HomeSuper
Less debt. More security.

23 February 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

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.

The inquiry makes reference to a number of items. This submission focuses on a limited number of matters relevant to our expertise, discusses the key features of the current retirement income system, why it supports the use of superannuation to pay down large mortgage balances at retirement - an untenable strategy which was not the intent or purpose of our retirement system, and provides recommendations for a more sustainable future.

Key points:

- **Debt in retirement -** With 30-year mortgage terms commonplace and historically high levels of household debt, a vast number of Australians are presently, or will be, making mortgage repayments well into their twilight years (or using their superannuation balance to avoid this outcome).

- **Short term assistance leading to systemic issues** - The unintended consequences of providing additional capital for property purchases, be it via Government grants/schemes or the release of superannuation, increases demand and subsequently prices. Higher levels of debt required to buy a residence affect the retirement system more broadly as indicated.

- **Buy or Rent** - A "rent-forever" scenario does not fit every individual's aspiration nor align with Federal Treasury's view of home ownership offering better retirement outcomes and wellbeing than for those who rent.

- **Superannuation shared-equity alternative** - Co-investment of super into a member's home equals less debt required to buy and less risk to the fund's objective. Superfunds benefit by capturing a portion of the residential funding opportunity – usually reserved for banks – on behalf of their members. A responsible, more efficient use of superannuation for members requiring a mortgage to buy a home, increasing the probability of a dignified retirement exponentially.

- **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 the homes.

Terms of Reference b. The economic costs and opportunities of innovation in our retirement income system:

Using super to retire debt

A significant opportunity for innovation in our retirement system lies in the growing trend of older Australian's carrying increasing amounts of household debt into retirement. [1]

As house prices have increased, so has the average size of the mortgages required to purchase an average home. On top of this, the average age of first home buyers in Australia has risen from under 25 years of age in 2001 to almost 35 years of age in 2023.

Table 1.

Average	**Then** (year)	**Now** (most recent)
Mortgage holders 55-64 yr olds	15.5% (2001	35.9% (2021)
Homeownership 55-64 yr olds	65.1%% (2001)	40% (2021)
Retire with Mortgage	4% (2002)	13% (2021)
First home buyer age	24.5 (2000)	34.5 (2022)

Source: ABS (2001-2021 Census) Digital Financial Analytics

With 30-year mortgage terms being commonplace, this equates to a vast number of Australians that are presently, or will be, making mortgage repayments well into their twilight years or who will use their superannuation benefits to retire their debt to avoid this.

We submit that this "strategy", set to continue as debt levels and age of first-time buyers increase, is untenable and is not consistent with the intent nor the purpose of our retirement system!

The predicament – short term assistance leading to systemic issues.

Over the years, some have suggested that Australians should be allowed to access or borrow their superannuation as an "easier" pathway to buy a home. We do not support this measure.

As evidence indicates[2], providing financial assistance at scale to aspiring home buyers (who do not have the capital or income to qualify for a loan) as a means to "help" them into the property market faster, often leads to longer term affordability issues.

"It is well known that assistance to first home buyers can contribute to higher house prices. Assisting prospective home buyers increases the number of people wanting to buy a home and the amount they can borrow. The additional demand, if not accompanied by an increase in the number of homes available, places pressure on house prices and reduces housing affordability. It is not typically home buyers who benefit from the assistance,9 it is the sellers who receive a higher sale price. What this means is that assisting home buyers can (somewhat counterintuitively) make housing less affordable, particularly for people who do not qualify for assistance." In need of repair: The National Housing and Homelessness Agreement 2022 Australian Government Productivity Commission [3]

More importantly, the application of super assets in such a manner would be in breach of a number of crucial protection mechanisms within superannuation legislation[4] such as "financial assistance" prohibitions *[Section 65(1)(b)]* that have been carefully designed to help protect and enhance retirement benefits for members.

Recommendation: Modernisation

An innovative approach that we are aiming to bring to market switches the practice of,

> *"withdrawing super to repay debt"* at retirement, with a responsible and safeguarded method of

> *"investing super to replace debt"* upon buying a home in a shared-equity arrangement so that:

a. the investment is protected within prudentially regulated superannuation funds and adheres to all regulatory requirements.

b. by placing appropriate controls in place, demand for housing is not increased.

c. the investment is managed with standards of Fiduciary duty expected of superannuation Trustees and

d. drawing on the value of a home post-retirement as means to help meet the homeowners' retirement income needs via ongoing income payments. This can be achieved in a manner that could provide considerable financial and social benefit to the retiree, and to younger superannuation accumulators who may be indirectly involved by utilising superannuation capital as appropriate funding.

The long-term nature of superannuation as "patient" capital, is well placed for property investment in conjunction with 30-year mortgages. Residential property also offers comparable investment market returns with relatively low risk over longer periods.[5]

We support a SIS Act compliant approach with the aid of technology, which permits retirement funds to participate in the residential funding market - typically captured by banks - securing a portion of this commercial opportunity to bolster their members retirement benefits.

Such product innovations are challenging to bring to market in Australia, notwithstanding their demonstrable financial benefits for homeowners, due to the complex regulatory system and the lack of avenues to obtain binding product rulings to give confidence that the regulators consider the innovative product to be legally compliant.

We consider that this innovation would satisfy the sole purpose test by providing a prudent and suitable investment opportunity for the fund. We also note that the interpretation of this test can be subjective and is sometimes used by regulators to stifle innovation. It is unfortunate indeed that APRA has withdrawn its guidance on the sole purpose test, leaving product issuers in the dark about how APRA might view particular product features.

The following table seeks to illustrate, by way of simple comparison examples, the positive financial impact to members using the innovative product we have developed. As illustrated in the following table, the economic benefit and reduced risk to the fund is remarkable and provides extraordinary potential for the member to achieve a more secure retirement.

Table 2. $600,000 Home purchase comparisons

Results for example 1. portrays financially disciplined individuals who maximise the extraordinary power of compounding interest working in their favour. We anticipate a large number of persons will achieve favourable results between examples 1. & 2.

Home purchase $600,000 35 yr. old couple with $100,000 combined super		**Super share-equity plus, home loan**		Regular home loan purchase **3.**
		1. Disciplined budgeting	*2. Inclined to spend*	
Deposit		**$120,000**	**$120,000**	$120,000
Home loan amount		**$400,000**	**$400,000**	$480,000
Super investment	In Home	**$80,000 or 80% of super** ✓	**$80,000 or 80% of super** ✓	Nil ✗
	In Balanced fund	**$20,000**	**$20,000**	$100,000
Post purchase				
Loan repayment (Monthly)		$2,529 pm	$2,529 pm	$3,034 pm
Surplus	**Loan offset account**	**$505 pm** **$6,060 per year** ✓	Nil ✗	Nil ✗
	Spending	Nil ✗	**$505 pm** **$181,800 over 30yrs** ✓	Nil ✗
Risk of a. Loan default b. Early super hardship withdrawal c. Using super to repay debt in retirement		**Substantially Lower** ✓	**Lower** ✓	Higher ✗
Total home loan repayments to bank		**$703,460**	**$910,178**	$1,092,214
Loan repaid in		**<20 years** ✓	30 years	30 years
Funds previously earmarked for bank, now available for pre-retirement super contribution.		**$527,732** ✓	Nil ✗	Nil ✗

Notes:

- 6.5% pa. home loan comparison interest rate. All borrowers qualify for $480k loan.
- Super "Home" investment only permitted in detached or semi-detached residential properties.
- No duplication of property investment fee (a more equitable fee-sharing arrangement)

Terms of Reference d. the potential role of FinTech platforms, technologies, and innovations in supporting better retirement outcomes

Innovation in financial technology now provides more efficient means to arrange, implement, manage and disburse a range of investments, insurance, lending and other related financial services. This broad but effective fin-tech space can be utilised to foster better retirement outcomes for members, particularly involving home ownership, to engage Australians with their super like never before. The benefits also extend to wider social and economic outcomes that support the Commonwealth's ability to assist retirement living standards for the broader population of Australia.

Home ownership vs "rent forever" in retirement.

Superannuation fund trustees are cognisant of the favourable risk/reward characteristics residential property can offer over the longer term, as an appropriate addition to investment portfolios.[5]

Currently a number of existing superfunds have purchased, or are looking to purchase, property for *"build-to-rent"* housing. This strategy should assist portfolio diversification for retirement funds and provide essential accommodation for a number of people.

However, a "rent-forever" scenario does not fit every individual's aspiration nor align with Federal Treasury's view[6] of home ownership offering better retirement outcomes and wellbeing than for those who rent as per the following.

- *"The home is the most important component of voluntary savings and is an important factor influencing retirement outcomes and how people feel about retirement. Homeowners have lower housing costs and an asset that can be drawn on in retirement. If the decline in home ownership among younger people is sustained into retirement, there will be an increasing number of retirees who rent."*

- *"Because retired renters achieve poorer outcomes than most homeowners, previous reviews suggested a considerable increase in Commonwealth Rent Assistance to reduce poverty and financial stress rates among retirees (Australia's Future Tax System Review, 2009)."*

Super Consumers Australia, an advocacy group that aims to advance and protect the interest of people on low and middle incomes in the retirement system, also suggest that:

- *A single person on a low income aged 65-69 who rents in retirement will need to save 110% more than homeowners, in order to maintain a similar standard of living.*

We have also considered and support the notion of drawing on the value of a home post-retirement as means to assist the home-owners retirement income needs via ongoing income payments. This can be achieved in a manner that could provide considerable financial and social benefit to the retiree, and to younger superannuation accumulators who may be indirectly involved by utilising superannuation capital as appropriate funding.

Recommendation: Encourage and support innovation that facilitates retirement product choice and potential for improved retirement funding and lifestyle outcomes.

Terms of Reference i. the impact of climate change on the value of assets (e.g. houses, investments) of retired people

Residential Property

The potential impacts of climate change and associated financial risk are far-reaching. The Climate Council of Australia suggests[7] that one in twenty-five homes are at risk of becoming uninsurable by 2030 due to risks of extreme weather. With respect to coastal erosion, just one component of environmental risk, property research group CoreLogic estimate[8] that $25 Billion worth of Australian residential property has the potential to be impacted negatively.

HomeSuper has developed and supports a range of environmental checklists in its online technology to assess areas prone to events such as sea-level rise, coastal erosion, flooding, fire and extreme wind for example, helping to reduce the probability of future capital losses and associated strain felt individually and at a community level.

Recommendation: Support pro-active risk-screening of future residential property investment at time of purchase to help mitigate future environmental impacts to a retirement fund member's residence.

Terms of Reference j. any other related matters.

The "super mortgage stress" tax

Imagine the feeling of being in danger of losing your home, after months of mortgage stress, only to find that you are unable to withdraw your super because of the additional 22% tax placed on early withdrawals, that could reduce the qualifying threshold and make you in-eligible to access super to save your home![9]

The low frequency and impact of this tax as a form of revenue is likely to be insignificant for Government. The benefits and impacts to vulnerable homeowners in financial peril however are enormous!

The Federal Government has the power to remove the 22% tax in said instances – as was the case with emergency Covid super release - 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 tax implications on Government revenue versus impact and benefits to homeowners in extreme financial difficulty who are at risk of becoming homeless and amend accordingly.

Conclusion

HomeSuper supports a retirement system suitable 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 make this submission. I am willing to provide testimony in person at inquiry hearings if required.

Sincerely,

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

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