



**Actuaries
Institute**

Policy Impacts on Retirees' Housing Decisions

Housing Working Group

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Outline of session

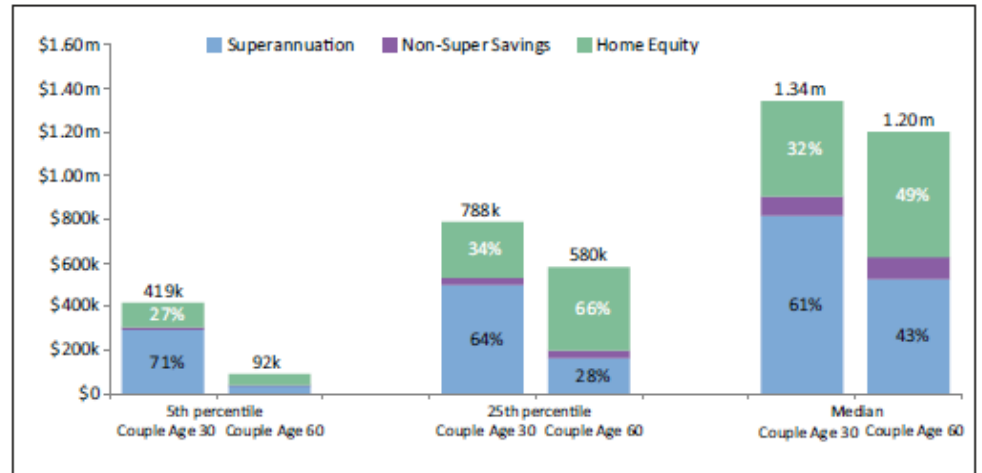
- Brief presentation
 - Level of housing wealth
 - Needs in retirement
 - Role of housing wealth
 - Objectives of review and reform principles
 - Our **draft** reform options to facilitate use of housing wealth
- Open panel discussion
- Seeking your feedback on draft policy proposals
 - Your views on our reform options?
 - Are there other options not addressed?
 - Are we presenting our views in best way to encourage informed debate?
- Productivity Commission Report due later 2015
- Act Inst Policy due to be finalised later 2015

Background

- Retirement income system – 3 Pillars
 - Publicly funded age pension
 - Superannuation, compulsory & voluntary
 - Other savings
- Housing wealth
 - Store of considerable wealth
 - Not often considered
 - Relatively untapped
 - But it is the 4th pillar!

Housing wealth is significant

- **85%** of >65s own home
- \$1 trn vs \$300 bn in super
- Majority wealth for >75s
- Doubled in value over past 20 yrs
- Housing (like super) benefits from considerable tax concessions for CGT and Age pension



For Richer for Poorer Actuaries Institute White Paper 2015

Increase in value of this asset along with increase in aged expenditures and costs means housing assets will play increasing role in future financing

Role of housing now

- A place to live with security of tenure
- An important store of wealth
 - Self insurance against longevity & aged care costs
 - Can result in lower standard of living in retirement and unintended bequests for adult children
- Important (implied) cross generational contract for informal care
- Bequests
- Equity release schemes are currently limited
 - < 1% of potential home equity market
 - Supply and demand constraints

Role of housing now

Productivity commission survey 2015

- **75%** of over 60s want to remain in home through retirement
- **70%** see home as financial safety net
- **50%** had bequest motive
- **40%** saw home as potential retirement asset
- **40%** uncomfortable with debt in retirement

Needs in retirement

- Personal expenditure for comfortable retirement (ASFA June 2015)
 - \$58,784 couple, \$42,861 single (homeowners aged 65-85)
 - +30% for low income non homeowners

Super & Age pension needed for this expenditure

- Accommodation, Aged Care and Health costs
 - \$3,600 to \$13,600 pa for in home care
 - \$17,400 to \$112,000 pa for residential care
 - Additional health gap payments

Housing wealth needed for this expenditure

Objectives for reform

- **A better standard of living in retirement**
- Remove biases and/or impediments for accessing housing wealth, **if and when** required
- Neither encourage nor discourage remaining in home
- Not targeting reductions in government expenditures, although this may be an outcome

Principles for reform

- **Sustainability** to ensure reliable, secure, adequate resources in retirement to meet all needs
- **Flexibility** which facilitates choice and transaction fluidity
- **Equity**
 - Intergeneration equity re tax concessions and Age pension
 - Horizontal equity taking into account all wealth
- **Efficiency** re public expenditure
- **Simplicity** which minimises the need and cost for advice
- **Supportive regulatory frameworks** to support competition and consumer protection

Reform options

Age Pension

- Family home not currently included in the Age Pension means test
- Decisions about accessing home equity are distorted by concerns about pension eligibility
- Means testing is poorly targeted because of disparities in housing wealth

Recommendation for reform

- Introduce cap on exemption of home in Age Pension means test:
 - Increase fairness between older Australians with disparate housing wealth – expected impact ~10% of pensioners
 - Have taken a principle approach vs detailing a specific mechanism (e.g. quartile approach)
- Protection of home equity release in Age Pension means test
 - Provide (partial) protection under Age Pension means test for amounts released from home equity so that housing decisions are not distorted (for 70% on Age Pension)
- Potential risks
 - Reduce incentives to increase wealth from housing
 - Asset price volatility on Age Pension flows
 - Anti-avoidance activity
 - Increased demand for private equity release schemes not able to be met from private suppliers or government

Reform options

Private equity schemes	Recommendation for reform
<ul style="list-style-type: none">• Consumer protection regulation is limited and unclear<ul style="list-style-type: none">○ Current legislation applies to reverse mortgages but not other equity release products○ Current regulation is complex and unclear especially re Responsible Lending & Unfair Contract Terms• The complexity of the product necessitates advisors and distributors to be highly trained• Home equity release schemes are complicated as property law is State based	<ul style="list-style-type: none">• Regulation<ul style="list-style-type: none">○ Government develop principles based regulation which ensures security of tenure, applies to all types of products and providers, and facilitates standard and simpler disclosures○ All regulation of home equity release products to be at the Commonwealth level – difficult!• 3rd party advisors/distributors<ul style="list-style-type: none">○ Government consider the independent financial advice required by the borrower; and licensing third party distributors and/or advisors• Risks<ul style="list-style-type: none">○ Supply side constraints from regulation○ Product standardisation may stifle innovation○ COAG harmonisation slow

Reform options

Financial abuse

- Increased risk of financial abuse due to size of housing wealth pool, diminished cognitive ability in older Australians and increased access to housing wealth
- Up to 5% of over 65s have already experienced financial abuse
- Alzheimer's Australia notes that without a medical breakthrough, Australians living with dementia will increase from 300,000 to almost 900,000 by 2050

Recommendations for reform

- Regulatory protective measures need to be established to guard against the risk of financial abuse of older Australians before it becomes an even bigger problem

Reform options

Downsizing

- Significant costs on downsizing
 - Stamp duty is inefficient and inequitable tax
 - Relief is given to new home owners but not retirees
 - Adds to others costs of sale and relocation
- Lack of suitable housing stock
- Bank lending practices
 - Bridging finance can be difficult to obtain

Options for reform

- Stamp duty relief as part of wider tax reform package
- Review bank lending practices to reduce transaction friction

Reform options

Home owner vs renters	Options for reform
<ul style="list-style-type: none">• Home-owners are given a substantial free asset compared to non-homeowners in Age Pension• Assets test values family home at \$149,000 (increasing to \$200,000 January 2016)• Maximum rent assistance for non-homeowner Age Pensioners is currently ~\$60 pw• Renters often represent the less wealthy cohort	<ul style="list-style-type: none">• Review Age Pension<ul style="list-style-type: none">○ Increasing the Age Pension for non-homeowners and/or rent assistance○ Increasing the assets test levels to ensure that decisions made to rent or buy are neutral and do not impact the Age Pension

Current role of Government

- There is no widely available Government backed equity release scheme
 - There are some existing schemes with limited accessibility, including the Pension Loan Scheme (PLS) and rates postponement schemes operating in some areas
 - These have been designed to help retirees fund the cost of services traditionally provided by government
 - Scheme design has eligibility constraints with limited consumer access

What should be the role of Government?

- Financial literacy
 - Establish program to increase awareness of home equity release in retirement
- No Negative Equity Guarantee risk
 - Government take on NNEG risk from private providers of reverse mortgages, to stimulate supply (US experience is that this may not be enough)
- Securitisation programs
 - Provided by AOFM to facilitate funding requirements of private providers
- Pension Loan Scheme expansion
- Government schemes
 - Provider of last resort product for those unable to access private market
 - Medibank model to kick start the private market in the short term
 - Universal government run reverse mortgage scheme
 - Poor history globally of government run schemes

Panel Discussion

- Your views on our reform options?
- Are there other options not addressed?
- Are we presenting our views in best way possible to encourage sound debate?
 - Cap on exemption of family home in Age Pension means test as an example

