PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT INDIVIDUAL SAVINGS ACCOUNT (AMENDMENT NO.2) REGULATIONS 2017

Wednesday 15 March 2017

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not later than

Sunday 19 March 2017

The Committee consisted of the following Members:

Chair: MR NIGEL EVANS

† Barclay, Stephen *(Lord Commissioner of Her Majesty's Treasury)*
† Berry, Jake *(Rossendale and Darwen)* (Con)
† Black, Mhairi *(Paisley and Renfrewshire South)* (SNP)
† Borwick, Victoria *(Kensington)* (Con)
† Burns, Sir Simon *(Chelmsford)* (Con)
† Chishti, Rehman *(Gillingham and Rainham)* (Con)
† Costa, Alberto *(South Leicestershire)* (Con)
† Dowd, Peter *(Bootle)* (Lab)
† Ellison, Jane *(Financial Secretary to the Treasury)*
Fellows, Marion *(Motherwell and Wishaw)* (SNP)
Johnson, Alan *(Kingston upon Hull West and Hessle)* (Lab)
† Lucas, Ian C. *(Wrexham)* (Lab)
† Maskell, Rachael *(York Central)* (Lab/Co-op)
† Raab, Mr Dominic *(Esher and Walton)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stevens, Jo *(Cardiff Central)* (Lab)
† Sunak, Rishi *(Richmond (Yorks))* (Con)
† Williams, Craig *(Cardiff North)* (Con)

Rob Page, *Committee Clerk*

† attended the Committee

The following also attended, pursuant to Standing Order No. 118(2):

Crawley, Angela *(Lanark and Hamilton East)* (SNP)

Fourth Delegated Legislation Committee

Wednesday 15 March 2017

[MR NIGEL EVANS *in the Chair*]

Draft Individual Savings Account (Amendment No. 2) Regulations 2017

2.30 pm

The Financial Secretary to the Treasury (Jane Ellison): I beg to move,

That the Committee has considered the draft Individual Savings Account (Amendment No. 2) Regulations 2017.

It is a pleasure to serve under your chairmanship, Mr Evans. Much of the detail under discussion will be familiar to the Committee. At Budget 2016, the Government announced a new lifetime individual savings account to help incentivise young people to save for the future. I will refresh hon Members' memories on a few of the details. It is designed for adults under 40 and lets them save for up to two things in one ISA—for their first home and for later life—but there is no need to choose which at the time of opening the account. It is therefore a flexible way of saving that will be a welcome addition to the range of savings options open to younger people.

The lifetime ISA, with its introduction secured by the Savings (Government Contributions) Act 2017, will be available from 6 April. The regulations will amend existing ISA regulations to take the lifetime ISA into account. The schedule to the regulations sets out the detail of how the lifetime ISA will operate and be administered, dealing with questions of eligibility and qualification for the Government bonus. It also details how people can transfer funds from other types of ISA to the lifetime ISA.

It is worth pointing out that during the 2017-18 tax year there will be something of a special transfer window. Any funds built up previously in a help to buy ISA can be transferred into a lifetime ISA without that counting towards the lifetime ISA annual contribution limit. As with all new products, the Government will keep the window under review throughout the first year.

As we launch the lifetime ISA, we know that there will be a small number of providers. We wanted to give people the opportunity to take advantage of the product as soon as possible and to start building their accounts. We can expect the number of providers to grow steadily as more join over the course of the year after developing their products and internal systems. That is also something that we will watch carefully.

We are close to the start of the lifetime ISA, which will be a positive new option for any younger person looking to save responsibly for the future. I therefore hope that hon. Members will support the draft regulations.

2.32 pm

Peter Dowd (Bootle) (Lab): It is a pleasure to work under your stewardship, as ever, Mr Evans. First and foremost, I have a complaint to make. It is a real shame that consideration of the regulations has been scheduled for today, when the Chancellor is making a strategic withdrawal in relation to national insurance contributions. I cannot let that go without comment. Given that those proposals have been withdrawn, I am glad that some self-employed people may have a little extra money to put into ISAs.

We had a fair old debate on this matter on the Savings (Government Contributions) Bill Committee last year. We received evidence from many people about the efficacy of not just this product but others. The Opposition welcome any scheme that encourages people to save, as long as the burden on the taxpayer is not too much. Does the Minister believe that the benefit to the taxpayer is commensurate with that resulting from the scheme?

We are also concerned about whether putting another product in an already crowded market is appropriate. We accept that the lifetime ISA is a simple product, but nevertheless there is a crowded market out there. The Minister may want to share her view on that and comment on the possibility of a future review following the scheme's roll-out.

We must also repeat our concern that the scheme will discourage people from taking up pensions. We are genuinely concerned that it will lead to people not taking the conventional pension route and that they might duck out of auto-enrolment and put their eggs in a different basket that is not tried and tested.

Will the Minister comment on another concern of ours? We wanted a mechanism whereby there would be an absolute requirement for independent advice before any money could be withdrawn, but that is not included in the draft regulations. Has the Minister had second thoughts about independent advice on a matter of such importance, especially given that for some people it involves buying a house?

Many MPs have a genuine concern that is not directly related to the draft regulations, but it is worth expressing it in this Committee. Companies such as Bellway are selling on freeholds, which is costing people an arm and a leg. People enter the housing market and find that when they want to buy the freehold of their property after a year or two, they have to pay a huge amount to do so. On top of that, they experience almost exponential increases in ground rent. The freehold issue must be addressed. We have expressed concerns that it crowds the market, potentially puts people off buying and, through that latest scam, adds to the dissonance in the housing market.

Jake Berry (Rossendale and Darwen) (Con): As a north-west MP, the hon. Gentleman will be aware that that is particularly prevalent in the north-west of England. The Government announced in their recent White Paper on housing that they will look at it. Will he join me in welcoming the Government's proposal to look at ways in which we can modernise how people can buy the freehold of their property under the Leasehold Reform Act 1967, which has historically been called the leasehold enfranchisement Act?

Peter Dowd: I am pleased that the hon. Gentleman has mentioned that. Of course I welcome anything that the Government do to stop such scams gaining ground. We are more than happy to participate in a bipartisan way in anything to stop that happening.

I raised that issue because it is a matter of concern, and one that we have expressed before in connection with the housing market. The last thing we want in this country is for people to stop buying houses and entering the housing market because they are frightened to death that something in the small print will be produced later. I have taken this opportunity to mention that.

As I have said, we welcome the fact that the Government are helping people to save. We still have concerns about whether the draft regulations are necessarily the right way forward, so although we will not oppose them, neither will we slap the Government on the back for this particular product, given all the concerns that we have expressed in the past.

2.38 pm

Rachael Maskell (York Central) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Evans.

I want to make a number of points, particularly in relation to the age limits in the draft regulations. The Government forever talk about longevity and the fact that people are living longer, so it is clear that people will have longer to save into a lifetime ISA. Putting an upper age limit on those who wish to take up the product will cause difficulties. The explanatory memorandum advises that some will be signposted towards the help to buy ISA, rather than be allowed to take advantage of the lifetime ISA.

I raise that issue because the age at which people are able to access the property market is increasing. People are really struggling and often have to wait until they are in their 40s or 50s before they have that opportunity to enter the market. The lifetime ISA offers a greater bonus up to the age of 50, but it is not possible for anyone over the age of 40 to access the product. The product enables people to save up to £4,000 a year, whereas the figure for the help to buy ISA is £2,400. That means that older people who were not able to save earlier in life will be disadvantaged by not being able to access it.

Although the cap on the lifetime ISA could remain universal, I see no reason why lifetime ISAs could not be open to people from across all age groups. Why discriminate against those aged between 40 and 50 who have worked hard and saved enough to make putting money into a lifetime ISA worthwhile? Why are they being denied that opportunity? I would very much like the Minister to address that issue. Will she review the 40-year age bar for people to access the product?

2.40 pm

Mhairi Black (Paisley and Renfrewshire South) (SNP): It is a pleasure to serve under your chairmanship, Mr Evans. The Scottish National party is supportive of any initiative that promotes saving, but the lifetime ISA feels like more of a gimmick. For that reason, the SNP shall not be supporting the Government today.

The lifetime ISA feels like a gimmick because it works only for those who can afford to save to the levels demanded by the Government to get the bonus. It falls short of any real pension reform, and it seems more of a distraction to allow the Treasury access to taxes today, rather than having to wait until tomorrow. This is a missed opportunity to strengthen pension saving, rather than just tinker around the savings landscape. Our amendments at Committee stage of the 2017 Act sought to delay the lifetime ISA until safeguards are built in, such as the right to mandatory advice. We remain unassured and increasingly concerned that the lifetime ISA will undermine auto-enrolment, as it is likely that it will distract from workplace saving, leading to more opt-outs while employees forego employer contributions to their pension.

That is not just the SNP's opinion. Industry experts maintain that saving via pensions remains the most attractive method of saving for retirement. Pensions offer benefits, including matching employer contributions and inheritance tax breaks. Research conducted by Zurich found that a basic-rate taxpayer saving £100 a month into a workplace pension over 20 years would be £14,000 better off than a person saving into a stocks and shares lifetime ISA. No employee will be better off saving for their retirement in a lifetime ISA than in a workplace pension, according to the Association of British Insurers. By missing out on at least 3% of salary going into their pot from their employer, a saver can expect their fund to be worth about one third less at the point of retirement.

Anything that encourages saving for later life is welcome, but there is a real danger that the Government could undermine auto-enrolment. Although we believe that automatic enrolment has its limitations, and that the UK Government need to do more to advance the system, we still believe it is the best vehicle for incentivising saving and promoting fair universal pensions. After all, the current regime has successfully enrolled 9 million new savers since 2009. We do not believe that the Government should undermine that in any shape or form. For that reason, we cannot support them today.

2.43 pm

Jane Ellison: I am grateful for Members' contributions. I will respond to some of them. Some of the issues raised relate to the principles that we explored during the passage of the 2017 Act, so I will not spend too much time on them, although I note that those concerns have been expressed.

There is widespread agreement on both sides of the House that encouraging saving is good. The idea behind the lifetime ISA emerged from a widespread consultation on long-term savings that was conducted a few years ago.

Before I move on to some of the more detailed questions, let me say that this statutory instrument is narrow in nature and about just the lifetime ISA, so I am going to confine my comments to that and not be tempted down the route of commenting on some of the other issues that were raised, important though they are.

On the advice and information for consumers, the Government absolutely want to ensure that people have the information they need to make important financial decisions. I recognise that that is a priority for Members. We published factual information about the lifetime ISA on gov.uk. That website went live recently, and we will publish more in the run-up to the launch. We will also work with the Money Advice Service and its successor to ensure that it makes appropriate and impartial information available.

[Jane Ellison]

It is, of course, the independent Financial Conduct Authority's role to regulate account providers, including how they sell the products to consumers. We now have the final regulatory framework for the LISA, based on that for other ISAs, with some exceptions. Those include that providers give people information about automatic enrolment in workplace pensions.

That important subject came out in the debate on the 2017 Act, and I hope I can give some comfort to the hon. Members for Bootle and for Paisley and Renfrewshire South. Let me stress again that we are fully committed to supporting people through the pension system. Automatic enrolment will help 10 million people to be newly saving or saving more by 2018. The lifetime ISA is designed to complement that. It gives young people more choice in how they save for the long term. It is not a replacement for the pension system.

The Government's policy towards employers reflects that. Employers have a statutory obligation to contribute to pensions under automatic enrolment, as well as a direct incentive. Neither of those apply to the lifetime ISA. Our impact assessment, based on the Office for Budget Responsibility-certified costing note, is clear that we do not assume that anybody will opt out of a workplace pension to save into a lifetime ISA.

Let me deal with the accusation from the hon. Member for Paisley and Renfrewshire South that this is not a product for every man and woman. It is certainly not just a product for wealthy people or higher earners who aspire to own a home or save for later life. Everybody who works hard should have the chance to achieve those goals. If we take the example of the help to buy ISA, against which similar accusations were made, we will see that more than 720,000 accounts have already been opened, and the average house purchase price through that scheme has been below the UK average. We have not set a minimum amount that people can save into a lifetime ISA. They will get the 25% bonus on any contributions up to £4,000 of savings a year.

The hon. Member for York Central asked about the issue of age, which we also debated to some extent during the passage of the Act. The average self-employed person is in their 50s and she asked whether this product is for them. We have been clear: this product is specifically targeted at supporting younger people more. It is a mass-market product. We expect a wide range of people to find it attractive, and some younger self-employed individuals may find it particularly useful as a savings vehicle for later life, depending on their tax status.

There are, of course, a range of other savings products for people over the age of 50, including the self-employed. Those include other ISAs, where they will be able to make use of the much-increased allowance, which is going up to £20,000 from next year. They will also benefit from the personal savings allowance, which for basic rate taxpayers means that the first £1,000 of income from savings returns is tax-free. That has taken the vast majority of people out of paying tax on their savings interest.

This product is aimed at a particular market. One always has to draw a line in terms of age somewhere, and we think we have struck the right balance. We look forward to the start of the lifetime ISA on 6 April. It is a positive new choice for young savers planning for their future and it provides flexibility. People can save for their first home as well as for later life. It also provides an alternative; for some people, it will be a better way to save than other routes available to them. I am pleased to present the regulations and commend them to the Committee.

Question put.

The Committee divided: Ayes 10, Noes 1.

Division No. 1]

AYES

Barclay, Stephen
Berry, Jake
Borwick, Victoria
Burns, rh Sir Simon
Chishti, Rehman
Costa, Alberto
Ellison, Jane
Raab, Mr Dominic
Sunak, Rishi
Williams, Craig

NOES

Black, Mhairi

Question accordingly agreed to.

2.50 pm

Committee rose.