# The Nutmeg Lifetime ISA

## Information Pack

nutmeg

# Introduction

The Lifetime ISA (LISA) is a government savings initiative to encourage those under 40 to save for your first home or for your retirement. For every £4 you pay in, the government will give you an extra £1, and you can withdraw to help pay for your first home under £450,000 or tax-free from age 60.

For withdrawals for any other purpose you'll usually pay a 25% withdrawal penalty, which means you may get back less than you pay in. As with all ISAs (Individual Savings Accounts), withdrawals are free from income tax and Capital Gains Tax (CGT). Here we explain some of the features of the Nutmeg Lifetime ISA.

# Contributions and eligibility

The Lifetime ISA contribution limit for the 2017/18 tax year is **£4,000**. This figure also contributes to the overall ISA contribution limit of **£20,000** for the 2017/18 tax year.

You can open as many types of ISA in a tax year as you like, but you can only open one of each type. The Lifetime ISA is the only ISA wrapper to have its own contribution limit, so you should bear this in mind if you do contribute to other ISAs such as a cash ISA or stocks and shares ISA in a single tax year. Here are a couple of examples:

**Example A**

| | |
|---|---|
| Cash ISA | £6,000 |
| Stocks & Shares ISA | £10,000 |
| Lifetime ISA | £4,000 |
| **Total Contributions** | **£20,000** |

**Example B**

| | |
|---|---|
| Lifetime ISA | £2,000 |
| Stocks & Shares ISA | £18,000 |
| **Total Contributions** | **£20,000** |

You are only eligible to open a LISA if you apply and pay in before your 40th birthday. You must also be a UK resident and over 18.

Once a LISA is open, you can continue contributing to it until your 50th birthday.

## The government bonus

You will be entitled to a 25% bonus, paid by the government, when you make a contribution to your Nutmeg LISA. This effectively means that for every £4 you contribute, the government will contribute £1 to your account.

For the 2017/18 tax year, the government bonus will be paid after the end of the tax year. Nutmeg, as your LISA manager, will automatically apply for this on your behalf and pay the bonus directly into your LISA, so you don't need to do anything.

From April 2018, the government will pay your LISA bonus on a monthly basis. We will apply this to your account as soon as we receive it.

The government bonus is based on **contributions**, not on the **value** of your account at the time the bonus is applied. For example, if you make the full contribution of £4,000 in April 2017, and the investment return has increased the value of your account to £4,250 by April 2018, you would receive a government bonus of £1,000.

# Withdrawals

The Lifetime ISA is specifically designed to help you purchase your first home or to save for your retirement. Withdrawals for these purposes are known as **authorised withdrawals** and will not be penalised.

### Authorised withdrawals

| First house purchase | Retirement |
|---|---|
| • The value of the house being purchased must be **under £450,000**<br>• This must be your first property — you cannot previously have owned, wholly or in part, any property for any purpose<br>• The property must be in the UK | • You must be 60 or over |

For either purpose, you may only make an authorised withdrawal 12 months from your first contribution.
You may also withdraw from your LISA if you are terminally ill.

Unlike a pension, you can withdraw from a LISA if you need to for other purposes, however to deter these the government have imposed a withdrawal penalty. From 6th April, 2018, Any unauthorised withdrawal will be subject to a 25% charge on the value of the withdrawal which will be paid back to the government. Nutmeg does not set the penalty rate and does not benefit from its application in any way.

**It's important to understand this 25% charge doesn't just claim back the government bonus. It may also cover any investment growth on the bonus and some of your own money. Here's what we mean: Let's say you contribute £4,000 and receive a government bonus of £1,000 giving a total of £5,000. If you were to make a full unauthorised withdrawal, the government would take back £1,250, leaving you with £3,750, which is £250 less than you contributed.**

### Withdrawal penalty example

| | |
|---|---|
| **You contribute to your Lifetime ISA** | £4,000 |
| **Government bonus received** | £1,000 |
| **Lifetime ISA value**<br>Excluding any gains, losses or charges | £5,000 |
| **If you request a full withdrawal** | |
| **Government penalty 25% of £5,000** | £1,250 |
| **You receive** | £3,750 |

## 2017/18 Withdrawal rule

During the 2017/18 tax year, if you do change your mind about investing in a Lifetime ISA, you will be able to withdraw your funds penalty free. However, you will need to withdraw all of the funds in the LISA, and Nutmeg will close the account. You will therefore not receive a bonus on any funds. You cannot partially withdraw from the Lifetime ISA in the 2017/18 tax year. However, if you fully withdraw and close your account and then wish to start a new Lifetime ISA, either with Nutmeg or with another provider, you'll be able to do so.

## Taxation

Withdrawals are currently free from income tax and capital gains tax. Tax rules and laws may however change in the future and your individual circumstances will determine your own position with any tax liability. If you are unsure, you should seek professional advice.

# Transfers

If you wish to transfer your Nutmeg LISA to another LISA elsewhere, you can do so by contacting the provider who will be receiving the transfer.

They will then contact us to organise the transfer of funds. Nutmeg does not charge for transfers out, and we promise to try to complete this within 30 days, though this is dependent on how quickly the receiving provider processes transfers.

If you have a LISA elsewhere that you wish to transfer to Nutmeg, you won't be able to do so immediately but we are working on introducing this soon.

## Transfers from a Help to Buy ISA

The Help to Buy ISA is a specific type of cash-only ISA account that had similar but more restrictive characteristics compared to the Lifetime ISA.

The government has stated that the intention is to phase out contributions to a Help to Buy ISA in 2019.

As the Lifetime ISA has a shared outcome in terms of helping account holders save for their first home, the government is permitting transfers from a Help to Buy ISA to a Lifetime ISA in the 2017/18 tax year only.

Transfers of Help to Buy ISA's will not count towards your LISA allowance, but this is based on the value of the account at the 5th April 2017. If you have made additional contributions to your Help to Buy ISA and transfer it to your LISA in full, the value of contributions and interest paid after April the 5th will count towards your ISA allowance.

Any value transferred from a Help to Buy ISA **will** be eligible for the government bonus at the end of the 17/18 tax year.

Using the example above, you would receive a bonus of £750 on the £3,000 transfer, and a bonus of £1,000 on your own contributions of £4,000. This would take the total value of contributions and bonuses to £8,750.

You should bear in mind that if you do transfer your Help to Buy: ISA, you must still wait 12 months from the first contribution to the Lifetime ISA to withdraw the funds for a house purchase.

At the time of launch, you will not be able to transfer a Help to Buy ISA to a Nutmeg Lifetime ISA, though we are working on introducing this soon.

# Understanding the differences between a Lifetime ISA and a pension

You might be planning on using a Lifetime ISA to save for your retirement, or you may wish to continue saving into your LISA after you've used it to help fund your first house purchase. In either case, you should understand the important differences between a Lifetime ISA and a traditional pension.

## Workplace pensions

As part of a range of pension reforms, the government passed a law that requires every employer to provide a workplace pension for their employees.

If you are directly employed, it is likely that you will have been automatically enrolled in a workplace pension. If this is the case, your employer will be making a minimum contribution of between 1% and 3%, and perhaps more depending on the arrangements your employer has put in place.

If you decide to opt-out of a workplace pension in order to pay into your Lifetime ISA, you would no longer receive the contribution to a pension that your employer makes. Your entitlement to any means tested benefits may also be affected.

A Lifetime ISA is not a pension, so you cannot carry the benefit of your employer's contribution over to your LISA.

# Potential outcomes at age 60 from saving into a Lifetime ISA

The table below is designed to:

- Help you understand what the value of a Lifetime ISA might be at age 60, depending on the age at which saving starts and assuming the maximum annual subscription at the beginning of each tax year up to age 50 and receipt of the Lifetime ISA government bonus

- Provide information for those saving for retirement in a Lifetime ISA and so may not be relevant if your saving objective for a Lifetime ISA is a house purchase

| Age that saving in a Lifetime ISA started | Total amount paid in by Lifetime ISA saver/investor | Total amount paid in, plus Lifetime ISA government bonus | Estimated outcome at age 60 from 0% return | Estimated outcome at age 60 from 5% return | Charges and estimated inflation would reduce a 5% return to |
|---|---|---|---|---|---|
| 18 | £128,000 | £160,000 | £46,573 | £183,715 | 1.8% |
| 25 | £100,000 | £125,000 | £44,364 | £143,379 | 1.8% |
| 30 | £80,000 | £100,000 | £40,897 | £115,086 | 1.8% |
| 35 | £60,000 | £75,000 | £35,349 | £86,900 | 1.8% |
| 40 | £40,000 | £50,000 | £27,163 | £58,525 | 1.8% |

The estimated outcomes shown:

- are based on standardised rates of return which may not reflect actual or expected returns or the choice of underlying investments for the Lifetime ISA. The choice of underlying investments is based upon your investment risk level. You can review your investments at any time from within your account, or see information about investing costs and charges on our website.

- include the effect of Lifetime ISA charges and inflation on estimated outcomes from a Lifetime ISA

The final column shows the effect of Lifetime ISA charges and inflation on the returns from a Lifetime ISA which you can use to compare the Lifetime ISA charges applicable to other Lifetime ISAs and the charges applicable to longer-term savings products.

The Lifetime ISA charges taken into account in the table may vary over time and exclude any fee or charge:

- payable by or on your behalf to a firm in relation to the provision of a personal recommendation by the firm in respect of the Lifetime ISA

- relating to the qualifying investments held in the Lifetime ISA (including in relation to the provision of a personal recommendation in respect of those investments)

# Further information

## Financial Services Compensation Scheme (FSCS)

The FSCS is a scheme established by the UK government to provide compensation to customers if an FCA regulated financial services company is declared in default, and is unable to meet its financial obligations.

As a Nutmeg customer, you may be entitled to claim compensation if Nutmeg is declared in default and we're unable to meet our financial obligations.

You can find further information about the eligibility conditions and compensation limits that apply to the FSCS at: www.fscs.org.uk

## Making a complaint

If you are not satisfied with any aspect of your Nutmeg LISA and wish to make a complaint, you can contact Nutmeg. To do so, you can send a secure Nutmail, email support@nutmeg.com, telephone 020 3014 7481, or write to the following address:

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