

Chapter 14

Providing product information to clients

Lifetime ISA information

This Annex belongs to COBS 13.3.1R(3) and COBS 14.2.1R(4A).

Information which comprises the following:

1 Features of a lifetime ISA

- 1.1 R An explanation to the *retail client* of the key features of a *lifetime ISA*, including:
- (1) eligibility criteria to open and subscribe to a *lifetime ISA*;
 - (2) annual *lifetime ISA* subscription limits;
 - (3) tax treatment of qualifying investments held in a *lifetime ISA*;
 - (4) process for transferring a *lifetime ISA*;
 - (5) eligibility for the *lifetime ISA government bonus*; and
 - (6) the *lifetime ISA government withdrawal charge* and the circumstances in which this might be incurred.
- 1.2 R The explanation in COBS 14 Annex 1 1.1R(6) should include a warning that:
- (1) the *lifetime ISA government withdrawal charge* recovers any *lifetime ISA government bonus* and any investment growth on that bonus plus an additional amount; and
 - (2) if the *lifetime ISA government withdrawal charge* is incurred, the *retail client* could receive back less than they paid in.

2 Additional factors for a retail client to consider when deciding whether to invest in a lifetime ISA

- 2.1 R An explanation to the *retail client* of:
- (1) the different savings objectives for which the *lifetime ISA* is intended, being house purchase and/or saving for retirement, either in the alternative or in combination; and
 - (2) the types of qualifying investments which can be held in the *lifetime ISA* being sold by the *firm*.
- 2.2 R A warning that if a *retail client* saves in a *lifetime ISA* instead of enrolling in, or contributing to, a *qualifying scheme*, *occupational pension scheme* or *personal pension scheme*:
- (1) the *retail client* may lose the benefit of contributions by an employer (if any) to that scheme; and
 - (2) the *retail client's* current and future entitlement to means tested benefits (if any) may be affected.
- 2.3 G The explanation in COBS 14 Annex 1 2.1R should:
- (1) encourage a *retail client* to consider their *lifetime ISA* subscription level and choice of qualifying investment in relation to their savings objectives, their expected investment horizon and their financial circumstances as a whole, including other provision for retirement; and
 - (2) inform the *retail client* that the factors in (1) may change over time and that the *retail client* should regularly review their *lifetime ISA* subscription and/or qualifying investments.

3 Example outcome of retirement saving by a retail client in a lifetime ISA

- 3.1 R A descriptive heading such as 'What a lifetime ISA might be worth at age 60?'

- 3.2 R A completed version of the table in COBS 14 Annex 1 3.5R.
- 3.3 R An explanation, positioned adjacent to this table on the same page, stating that:
- (1) the table is designed to:
 - (a) help the *retail client* 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*; and
 - (b) provide information for a *retail client* who is saving for retirement in a *lifetime ISA* and so may not be relevant to a *retail client* whose saving objective for a *lifetime ISA* is house purchase; and
 - (2) the estimated outcomes in Columns 4 and 5:
 - (a) are based on standardised rates of return which may not reflect:
 - (i) actual or expected returns; or
 - (ii) the *retail client's* choice of qualifying investment for a *lifetime ISA* (accompanied by an indication of how the *retail client* can access information relating to the qualifying investments which the *retail client* may purchase from the *firm*); and
 - (b) include the effect of *lifetime ISA charges* and inflation on estimated outcomes from a *lifetime ISA*; and
 - (3) Column 6 shows the effect of *lifetime ISA charges* and inflation on the returns from a *lifetime ISA* which the *retail client* can use to compare the *lifetime ISA charges* applicable to other *lifetime ISAs* and charges applicable to longer-term savings products.
- 3.4 R The explanations in COBS 14 Annex 1 3.3R(2) and COBS 14 Annex 1 3.3R(3) must include a statement that *lifetime ISA charges* taken into account in the table:
- (1) may vary over time; and
 - (2) exclude any fee or charge:
 - (a) payable by or on behalf of a *retail client* to a *firm* in relation to the provision of a *personal recommendation* by the *firm* in respect of the *lifetime ISA*; and
 - (b) 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).
- 3.5 R This table belongs to COBS 14 Annex 1 3.2R.
- | 1 | 2 | 3 | 4 | 5 | 6 |
|--------------------------------------|--|--|--|--|---|
| Age 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 x% return | Charges and estimated inflation would reduce a x% return to |
| | £ | £ | £ | £ | % |
| 18 | | | | | |
| 25 | | | | | |
| 30 | | | | | |
| 35 | | | | | |
| 40 | | | | | |
- 3.6 R In preparing the table in COBS 14 Annex 1 3.5R, *firms* must:

- (1) Round all sterling amounts down to the nearest whole pound.
- (2) Complete Column 2 on the basis of:
 - (a) the *retail client* attaining each age listed in Column 1 in the tax year in respect of which the *retail client* is proposing to make a *lifetime ISA* subscription; and
 - (b) a maximum annual *lifetime ISA* subscription being made on 6 April of that tax year and each subsequent tax year, up to and including the tax year in which the *retail client* would reach age 50 (based on each assumed age in (a)).
- (3) Complete Column 3 on the basis of:
 - (a) subscriptions as calculated in Column 2; and
 - (b) receipt by the *retail client* of the *lifetime ISA government bonus* on:
 - (i) 5 April 2018 for the tax year 2017/18 (where relevant); and
 - (ii) 6 April of each subsequent tax year, up to and including the tax year in which the *retail client* would reach age 50 (based on each assumed age in 2(a)).
- (4) Complete Columns 4 and 5 on the basis of:
 - (a) investment of the *retail client's* assumed subscriptions and the *lifetime ISA government bonus*, as calculated for the purposes of Columns 2 and 3;
 - (b) (for Column 4) a nominal annual rate of return of 0%;
 - (c) (for Column 5) a nominal annual rate of return equal to the maximum intermediate rate of return 'x' given in COBS 13 Annex 2 2.3R; and
 - (d) the outcome in sterling in real terms:
 - (i) based on the nominal annual rate of return in the relevant column;
 - (ii) net of the intermediate rate of price inflation given in COBS 13 Annex 2 2.5R;
 - (iii) net of the effect of any *lifetime ISA charges*; and
 - (iv) compounded annually at the end of each tax year, up to and including the tax year in which the *retail client* would reach age 60 (based on each assumed age in 2(a)).
- (5) Complete Column 6 on the basis of a percentage rate 'y' (rounded to the nearest tenth of 1%), where 'y' is the annual rate of return which must be applied to each amount shown in Column 3 and compounded annually over the relevant period to achieve the sterling amount shown in Column 5.

4 Projections

- 4.1 R Where a *firm* chooses to provide a *projection*, including a *personal projection*, in relation to investing in a *lifetime ISA* in addition to the information in COBS 14 Annex 1 3 (Example outcome of retirement saving by a retail client in a lifetime ISA), a *firm* must ensure that:
- (1) the information in COBS 14 Annex 1 3 is displayed at least as prominently as the *projection*;
 - (2) where a *firm* that communicates a *projection* for a *lifetime ISA* in relation to its *MiFID* or equivalent *third country business*, the *projection* complies with the future performance requirements in article 44(6) of the *MiFID Org Regulation* (see COBS 4.5A.14COBS 4.5A.14UK); and

- (3) where a *firm* that communicates a *projection* for a *lifetime ISA* which is not in relation to its *MiFID* or equivalent *third country business*, the *projection* must be either a *standardised deterministic projection* or a *stochastic projection* in accordance with COBS 13 Annex 2.

5 Qualifying investments

- 5.1 G The information which a *firm* provides to a *retail client* in accordance with this Annex is intended to inform the *retail client* about the implications of that *retail client* saving and/or investing in a *lifetime ISA* (as opposed to saving and/or investing outside a *wrapper* or in a different *wrapper* or *pension wrapper*). A *firm* must still take into account and comply with any other requirements of this sourcebook in connection with the sale by the *firm* of qualifying investments to be held in a *lifetime ISA*.