

Pensions versus Lifetime ISAs – Which Is Best for Retirement Savings?

Savers aged 18- 40 can open a Lifetime Individual Savings Account (LISA). It is designed to help younger people save for a first home deposit but can also provide retirement income after age 60.

In an ideal world having both a pension and a LISA would be advantageous but if savings are limited, here are some points to consider when choosing how to boost retirement savings with taxpayer handouts.

Tax incentive

- For nil or basic rate taxpayers the LISA and pension offer the same taxpayer bonus of 20%, so that £8 saved becomes worth £10 invested. Both offer the same tax -free roll up of funds, with no tax to pay on fund growth or income. When the money is paid out the LISA has the advantage of offering a tax efficient income, whereas 75% of the pension paid out is taxable income.
- Those paying tax at a higher rate get a bigger bonus from pension savings. A higher rate taxpayer sees £6 saved grow to £10 and a top rate taxpayer £10 saved costs £5.50. Scots resident taxpayers get an extra 1p in the £ if they pay tax at 21%,41% and 46%.

Savings Limits

- Savers can add up to £4,000 a tax year into a LISA but if they have no earned income only up to £2,880 net into a pension. The taxpayer subsidy is up to £720 a year in a pension but up to £1,000 in a LISA.
- Those with earnings or self -employed profits can save into a pension the lower of their earnings/ profits in the year or £40,000, including employer contributions. Only £4,000 may be saved into a LISA. Earlier years allowances can be carried forward for 3 years with a pension, but the LISA allowance is for one tax year only.
- LISA savings may start at 18 but will finish at 50, so the maximum taxpayer subsidy is £32,000. Pensions can start at birth and continue to age 75 offering greater potential taxpayer support.

Workplace Subsidy

- For employees, joining a workplace pension offers the added advantage of a tax- free employer



contribution. Employees earning over £10,000 a year aged 22 to 66 must be offered a pension scheme with the employer paying 3%, employee pays 4% and tax relief adds 1%. Many employers offer more generous schemes and not joining or opting out is giving up free money. Employers cannot pay into a LISA.

Access to Savings

- The LISA can be accessed at 60 penalty free but before then a 25% penalty applies to withdrawals made (20% during 2020-21) which are not for house purchase.
- Pensions can be accessed from age 55 (rising to age 57 from 2028) and early access carries a higher penalty than the LISA. Both pensions and the LISA exempt the terminally ill from penalties.
- The LISA may pay out tax free, a pension pays out 25% of the fund tax free but the balance is taxable income.

Treatment on Death

- LISAs cannot be continued beyond death and form part of the taxable estate. Pension funds can be left to others to continue with tax free investment and do not usually form part of the taxable estate.

Investment Choice

- Choice of LISA providers is limited and most of these offer cash deposits options only. For long term saving a stocks and shares LISA has more potential to maintain its purchasing power alongside inflation but could go down in value in the short term. Pension plans currently offer more choice.

Ideally saving in both a pension and a LISA would provide retirement income which could be partly tax free and partly taxable. For those with a workplace pension and for higher rate taxpayers the pension offers more potential help with retirement planning.

To talk over your options please contact your usual LEBC adviser or email enquiries@lebc-group.com or call 0800 055 6585.

Kay Ingram
Public Policy Director
March 2020

By incurring a Lifetime ISA Government withdrawal charge you may get back less than you paid in.

Saving in a Lifetime ISA may affect your entitlement to current and future means tested benefits.

Please remember, no news or research item is a recommendation or advice to buy. LEBC Group Ltd is not responsible for accuracy and may not share the author's views. The contents of this blog are for information purposes only and do not constitute individual advice. All information is based on our current understanding of taxation legislation and regulations. The Financial Conduct Authority does not regulate estate planning, tax advice, wills or trusts.

Keep up to date with LEBC

