HomeSuper
Less debt. More security.

28 June 2024

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Members,

Re: Inquiry into improving consumer experiences, choice and outcomes in Australia's retirement system

We note the Committee is now seeking additional submissions from experts and the wider community to examine other policies to advance home ownership in retirement, such as letting Australians use their superannuation as a mortgage offset strategy.

HomeSuper is an emerging finance and technology company, with expertise in residential property, finance and superannuation. Our mission is to improve the financial security of all Australians who aspire to own a home via responsible financial solutions and efficiencies, particularly focusing on the relationship between home ownership and superannuation, the largest assets for many Australians.

Before addressing some of the fresh subject matter the committee will be exploring, we would like to highlight important measures that may assist current homeowners suffering financial hardship who are in danger of foreclosure as a priority, given this vital detail was omitted form the inquiries interim report.

Our prior submission noted this key point:[1]

- **The "Super mortgage stress" tax** – At present, if a homeowner is suffering extreme mortgage stress and in danger of losing their home due to foreclosure, legislation permits early withdrawal of superannuation to prevent immediate foreclosure under mortgage hardship provisions. Unfortunately, a 22% tax is levied on emergency early withdrawals which has the potential to not only kick vulnerable people while they are down, but also out of their homes.

Further, we appeared in person at the Senate hearings and conveyed to the Committee[2] that HomeSuper built an free online early release calculator https://www.homesuper.com.au/can-i-use-my-super-to-save-my-home/#/[3] to help people understand some of the costs and concerns around utilising super as a last resort to save their home. We further noted that we would prefer our early release calculator to become obsolete by way of removing the 22% tax, because we feel that is a policy that could assist and reduce the chance of people becoming homeless, particularly during a housing crisis.

Recently, the Australian Securities and Investment Commission (ASIC) released a report dated May 20,2024 titled ***Hardship, hard to get help: Lenders fall short in financial hardship support*** (REP 783)[4]. The report outlines findings from ASIC's review of lenders providing home loans and suggested,

"…that lenders weren't doing enough to support customers experiencing financial hardship. In the worst cases, lenders ignored hardship notices, effectively abandoning customers who needed their support. Too often, the hardship process was confusing and frustrating for customers. This resulted in heightened levels of stress and anxiety for customers who were already struggling."

The report also found.

- Lenders should be doing more to support Australians who were struggling to meet their repayments.
- Some home loan lenders have made accessing financial assistance so difficult that more than one in three (35%) Australians dropped out of the application process at least once.
- Lenders didn't make it easy for customers to give a hardship notice
- Assessment processes were often difficult for customers
- Lenders didn't communicate effectively with customers
- Vulnerable customers often weren't well supported

ASIC also noted that in the 2022 July-Sep quarter 30,562 financial hardship notices were issued. The May 2022 interest rate rise was the first rate increase since November 2010. In the Oct-Dec quarter of 2023, there was 54,826 financial hardship notices issued, representing an increase of over 78% since interest rates have risen.

The "super mortgage stress" tax

Imagine the feeling of being in danger of losing your home, after months of mortgage stress, and learning that while you only need $12,000 from super to help stop foreclosure on your home, you actually need to request a withdrawal of $15,385 from your super to cover the $3,385 in withdrawal tax or worse, you realise you are unable to withdraw your super because of the additional 22% tax makes you in-eligible to access super to save your home!

The low frequency and impact of this tax as a form of revenue is likely to be less significant for Government compared to the potential benefits and impacts to vulnerable homeowners in financial peril.

The Federal Government has the power to remove the 22% tax in said instances – *as was the case with emergency Covid super release*[5] - which is likely to reduce the risk of further homelessness, lifestyle disruptions, stress and mental health issues. More broadly, it can also reduce the social costs of displaced persons, property transaction costs and wider market turnover and volatility.

Recommendation: Review the need for withdrawal tax on early superannuation withdrawals to stop foreclosure on the family home and any implications on Government tax revenue versus impact and benefits to homeowners in extreme financial difficulty who are at risk of becoming homeless and if possible, remove the 22% withdrawal tax accordingly in support of members experiencing financial hardship who are clearly struggling with hardship and poor lender care and processing as per ASIC's findings.

Letting Australians use their superannuation as a mortgage offset.

Regarding the use of superannuation benefits to reduce home loan interest payable, by way of holding superannuation money in an account to offset loan interest, this may appear to be a favourable option at first blush. For example, $100,000 of super held in a home loan offset account will save $6,500 in home loan interest per year based on a current standard variable interest rate of 6.5% pa.

However, this strategy is not optimal due to significant lost earnings on the superannuation monies held in the non-interest-bearing offset account. This means the $100,000 will never grow in value while it remains in the loan offset account and in fact, when allowing for inflation, the value of the $100,000 superannuation in the offset account is depleted every year.

Table A.
$100,000 superannuation held in **1.** Home Loan offset account, **2.** Typical Balanced option and **3.** Super Shared-equity investment in the member's home.

	1 - Home Loan offset account	**2 - Typical "Balanced" Superannuation investment option**	**3 - Superannuation Shared-equity investment in Member's home (Residential property)**
Yearly home loan interest saving	$6,500	Nil	$6,500
Total 25-year home loan interest savings	$162,500	Nil	$162,500
Super balance after 25 years (actual dollars)	$100,000	$482,770	$482,770
Super balance after 25 years (allowing for 2.8% pa average inflation rate)	$50,138	$248,010	$248,010
Total of interest savings and super balance for member after 25 years	**$230,000**	**$482,770**	**$645,270**

Assumptions
$100,000 superannuation balance
6.5% per annum home loan interest rate
6.5% annual superannuation after tax return (Balanced option & Residential property)
2.8% pa long term inflation rate[6]

As per **Table A**. above,

- The purchasing power of $100,000 of superannuation money held in an offset account is almost halved, down to $50,138 after 25 years, when allowing for long term inflation of 2.8% per annum.
- Super balances are almost 395% better off invested in a Balanced option or the Member's home versus funds held in an offset account.
- The optimal scenario is when superannuation is invested, via a shared-equity arrangement, in the members home. This reduces the amount of debt required to buy the same home and thus also reduces the interest payable in a similar way to an offset account but more importantly, the funds remain invested in super, in a well-known, long-term performing asset.

Recommendation: *We support improved efficiencies between superannuation and housing that aid the purchasing power of investments pre and post-retirement and increase the probability of better retirement outcomes for members who are striving to own a home, without increasing demand pressures.*

Other matters

We note the committee recommended;

- That first home buyers who may utilise a proposed scheme to use super to help purchase their first home, should be allowed to use the proceeds to purchase their next home rather than having to re-contribute the withdrawn amount immediately back into super.
- A much higher cap would be appropriate so that first home buyers have enough flexibility to withdraw the adequate amount required to form a deposit.

Recommendation: Superannuation funds should be retained within the retirement system. We advise against the provision of superannuation funds to "help" homebuyers enter the market given this measure will increase demand and more than likely, increase house prices further, exacerbating the current affordability issue. Dollar amount caps can result in unfavourable account balance outcomes. This was seen in the Covid early super release scheme whereby some members withdrew their total account balance, reducing the chance of compounding interest to zero. As such, we have incorporated account percentage-based caps for shared-equity investments as a more prudential and appropriate measure.

Conclusion

HomeSuper supports the responsible use of superannuation for modern times that strengthens governance, supports fiduciary duty while streamlining systems to provide more opportunity for Australians to retire in their own home in a stronger financial position.

Thank you for the opportunity to provide a further submission to the Committee. We are willing to provide testimony in person at inquiry hearings if required.

[redacted]

Simon Jones
Founder and Managing Director
www.homesuper.com.au

References:

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