

Home Ownership and Super: A Battle of the Sacred Cows

The Retirement Incomes Review has sparked a debate over the merits of allowing withdrawals from Super to help finance first-home purchase. The argument is based on the finding that home owners have better retirement outcomes than renters.

The case for allowing access has merit, but the details warrant close attention, and there are other related policy changes also warranted. It is likely that we will eventually find that the recent allowance of withdrawals during the Covid crisis helped many in financial hardship, but in many cases were just an unnecessary plundering of retirement savings.

Is it possible to allow access to super to enable home ownership while minimizing the adverse effect on retirement balances? Yes, by means of a “super-loan facility”!

Rather than allowing withdrawals of funds, a sensible policy could allow for individuals to borrow from their own super accounts for a first home deposit. Repayment of the amount borrowed could be postponed until either the individual’s income had grown sufficiently, or until the house was sold. The interest rate on the loan would be zero – since the individual is borrowing from their own funds.

Why repayment when the house is sold? Many will sell in order to trade up to a more expensive house, and a repayment requirement would inhibit that.

Well one obvious reason, highlighted in the Review, and warranting attention is that Australians overinvest in housing and don’t access their housing wealth to supplement retirement consumption. So, owning a house is the key issue here for retirement living standards, not owning a bigger and better house.

A policy allowing access needs to balance the key objectives of enabling home ownership and achieving a high level of retirement savings.

There are, no doubt, complexities in designing a suitable “super-loan facility”. Some households will sell their first home, not to “trade-up”, but because they are shifting location or, unfortunately, due to family break-up. Repayment arrangements would need to take those, and other considerations into account.

This would impose some administrative costs and complexities on super funds. But since their *raison d’être* is to provide benefits for members involving improved retirement outcomes, they should be well placed to do this.

In most cases, super balances at retirement will be lower than would otherwise be the case. Even when loan repayments are made over time, the deferral of compounding on temporarily withdrawn loan funds will have an effect. But the offset is the benefits of home ownership.

What else needs to be done? The evidence that retirees don’t run down their housing wealth to finance better living standards suggests at least three issues for consideration.

One is impediments to “downsizing”. Stamp duty is one of the transactions costs which mean that the benefits from downsizing to free up wealth in the family home are reduced. Shifting to a property tax (as some States are doing) would reduce this impediment.

A second, related, impediment is the exclusion of the family home from the assets test for the age pension. Downsizing to release cash, which then counts in the assets test, may reduce pension-eligibility (even where some of those funds are invested, as allowed, in super). There would be considerable benefits from removing this exclusion.

I would even go so far as to advocate a universal (non-means tested) pension – thereby reducing the tangled administrative web that currently exists regarding eligibility. Placing a levy (like that for those not having private health cover, and for Medibank) on rich retirees opting to receive that pension could offset the adverse distributional effects and the cost to government revenue.

Finally, as the Review notes, there is considerable scope for greater use of reverse mortgages – including the government operated Pension Loans Scheme. The take-up of that scheme has been very low – not helped by a lack of good marketing, explanation, and education. Identifying, and resolving, impediments to greater use of well-designed private equity release/reverse mortgage schemes should also be a policy priority.

For many reasons (in addition to retirement wellbeing), facilitating home ownership is a worthwhile goal of policy. Allowing some, limited, form of access to available super savings to achieve that has merit.

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25 November 2020