PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

BEYOND PENSIONS' POLICY:

THE GOVERNMENT'S APPROACH TO LIFETIME SAVINGS

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INTRODUCTION

The Government's approach for encouraging the accumulation of lifetime savings follows a life cycle model. It concentrates on three key stages: early life, early career and the long-term. For each of these phases, the Government has developed tax-advantaged savings products and other schemes that are intended to promote the growth of financial and property assets.

EARLY LIFE

Two policies have dominated early years saving over the course of the last decade: the introduction of the Child Trust Fund (CTF) and its subsequent replacement by the Junior Individual Savings Account (JISA).

The CTF was launched following the 2003 Budget. Children born from September 2002 became eligible to receive a government endowment at birth of either £250 or £500 and a similar sum at the age of seven. The Government contribution was highest for children from lower income households.[1] CTFs were withdrawn in 2011, as part of the Government's deficit reduction strategy, though existing policies were allowed to continue with no further payments from the Government. Throughout the course of its operation, more than six million accounts were opened for new born children, of which 70% were opened by parents and the remainder by HM Revenue & Customs (HMRC) on behalf of parents.[2]

The CTF was replaced in 2011 by the JISA, which offers no government contribution. Like its adult equivalent (the ISA), the JISA is available in both a cash and stocks & shares form. A JISA can be opened on behalf of anyone under the age of 18 and, in 2017/18, a total of £4,128 can be deposited in such accounts. It benefits from a tax, exempt, exempt fiscal treatment, in which investment growth and withdrawals are tax free. HMRC data show that more than two million JISA accounts have been opened since the policy's introduction; around one quarter of these are stocks & shares, with the rest being cash.[3]

The Government has also encouraged early life savings by increasing the maximum value of Premium Bond individuals can purchase in the name of children. The 2015 Budget increased this limit by £10,000, to a total of £50,000.

EARLY-TO-MID CAREER

The Government has chosen to prioritise saving for a property purchase amongst those in the early-to-mid point of their career. A number of schemes have been designed to facilitate home ownership, which fall broadly into two categories: financial subsidies for aspiring owners and the provision of affordable ownership opportunities for those looking to purchase.

In the 2013 Budget, the Government announced a twin-track Help-to-Buy scheme. The first track, an equity loan scheme, enabled buyers who possessed at least 5% of the required

[1] http://researchbriefings.files.parliament.uk/documents/SN03668/SN03668.pdf
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255886/statistical-report.pdf
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547217/Full_Statistics_Release_August_2016.pdf

deposit to borrow a further 20% of a property's equity value from the Government.[4] The second track, a mortgage guarantee scheme, offers lenders a loan guarantee on mortgages for people with a deposit of between 5% and 20% of the value of the desired property.[5] The mortgage guarantee scheme closed to new loans at the end of 2016, but the equity loan scheme remains open.

The Government introduced the Help-to-Buy ISA in 2015, which offers a taxpayer-funded bonus of 25% up to a maximum of £3,000 for £12,000 of savings. This product will be phased out in 2019. A more generous dual purpose ISA, the Lifetime ISA, will be available to savers from April 2017. This offers those aged between 18 and 40 the possibility of earning a 25% government bonus on annual contributions of up to £4000 and a maximum total bonus of £32,000.[6] Savings held in this product can be used for two purposes only, to purchase a first property and to support retirement.

Affordable housing provision schemes currently in operation include:

- **Starter Homes:** This scheme makes properties that benefit from a 20% reduction on market value available exclusively to first time buyers aged under-40.
- **Shared Ownership:** Applicants to this type of scheme buy a minimum share of a leasehold property and the remaining share, on which rent is payable, is owned by a housing association. Purchasers can buy additional shares in the property as and when they can afford to do so.
- **Right to Buy/Acquire:** Under this scheme, most council and housing association tenants have the right to buy the rental property in which they live.

In February 2017, the Government released a White Paper on housing, in which it committed to building more affordable housing.[7]

LONG-TERM

The Government's approach to long-term lifetime savings is dominated by the tax-advantaged savings accounts that it permits. Presently, three different varieties of ISA account are available to savers (see table below) and the LISA will add a fourth.

Tax-Incentivised Savings Products

Product	Advantages	Recent Changes
Innovative Finance ISA	• No tax payable on any capital growth or interest received.	• Annual contribution limit increased from £15,240 to £20,000 from April 2017.
Cash ISA	• No tax payable on interest on the cash saved.	• Annual contribution limit increased from £15,240 to £20,000 from April 2017.
Stocks & Shares ISA	• No tax payable on any capital growth or dividends received.	• Annual contribution limit increased from £15,240 to £20,000 from April 2017.

[4] http://webarchive.nationalarchives.gov.uk/20130129110402/http:/www.hm-treasury.gov.uk/d/budget2013_help_to_buy_infographic.pdf
[5] http://webarchive.nationalarchives.gov.uk/20130129110402/http:/www.hm-treasury.gov.uk/d/budget2013_help_to_buy_infographic.pdf
[6] http://researchbriefings.files.parliament.uk/documents/CBP-7724/CBP-7724.pdf
[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf