long term, if they did not get the right advice, it was even more costly. That bill has to be picked up by someone, and we are not talking about a few pounds—we are talking about people's lives in the future, and it is difficult to put a price on that. We recognise the points that the Minister made, and the spirit in which she made them, but as a matter of principle, we want to press new clause 2 to a Division, just to get it into the mix.

The Chair: May I explain the procedure? We will not vote on new clauses yet. We will vote on them after we have finished discussing the amendments and the rest of the Bill. At that stage, it will be open to anyone to press new clause 1 to a vote, if they want to, and then we can have a Division on it, if that is the will of the Committee, and similarly for new clause 2. I have made a note that the hon. Member for Bootle wishes to press new clause 2 to a Division at the appropriate time.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Schedule 1

LIFETIME ISAS: FURTHER PROVISION

Question proposed, That the schedule be the First schedule to the Bill.

The Chair: With this it will be convenient to discuss new clause 3—*First-time residential purchase: Research and impact assessment*—

'(1) Within one year of this Act coming into force the Secretary of State must conduct a review into the potential impact of provisions within paragraph 7(1)(b) of Schedule 1 on house prices in the UK.

(2) The findings of the review must be made publicly available and laid before each House of Parliament.'

12.30 pm

Peter Dowd: New clause 3 would require the Government to conduct a review within a year of the Act coming into force of the potential impact of the lifetime ISA on house prices in the United Kingdom. The review must be made publicly available and laid before both Houses of Parliament. The Opposition recognise that many people want to own their own home. However, we are concerned that the Government's housing policy will only inflate house prices further. We have concerns that the LISA will make things even more difficult in a housing environment that is already strained because of the limited number of houses being built nationwide, not to mention the huge cost of housing, particularly in London and the south-east; the average figure is £250,000.

Evidence to the Committee on Tuesday was cautionary. Martin Lewis from MoneySavingExpert.com, while acknowledging the potential popularity of the LISA, flagged up its potential impact on the housing market. He highlighted that

"Unintended consequences are possible—the lifetime ISA might pump the housing market, which is a concern".—[*Official Report, Savings (Government Contributions) Public Bill Committee,* 25 October 2016; c. 50, Q95.]

The Institute for Fiscal Studies, referring to the Office for Budget Responsibility, made a similar point.

I do not want to over-emphasise the point, but it is worth noting—and perhaps assessing, as suggested in the new clause—the effect of the LISA on house prices overall. It is worrying that fewer homes were built in the last Parliament than under any previous peacetime Government since the 1920s. LISA may help—if that is the right word—to overheat a market that is already short of capacity. The Government's priority should be to try to mitigate that, not to add to the problem. I do not think that is an unreasonable point to make.

The fact is that people are increasingly chasing a product in a market that has low supply levels. It so happens that the product is a house. The facts speak for themselves. Since I sat on the Housing and Planning Bill Committee around this time last year—it may well have been in this very room—the housing market has remained pretty tight, with supply remaining low. The national planning policy framework, which the Government were warned would create confusion, has done so. That all adds to the broth and is creating problems. By now, according to the plan, and the former Housing Minister, the right hon. Member for Great Yarmouth (Brandon Lewis), there have should been a better housing supply. Alas, he was wrong.

The lifetime ISA, which will in effect replace the help to buy ISA in due course, provides a Government bonus that can be used towards a deposit on a house—if one can be found. If I remember correctly, concern was expressed by a witness that the help to buy ISA had been poorly articulated, and that the current one was potentially being poorly articulated as well. There was the impression that an ISA could be used for a deposit. Of course, there was a smorgasbord of consternation, anger, disappointment, frustration and bewilderment when many young people found that that was not the case. The problem is that if people are encouraged to borrow money for a house in a tight market, the more house prices rises, the bigger mortgages they need, and so on. The fact that the Government are helping to do that is not helpful. The problem is exacerbated. When the growth of mortgage lending outpaces the supply of housing, prices just keep rising and rising, making it increasingly difficult for people to access the housing market at a reasonable rate. There is no doubt about that.

The Government have identified the right problem but are coming up with the wrong solution. We need to build more houses. That is the only way to solve the housing crisis. New products are fine, as far as they go. Lots of people welcome the LISA—I cannot argue against that—and many people do not, but the comprehensive solution is to deal with the continuing housing supply problem. It is worth noting that the house shortage is simply a physical manifestation of the shortage of skills in the construction sector in general and the housing market in particular.

The Government are almost two years through their five-year housing plan, not counting the previous five years, and we are still falling badly behind on targets. The question is whether the proposals really deal with the substantive issue of supply, and the answer is no. In that context, it is important to look at whether this policy will have an impact on house prices. If it will, in addition to there being a lack of action on housing policy in general, that is a concern. It is legitimate to ask the Government to review the impact on the housing market of this product.

Kelvin Hopkins: I rise to support my hon. Friend's new clause. Many of us have long been concerned about the massive rise in house prices. I will give a simple example. When I bought my first house in Luton in 1969, house prices were three times average earnings. Now in Luton, they are 12 times average earnings.

Millions of people are seeing the possibility of home ownership disappearing. Owner-occupation is in decline; it is becoming a smaller sector, and we are seeing an opening up of major social divisions between owner-occupiers and renters. For owner-occupiers, equity will cascade down the generations, and their children and grandchildren will stay in the owner-occupied sector because they will inherit the equity. Those who are not in the sector and do not have sufficient income will remain outside the sector, as will successive generations after them—unless they win the lottery or become extremely wealthy for some other reason, but that will apply to only a small number. The great majority of people will find it very difficult to become owner-occupiers if they do not have equity handed down by their forebears.

Adding extra cash to help people who are already likely to be in a position to buy their own home will simply increase house prices further and take home ownership even further away from those who do not have equity and are unlikely to be able to afford a home. We have to see some action by Government over time at least to stabilise house prices, so that more people can get into owner-occupation, and so that those who aspire to be a homeowner have a realistic prospect of becoming one.

I support what my hon. Friend said. We have to build many more houses. The only way to stabilise house prices is to raise supply, not increase demand, which would just push house prices up. It is not the price of houses that is increasing, but the price of the land on which they are built. The cost of building a house does not increase by that amount; it is the land on which it is built. There is a case for land value taxation and doing something about the price of land.

It is a mad world. In 1969, I thought becoming an owner-occupier was a bit of an adventure, but I could afford it on one income—mine, which was not massively high, because I was a trade union research officer. Nevertheless, I could afford to buy a three-bedroom house with a garage and gardens back and front—a nice, typically British home, which we might all aspire to. If I were trying to buy the same house now, with the same sort of income, in the same town, I would have great difficulty. On my generous parliamentary salary, I might stand a better chance, but not on the salary that I had at the time, so I think my hon. Friend the Member for Bootle is absolutely right, and I support his new clause 3.

Jane Ellison: The Committee is enjoying the autobiographical journey to Luton North through the ages.

Kelvin Hopkins: I used to be a teacher—I taught economics years ago—and I always found that using examples kept the class alive and entertained them. It also helped them to understand the points that I was making.

Jane Ellison: To that end, he has succeeded magnificently; everyone looks thoroughly engaged, which is not always the case in Bill Committees, it is fair to say.

Before I speak about schedule 1 and new clause 3, I have a couple of points to make. I do not intend to go into a wide discussion about house building. We all agree that we need to build more houses. Earlier this month, the Government unveiled a £5 billion package at the Conservative conference, which will make substantial progress and build on the progress already made.

The help to buy ISA is often unfairly criticised. In a way, those myths then transfer across to criticism of the lifetime ISA, so it is worth putting on the record that the take-up of the help to buy ISA has been high; there have been more than 650,000 of them to date. Where people have used help to buy to buy a home, that home has been worth on average £167,250, which is well below the scheme's property price cap of £250,000, or £450,000 in London. That underlines the fact that we expect the majority of those who use the lifetime ISA to be basic rate taxpayers.

I will turn to schedule 1 and then make a point or two about new clause 3, because I hope to show the shadow Minister that I can respond to his substantive concern. The schedule sets out some of the detailed rules of the lifetime ISA. It is a long schedule, so I propose to provide only an overview.

Regulations made under paragraph 11 of the schedule will set out who is eligible for a lifetime ISA by specifying who "the investor" is. We intend to provide in regulation that a new account may be opened only by a person aged under 40, and that payments to a lifetime ISA may only be made until an account holder reaches 50. That is to reflect the fact that the scheme, as discussed, is designed to support younger people in getting into the habit of saving. Draft regulations have already been published for consultation, and they will be considered and debated by the House before the product is launched.

Paragraphs 7 and 8 of schedule 1 concern withdrawals. Account holders will be able to withdraw sums from their lifetime ISA at any time; that is consistent with normal ISA rules. Such withdrawals will not be subject to a withdrawal charge in the circumstances set out in paragraph 7, which include account holders purchasing

[Jane Ellison]

their first home after saving in a lifetime ISA for 12 months or longer, or reaching a specified age, which regulations will set at 60.

Regulations will also set out detailed rules for the processes to be followed when a withdrawal is made to buy a first home. We intend to consult with industry experts to ensure that those regulations are simple to apply and that they meet our objectives for the scheme. Officials have been working hard and openly with industry experts for some months to ensure a product that works well. There will also not be a withdrawal charge when an account holder dies or becomes terminally ill, or when savings are transferred to another lifetime ISA.

12.45 pm

Paragraph 8 concerns the charge that will apply for other withdrawals. That charge will be set by regulations at 25% of the withdrawn amount. That is designed to return the Government bonus and any growth or interest on it, and also apply a small additional charge. That reflects the fact that people should commit to saving into the lifetime ISA for the intended purposes rather than speculatively. In most cases charges will be deducted at the time of withdrawal by the account provider and paid monthly to HMRC.

Paragraphs 3 and 9 provide that regulations will set out the administrative detail of how account providers will claim lifetime ISA bonuses and how providers should pay to HMRC the withdrawal charges that they deduct, along with details of the associated information requirements. There will also be provision for account holders to ask for an HMRC consideration, and to appeal where their bonus claim is refused or they believe a withdrawal charge has wrongly been made, in line with other products of this sort.

Paragraphs 5, 12 and 16 set out penalties for material inaccuracies in information provided to HMRC or non-compliance with information requirements. We believe that those penalties are proportionate, as they are in line with those already in operation for similar failures in relation to tax matters. The general safeguards that operate for tax penalties will apply, including the right to appeal and the right for a penalty not to be applied where there is a reasonable excuse for a failure to provide information.

Paragraph 17 provides for a penalty when a person dishonestly seeks to obtain a bonus they are not entitled to or avoid a withdrawal charge. That penalty is intended to cover serious cases of dishonesty, not innocent errors. Again, individuals will have the right to appeal any such penalty. Finally, schedule 1 sets out withdrawal rules and compliance arrangements, which are necessary to ensure that the lifetime ISA operates effectively and is targeted appropriately.

New clause 3, tabled by the hon. Member for Bootle, requests that the Government assess the impact of the lifetime ISA on house prices in the UK within the first year of the Act coming into force. The Government are committed to supporting people to get on to the housing ladder. I have mentioned some of the products that have come out to support that, as well as the substantial investment in the housing market—particularly the house building market. The lifetime ISA will support younger savers. As we have already discussed, the Government will provide a generous 25% bonus on contributions up to £4,000 a year, which can be used to purchase a first-time home up to a value of £450,000. The lifetime ISA targets a small sector of first-time buyers.

Determining whether the lifetime ISA has had any impact on UK house prices in its first year will be complex. The independent Office for Budget Responsibility has said that savings products that support people to get on to the housing ladder, such as the lifetime ISA, could cause an increase in house prices, but it noted that that effect was highly uncertain, and its predicted impact of 0.3% by 2020-21 is much smaller than overall house price movements. The Committee may be interested to know that the average absolute monthly change in house prices over the past three years has been 0.6%, and that monthly increase is significantly larger than the impact forecast by the OBR for this product.

As we all know, many factors impact house prices, including changes in household incomes, interest rates, mortgage availability and the rate of house building—the supply side. Changes in those factors will have a much greater impact on house prices than the lifetime ISA. In truth, separating out the different causes of changes to house prices is challenging, which will make it difficult to assess the impact of the lifetime ISA in isolation, particularly after just a year of it coming into effect. However, like all policies, the Government will keep the lifetime ISA under review. The Government already publish a monthly UK house price index, which people can use to look at changes in average house prices.

We think that the new clause is unnecessary, and I have outlined the practical problems in coming to the definitive picture that the hon. Member for Bootle seeks. I therefore urge him not to press the new clause. In conclusion, schedule 1 sets out some of the important and detailed rules for how the lifetime ISA will operate, and I therefore ask Committee members to support it.

Peter Dowd: To start with, I telegraph the fact that we will not pursue this matter. However, it is important to get on the record the fact that where Government policy has an effect on house prices, it is important—given the current state of the housing market, which is overheating due to lack of supply—to have that logged and noted, however marginal the effect appears to be. I am not suggesting that the Minister has brushed that point aside, but it is our responsibility to bring that effect to account.

The Minister quoted some figures on seeking advice for particular products, but 0.3% inflation on housing is a fair old amount of money. If that is 100,000 transactions a year of around £750, that is the best part of £70 million-odd a year added to house prices by this policy alone. If we are to introduce policies that add to an already overheating sector, it is important that as a nation, a Government and a Parliament, we take into account their impact. That additional £750 for that person is £750 not going somewhere else in their budget. I only say that to try to get that issue into the smorgasbord of issues that we have to take into account. I will not be pursuing the matter.

Question put and agreed to.

Schedule 1 accordingly agreed to.

Clause 2

Government contributions to Help-to-Save accounts

Question proposed, That the clause stand part of the Bill.

Jane Ellison: The Prime Minister has set out the Government's mission to build a country that truly works for everyone, not just the privileged few. Clause 2 introduces the Help to Save product, and we can be extremely encouraged that it speaks directly to that mission. Evidence from the Joseph Rowntree Foundation cited in the House of Commons Library briefing paper shows that between a quarter and a third of households have said that they are unable to make regular savings for rainy days. According to the family resources survey, a household with less than £25,000 in income is twice as likely to have no savings as a family with more than £50,000. We heard from the debt charity StepChange in its written submissions—this point was amplified in its contribution to the evidence session—that access to a £1,000 savings pot can reduce the likelihood of the average family falling into debt by almost half.

Faced with that evidence—and the evidence we all know from our constituency surgeries of people living fragile financial lives, where one thing going wrong can tip them into debt or other problems—it is only right that we provide a strong incentive and reward for working households on lower incomes to build a savings buffer.

Help to Save will support up to 3.5 million people on lower incomes who are just about managing but may be struggling to build up their savings. It will help them develop their financial resilience and ability to cope with unexpected financial pressures. Clause 2 sets out the main characteristic of Help to Save: the Government bonus or contribution, which will be paid by the paying authority. The bonus will be paid at 50% of the highest balance achieved in the account. Over the four-year maturity period of the account, an eligible individual can save up to £2,400 and earn a Government bonus of up to £1,200. We intend that HMRC will pay any bonus amounts due and that that will be passed to eligible individuals by the account provider. Schedule 2, which we will consider shortly, makes further provision in relation to Help to Save accounts and the Government bonus.

Help to Save will meet a real need and will support many of those who are just getting by, helping them to build their financial resilience and supporting their ability to cope with financial shocks.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Schedule 2

Help-to-Save accounts: further provision

Dr Whiteford: I beg to move amendment 6, in schedule 2, page 16, line 31, at end insert—

'(1A) The conditions specified under sub-paragraph (1) shall not include the condition that the individual be over 25 years old if that individual meets all other specified conditions relating to the working tax credit.'

Currently those aged under 25 only qualify for Working Tax Credits if they work at least 16 hours a week. This amendment would ensure any individual aged under 25 would qualify for a Help-to-Save account if they met other specified criteria.

In relation to later amendments to the schedule, I declare an interest as a member of the North East Scotland Credit Union. I tabled the amendment with my hon. Friend the Member for Ross, Skye and Lochaber. In contrast to the LISA, the Help to Save product offers genuine benefits for low and middle-income savers. All our amendments today seek to strengthen it and address some of the limitations that have emerged in the written and oral evidence.

Currently, the under-25s will not qualify for Help to Save unless they are in receipt of the disabled element of working tax credit, or they are responsible for children and are working 16 hours a week or more. Many young adults under 25 who are in full-time work could benefit greatly from Help to Save. The amendment would ensure that those under 25 could qualify for a Help to Save account on the same basis as those over 25 if they meet the specified criteria.

We know that the under-25s need some encouragement to save. As we heard from the Minister, having some savings can be incredibly advantageous; it cushions them against unexpected financial shocks and prevents them having to use the excruciatingly expensive payday lenders and getting into problem debt when they face unplanned costs.

Help to Save is probably a more realistic way for people to save for a first home than the LISA. Extending it to more young people in that age group can only help to incentivise early saving and improve financial literacy. It seems wrong to deprive young adults who are already working more than 30 hours a week of the opportunity to benefit from this scheme just because of their age.

Jane Ellison: The amendment would ensure that individuals aged 25 or under would be eligible for an account if they meet the conditions relating to working tax credit eligibility. It is worth making it clear that under-25s will be eligible to open accounts if they meet the relevant criteria for working tax credit or universal credit. A person under 25 is eligible for working tax credit if they work a minimum of 16 hours a week and have a child or a disability.

Our intention is for eligibility for a Help to Save account to be determined by people passporting from working tax credit and universal credit. That is a well established way of targeting support to people on lower incomes. The Government recognise that some people of working age with lower incomes may not be eligible for Help to Save, but passporting is the simplest and most effective method available for determining and notifying eligibility; it is fundamental to the efficient operation of the scheme.

[Jane Ellison]

In particular, passporting means that people will not be required to complete a means test to prove that they are eligible for an account, or to contact the Government. It avoids the need to develop bespoke systems to determine eligibility that would be an additional cost to the Government and could deter many savers. That is why we will resist the amendment and I ask the hon. Member to withdraw it.

Dr Whiteford: I would rather press the amendment to a vote.

Question put, That the amendment be made.

The Committee divided: Ayes 3, Noes 9.

Division No. 1]

AYES

Blackford, Ian
Hopkins, Kelvin
Whiteford, Dr Eilidh

NOES

Barclay, Stephen
Caulfield, Maria
Ellison, Jane
Frazer, Lucy
Howell, John
Merriman, Huw
Quin, Jeremy
Rutley, David
Williams, Craig

Question accordingly negatived.

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

1 pm

Adjourned till this day at Two o'clock.