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August 29, 2002

Andrew Cunningham,
Inquiry Secretary,
Standing Committee on Ageing
Parliament House,
CANBERRA ACT 2600

ageing.reps@aph.gov.au

Dear Sir,

RE : HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON AGEING

Please find by way of this cover letter and the attached document a submission for consideration by the House of Representatives Standing Committee on Ageing ("the Committee")

Given the existence of this inquiry, I believe it is already well within the mindset of the Committee members, Governments, members of parliament in general, and other interested parties, that the ageing of the Australian population over the next 40 years – and in particular the issues related to the standards of living in retirement including retirement incomes, aged pension, health care and housing costs, of a retiring "baby boomer" generation - is an important issue that will stretch and drain the resources of Governments now and into the future.

No doubt the Committee has and will receive by way of submission from various parties, arguments based on detailed research, modelling and forecasting as to the need for the Federal (and State) Government(s) ("Governments"), to provide, create or support more resources for addressing the standards of living for an ageing population, especially given the impending retirement of the "baby boomer" generation over the next 20 years, the increasing lifespans expected to be enjoyed by retiree's, and the manner in which these two major social dynamics will interact.

One critical aspect to supporting the sufficiency of resources available to deal with the implications of an ageing population in the long term, is the maintenance and extension of an effective superannuation and retirement incomes policy, and I note that the recent Senate Select Committee on Superannuation has within its terms of reference the ability to contemplate alterations to the current superannuation regime to seek to address this. However no matter what that conclusions the Senate Committee reaches (and any subsequent changes to public policy that may occur) superannuation is a policy option who's benefits are only felt long term, and hence any changes to superannuation could only reasonably be expected to have significant effect over a long term horizon.

In the meantime, there are today approximately 2 million older Australians receiving aged pension benefits, at a cost of greater than $13 billion annually to the Federal Budget and of these an estimated 31.5% of older Australians are homeowners but are dependent on Government payments and allowances for 90% or more or their income. The ability of these older Australians to purchase aged care services, beyond those provided free by Government and Charitable Organizations, is directly related to their retirement income position, and hence limited by their dependence of Government payments. This dependency on Government resources exists today and is increasing by the retirement of ‘baby boomers’ from the workforce now occurring, creating increased demands but with decreased workforce taxpayers (as a percentage of the population) to provide tax based funding to support these needs.

Therefore, any practical policy options, which can be implemented now, and which deliver benefits of increased income resources for older Australians to be able to more fully access and benefit from aged care services in the short term to medium , should be considered by this Committee.

Third Son Financial Services is a private financial consultancy which has developed The Home Exchange Program (“HOMEX”), specifically to provide a policy option to Governments to achieve increased short, medium and long flexibility and benefits with respect to aged pension and aged care funding, through a mechanism that has neutral impact (in net present value terms) of Government’s fiscal position, and utilising the existent infrastructure of Governments and major financial institutions.

HOMEX, is essentially a Home Equity conversion program, but whose design and financial engineering is such as to extract and deliver to older Australians, significantly greater benefits than those otherwise available through such programs, and at a neutral cost (in net present value terms) to the Government’s fiscal position.

The attached document, “The Home Exchange Program – HOMEX – **Program Overview Document**”, is a high level overview document outlining issues related to aged pension and implied health care costs and the impacts of a retiring “baby boomer” generation, and the benefits delivered by, and core structural design impacts of HOMEX in relation to these issues.

A further and highly detailed document titled “The Home Exchange Program – HOMEX – **Program Design Document**” is also available (subject to confidentiality agreements being entered into) and provides detailed design of HOMEX including the structural design of each element and “The HOMEX Financial Model” – a detailed financial model on which the specific benefits, funding mechanisms and modelling, budgetary effects, etc. of HOMEX have been developed.

I am the principal of Third Son Financial Services, and have had senior experience in major financial institutions in Australia over the last 13 years, including periods as Country

Treasurer Citibank Australia, and Head of Investments and Superannuation ANZ Funds Management. I am pleased provide the Committee with this submission, and look forward to your response.

Sincerely,

Peter M. Binetter

Director
Third Son Financial Service Pty. Limited
(ACN 050 498 384)

The Home Exchange Program

HOMEX

PROGRAM OVERVIEW DOCUMENT

This Document is Attachment 1 of
The Home Exchange Program – HOMEX – Program Design Document

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Overview

Australia is ageing. The proportion of Australians aged 65 years or more is set to double as a percentage of the population over the next 40 years. With this will come a decreased income tax base as older Australians leave full time employment to enter retirement, and an increased demand on health and aged welfare services as the inevitable progress of aged infirmity and disability impact the 5.5 million older Australians that will be 65 years of age or more by 2041. This demographic shift has implications for the individuals involved, their families, Governments and the economy as a whole, and therefore is emerging as a key socio-economic and political issue.

An estimated 31.5% of older Australians are homeowners but are dependent on Government payments and allowances for 90% or more or their income. The ability of these older Australians to purchase aged care services, beyond those provided free by Government and Charitable Organizations, is directly related to their income position, and hence limited by their dependence of Government payments.

The Home Exchange Program (HOMEX) has been specifically designed to address these problems, by providing a new mechanism to generate significant additional income for homeowner older Australians who are currently dependent on Government pensions and allowances for their income, without losing the key benefits commonly associated with owning their home.

HOMEX involves :

- The sale of an older Australian's home to the (State) Government,
- The older Australian gaining rent-free lifetime tenancy of their own home,
- The older Australian retaining 100% of their existent Aged Pension and associated entitlements,
- The older Australian receiving an additional monthly "pension payment" for the rest of their life with payments annually incremented by a fixed percentage or CPI (these payments being guaranteed for 10 years even if they pass away within that time period),
- The older Australian having an entitlement to a once-off Health Care Grant from the Government, the value of which will be up to 25%[1] of the prevailing market value of their home, to be used to meet their health care needs should they need to enter a hospice or nursing home accommodation.

HOMEX is an entirely voluntary program providing benefits to older Australians who chose to enter into the program.

The decision to enter the program is entirely the decision of those older Australians, made in consultation with their family and loved ones should they so chose to do so, and supported by the Government.

Background

With the ageing of the "Baby Boomer" generation, and their advancement into their "retirement" life stage, Australia is on the precipice of perhaps the most significant demographic shift it has experienced in the last 50 years. Older Australians (those aged 65 and over) are increasing in numbers but more importantly they are increasing as a percentage of the population. In 1993 there

[1] A Health Care Grant of upto 25% of the prevailing market value of the home is available under a Private Funding scenario for HOMEX, under a Public Funding scenario this percentage is about 12.5%.

were 2.06 million older Australians representing 11.7% of the total population, and by 2041 this is forecast to grow to 5.48 million older Australians representing 22.0% of the total population[2].

A front-page article in the Sydney Morning Herald titled "Divorced women face lean old age"[3] (see attachment A1) highlights some of the serious implications of this demographic shift on just one exposed sub-set of "Baby Boomers" noting that :

"*Older women caught in the divorce surge that began 25 years ago, have hit their retirement years lacking money and facing an ever receding pension. For the first time women age 60 outnumber widows. And the number of them entering retirement is set to double in five to 10 years …Women on their own in old age have always been vulnerable to poverty… The increased numbers of women in their 50's – about 145,000 – have missed out on a share of their husband's superannuation…They got a one-off settlement at divorce, usually the house, but now they are asset rich and income poor,…*"

Further examination of demographic trends concerning present older Australians reveals that :

- 92.8% of older Australians live in private dwellings[4], generally reflecting their desire for continued independence.
- By age 65, 75% live in homes owned by a member of their households (usually themselves or their spouse)[5].
- 82% of older Australians receive an Aged Pension or a Service Pension, with 73.4% of older Australians stating that Government Pensions or Allowances represent the "principal source" (50% or more) of their income and for 56.5% such payments contribute to 90% or more of their gross income.[6]
- 45.7% of older Australians live in a private dwelling but have some form of disability, with 13.9% having a "profound / severe core activity restriction"[7].

Overall, older Australians prefer to remain in their own home, but have a heavy dependence on Government support for their income, and a significant number experience some form of disability, this trend increasing with age.

A large number of older Australians receive help from formal providers but more from informal providers such as family or friends. The majority of people who required help received some support, but not always as much as they like[8].

Reflecting the rising importance of Aged Care and its funding as a key socio-economic and political economic issue the President of the Australian Medical Association Dr. Kerryn Phelps was reported as stating that (see Attachment A2):

"the sector was in a state of "despair and disrepair"…the co-ordination of services between the Commonwealth and the States must be improved,…"[9]

[2] Australian Bureau of Statistics (ABS) – Australian Social Trends 1994 – Population – Population Projections : Projection of the aged population.
[3] The Sydney Morning Herald, June 30 - July 1, 2001 – "Divorced women face lean old age" p1.
[4] ABS – Income and Welfare –Special Article – Older Australian (Year Book Australia, 1999).
[5] ABS – Australian Social Trends 1994 – Housing – Housing Stock : Housing the population
[6] ABS – Income and Welfare – Special Article – Income and Support Payments in Australia (Year Book Australia, 2000).
[7] ABS – Income and Welfare – Mini Article – There's no place like home.
[8] ABS – Income and Welfare – Mini Article - Support for older people.
[9] The Australian Financial Review, 19 July 2001 – "Phelps demands better aged care", p6.

Income support for older Australians

The current Age Pension (single pensioner benefit) of $421.80 **per fortnight** (plus pharmaceutical benefit of up to $5.80 per fortnight) is modest when compared to the average weekly ordinary time earnings (AWOTE) of $849.90 **per week**. Yet with over 1.7 million older Australians receiving some form of Government support, the total Age Pensioner expense is very significant at over $13.8 billion annually (year ended 30 June 1999)[10].

Any attempt to increase pensioner benefits impacts the Federal Budget significantly. By way of example, the once-off $300 payment made by the Federal Government in June/July 2001, payable to about 2 million Australians of Age Pension age cost in the order of $600 million dollars. Rather than commending this action pensioners and superannuants were reported (see Attachment A3) as planning a protest outside Prime Minister Howard's electorate office to :

"*vent their anger about how they have been treated by the Federal Government.*"

The once-off payment is seen as :

"*cynical, far too little , far too late…*" and *"…the Howard Government has instigated policies to the advantage of the rich and at the expense or ordinary and disadvantaged Australians.*"[11]

With an aged population forecast to grow to over 5.5 million by 2041 and the proportion of those under 65 (and consequently the bulk of the income tax base) falling, the rise in the so called "aged dependency ratio" will make widespread payment improvements to older Australians an increasingly

[10] ABS – Income and Welfare – Payments for the retired
[11] The Sydney Morning Herald, July 14-15, 2001 – "Pensioners fight back" – p50.

unsupportable budgetary equation as the Federal Government struggles to fund payments to the aged at even existent income relativity levels, almost certainly relying on raising the GST to fund even this expenditure, as Prime Minister John Howard was quoted as saying (see Attachment A4):

"*History will judge that the Government's introduction of the GST will have done more to prepare our economy for the demands of an ageing population than any other single tool of public policy,*"[12]

Yet, to highlight the dramatic effect that these costs will have on Budget Policy an article in The Australian Financial Review titled "Pensions put pressure on taxes"[13] (see Attachment A5) quoted a leading actuary Mr. Michael Rice in reporting that :

"Mr Rice warns that "drastic changes will be needed to stabilize the situation" as Australia's dependency ratio (the number of pensioners to taxpayers) rises and brings major pressure to bear on taxpayers."

And in a separate feature article titled "Baby boomer's grey power" The Australian Financial Review[14] *reports that (see attachment A4):*

"Australia will need an additional $37 billion in taxes a year to pay for the cost of its ageing population…it's the equivalent of a 22.5 per cent GST or a 45 percent rise in the amount of tax paid by individuals – yet Australia's political system appears incapable of addressing this challenge…the new OECD estimates indicate Australia faces the steepest increase in its health budget as a share of GDP… the steepest rise of any OECD nation…Today , the number of over-65s expressed as a proportion of the working –age population is 20 per cent, but by 2020 it is projected to rise to 30 per cent, and by 2050 it will be almost 50 per cent…"

To deal with this problem the basic Government policy choices are :

1. **Do nothing.**

The result of this approach being a decline in well-being of older Australians as the existent budgetary resources allocated across an increased proportion of the population base can only result in a decline in the relative income levels of older Australians. As this would occur, social discord would increase resulting in associated electoral implications to the then presiding Federal Government perceived as being responsible for meeting basic welfare standards of older Australians.

2. **Increase the allocation of Budgets to the Aged segment while holding Total Budget expenditure stable in GDP relative terms.**

The result of this approach being that the needs of older Australians are met (to an equivalent level as today), but other policy needs are sacrificed particularly impacting younger income tax paying voters with again adverse electoral impacts.

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[12] The Australian Financial Review, 2 August, 2001 –"Baby boomers' grey power" – p57.
[13] The Australian Financial Review, Monday 30 July 2001, - "Pensions put pressure on taxes" – p7.
[14] The Australian Financial Review, 2 August 2001, - "Baby boomer's grey power" – p57.

3. **Increase the allocation of Budgets to the Aged segment and increase Total Budget expenditure inline.**

The result of this approach being that the needs of older Australians are met (to an equivalent level as today) and other policy measures are met, but to fund this either taxes must be significantly increased and / or public debt must be significantly increased, both negatively impacting national economic health.

4. **Lower the demand on the “Public purse” by older Australians (the “demand for support”).**

This approach would involve significantly increasing the creation of fully self-funded retirees by increased superannuation commitments and incentives - a viable and sensible policy alternative but one that requires long term and consistent commitment (over decades), contrasted against the history of successive Federal Governments acting to decrease the attractiveness of super by raising taxes on super and limiting the access to concessionally taxed benefits, and this in a political environment where both major parties are criticized as having no serious retirement incomes policy.

5. **Target the provision of benefits more effectively to those most in need within the aged population segment (the “targeting of support”).**

The result of this approach being that the needs of those least able to support themselves are met, and other policy areas are not impacted, and without significantly increasing taxes or public debt. Critical to the success of this approach is that there is sufficient policy rigor and creativity to be able to ensure that those that have reasonable access to self-funding alternatives, must use these before being able to access Government support payments.

In considering these options it is clear that the sheer demographic impact of the “Baby Boomer” generation entering retirement means that the only feasible long term policy measure is to decrease the demand on the “Public purse” through a clear, attractive, consistent and effective long term Superannuation and Retirement Incomes policy, and the only viable short to medium term measure to breach the gap between the demands being now felt and the time period it will take for such long term policies (if they were designed and implemented) to reap significant benefits, is to target the provision of benefits more effectively to those most in need within the aged population segment.

Policy actions and failings

The recent Howard Government approach to this problem was an increased budget allocation financed by increased budgetary expenditure (budget surplus reduction). Those most benefited have been age pension independent self-funded retirees through the provision of significant increases to the effective tax-free threshold for older Australians. Yet most Aged Pensioners received only marginal and non-recurrent benefit through the once-off payment of $300 made in June/July 2001.

While creating stronger incentives for retirees to be self-funded, these actions have not significantly assisted those older Australians who are most in need of Government support.

More generally, the key actions that have been taken by Federal Governments over the last two decade to address the "demand for support" and the "targeting of support" have been :

1. Mandatory superannuation
2. Direct budgetary support to those services providers who support the most needy older Australians (e.g. funding for public housing, direct funding to carers of the aged, funding for charitable institutions who support the aged etc.)
3. Assets and Incomes testing of pension and retirement benefits.

Despite these actions the following failings have occurred which have undermined the potential effectiveness of the policies above :

a. The level of mandatory superannuation is generally viewed as too low to produce fully self-reliant self-funded retirees.
b. The rules and regulations relating to super and retirement incomes are complex and constantly being changed obfuscating the benefits of these measures and breeding distrust in the system.
c. Super is now taxed at contribution, during investment phase, and on exit, eroding the attractiveness of voluntarily "locking your money away till retirement" and creating a perception that increasingly cash strapped Governments "won't be able to keep their hands off the honey pot".
d. The availability of lump sum super benefits (rather than income stream only payments) acts as a potential risk to building a self-funded retired population, and increases the perception that "super is for paying off the house, or going on a world trip when I retire."
e. The demand for direct assistance continues to outstrip the resources available.
f. Providing direct assistance is symptomatic relief never addressing the causes of dependency nor acting to arrest such things as the "slide into aged homelessness" that may occur.
g. Assets and Incomes tests of certain pension benefits remains a coarse tool, as seen in the large and continuing dramatic growth in older Australians receiving Government support. As a policy measure it is certainly the correct approach, but in operation it seems unable to be sufficiently effective by itself in directing benefits to the most needy in proportion to their needs.

Well known economic and political journalist Mr. Barry Dunstan reviewed leading actuary Mr. Michael Rice's research in this area and Mr. Dunstan commented on both Mr. Rice's recent work and the status of Government policy by stating (see attachment A6) :

"Sydney actuary Michael Rice has put the issue as clinically as only an actuary can : the current Government policy on pensions is unstable, inequitable and needs reform. … …The burden on

Australia's GDP and on Budget revenues is only going to increase – and increase sharply in a few years as the baby boomer bulge reaches retirement or pension age. Do we want a fight to the death between the ageing baby boomers and their wage-earning children, fearful that they may face an open-ended rise in their taxes to finance spiralling pension costs?"[15]

Further Mr. Dunstan notes that :

"Of the estimated 8.5 per cent increase in spending as a percentage of GDP in the next 50 years, only 1.5 percent comes from age pensions and 5.4 per cent relates to increases in health care. But such is the uncertainty from possible medical breakthroughs that health costs might not rise by that much – but age pension costs could soar if people live much longer."[16]

This only amplifies the funding crisis that is now impacting aged care with aged care operators even now reviewing their positions in the sector due to marginal financial viability and a number nursing home closures announced as reported in the Sydney Morning Herald article titled "Aged care an election issue as beds close"[17] (see attachment A7). Of further note are comments by Professor Bob Officer, who was Chairman of the Government's Commission of Audit in 1996 being reported as stating (see attachment A4):

"*Australia's health care system is unsustainable, with the old being cross-subsidised by the young, while superannuation is so complex it discourage savings… a review of the whole system is needed to address the interaction between the States and between the Commonwealth and the States.*"[18]

Aged welfare and core needs

So what are the core needs of the Aged, which when satisfied result in Aged Welfare – i.e. a population of older Australians enjoying a life of balance and sufficiency.

Three key drivers can be identified :

1. Certainty of shelter.

Shelter is a basic need of all people, but for the aged the importance of certainty with respect to their shelter requirements becomes a key welfare issue. As aged disability and infirmity approach, the need for certainty and the avoidance of exposure to the instability of rental accommodation is key, perhaps this alone is one of the drivers to the "Great Australian Dream" of owning your own home.

Consistent with this about 75% of older Australians own their own home, leaving 25% who do not and are clearly disadvantaged in welfare terms as a result.

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[15] The Australian Financial Review, 30 July 2001 –"We can't afford pension policy limbo" – p42.
[16] Ibid.
[17] The Sydney Morning Herald, July 14-15 2001 – "Aged care an election issue as beds close" - p5.
[18] The Australian Financial Review, 2 August 2001, - "Baby boomer's grey power" – p57.

2. Manageability of health issues.

Increased disability and infirmity generally go hand in hand with the aging process, so the key welfare issue is the ability to access and afford health services and access and afford support mechanisms to offset the effects of ill-health and disability.

54% of older Australians suffer some form of disability, with about 80% of this group living in private dwellings (representing the demand for health and disability services), yet 73.4% of older Australians rely on Government pensions and allowances as their principal source of income (representing means of purchasing the supply of any non-Government provided services). Clearly a large portion of those with needs also have a low likelihood of being able to pay for the satisfaction of those needs without
Government support.

3. Independence or the means for living in an independent manner.

A sense of independence is a key to preserving mental balance and psychological welfare. The marks of such independence include, the ability to live in one's own home, the ability to meet self care needs, having mobility, being able to communicate, the ability to access and meet health care needs, the access to and use of transport, the ability to meet housework, paperwork, property maintenance and meal preparation needs. Yet the health and disability effects progressively encountered by the aged mean that the provision of many of these services must be eventually outsourced to formal or informal providers.

With such a great demand for services as the population ages, the provision of Aged Welfare boils down to funding - its sources and its allocation.
So who are the most needy ?

25% of older Australians do not own their own home and, for the vast majority, also comprise part of the 56.5% of older Australians who rely on Government payments for 90% or more of their income.

This leaves 31.5% of older Australians who own their own home but also rely on Government payments for 90% or more of their income. Yet with the median home value in Australia of approximately $250,000 ($350,000 in NSW)[19] this group of older Australians, while needy, can also be considered to be relatively "asset rich, income poor".

Maintaining the home as an investment asset

With such a poor income position, why does this latter group of older Australians persist with home ownership? Why don't these older Australians sell their homes to unlock their investment capital, which could be used directly for consumption purposes and /or indirectly to generate further income so as to improve the access to, and use of, health and disability services and thereby improve their welfare.

The following issues may provide a rationale for this groups behavior :

1. Shelter uncertainty.

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[19] Real Estate institute of Australia - Australian Property Market Indicators - July 1999-June 2000 nultipled by ABS data re change in Median House Price Indicies for the year ended December 2001

The loss of home ownership places the aged in the rental accommodation market – exposed to market forces impacting rental availability and location, uncertainty of tenure, uncertain security, issues surrounding rights of occupation (pet ownership etc.), exposure to rental cost increases etc.

Additionally, at exactly the time in their lives when they most need shelter certainty, the greater the age of an older Australian, the less palatable they are as prospective tenants when viewed from the landlord's perspective, as issues such as disability, mobility, self care etc. create a potential "problem tenant" situation when compared to younger age segments.

2. Traumatic change.

Selling one's home at any age is a traumatic event involving both great change and effort and unfamiliar choices and issues to be faced and managed interfacing with unknown agents and other parties. For older Australians the challenging and traumatic implications of such an event is amplified by their unfamiliarity with both the multiple choices and changes to be dealt with, and the implied loss (both physical and psychological) including the loss of control over their most direct and familiar environment, the very icon of "the Great Australian Dream" – their home.

3. Financial exposure.

While the sale of the home would generate investment capital, this exposes older Australians to both :

a) A potential loss of Government benefits as the rules for assets and incomes tests can be complex, and

b) Exposure to a plethora of investment choices, advice and uncertainty – much of which is either not well aligned to the needs of these typically financially unsophisticated individuals and / or specifically harmful – as service providers with only their own revenue objectives in mind may be at best un-careful, and at worst deliberately dishonest, in dealing with these older Australians and their limited investment capital.

The Home Exchange Program (HOMEX)

HOMEX has been specifically designed to address these problems, by providing a new mechanism to generate significant additional income for homeowner older Australians who are currently dependent on Government pensions and allowances for their income, without losing the key benefits commonly associated with owning their home.

HOMEX involves :

- The sale of an older Australian's home to the (State) Government,
- The older Australian gaining rent-free lifetime tenancy of their own home,
- The older Australian retaining 100% of their existent Aged Pension and associated entitlements,
- The older Australian receiving an additional monthly "pension payment" for the rest of their life with payments annually incremented by a fixed percentage or CPI (these payments being guaranteed for 10 years even if they pass away within that time period),
- The older Australian having an entitlement to a once-off Health Care Grant from the Government, the value of which will be up to 25%[20] of the prevailing market value of their home, to be used to meet their health care needs should they need to enter a hospice or nursing home accommodation.

HOMEX is an entirely voluntary program providing benefits to older Australians who chose to enter into the program.

The decision to enter the program is entirely the decision of those older Australians, made in consultation with their family and loved ones should they so chose to do so, and supported by the Government.

The structure of HOMEX delivers the largest size additional monthly "pension payment" benefit to those homeowner older Australians who have a remaining life expectancy of about 10 years when they enter HOMEX (as per actuarial tables of life expectancy measured across the population base), but even for men and women aged 65 significant additional monthly "pension payments" are delivered by HOMEX.

For a single man aged 75, who owns their own home of current market value $250,000, currently receives a full aged pension, and chooses to enter into HOMEX, they would receive :

- Life tenancy, rent-free in their own home,

[20] A Health Care Grant of upto 25% of the prevailing market value of the home is available under a Private Funding scenario for HOMEX, under a Public Funding scenario this percentage is about 12.5%.

- Continued full entitlement to the Aged Pension currently delivering $421.80 per fortnight (plus pharmaceutical benefit of up to $5.80 per fortnight),
- Additional monthly payments, for the remainder of their life, of $1062 per month increased annually by 2.5% (with a guaranteed 10 year payment period i.e. payment to their estate or beneficiaries should they pass away within 10 years of entering the program) – this being approximately equivalent to an increased payment of 114% when compared to the current Aged Pension for this older Australian.
- Entitlement to a Government Health Care Grant[21] of $15,800 (approx.) if taken at the end of the 5yr year since entering the Program, or $40,400 (approx.) if taken at the end of the 10th year since entering the Program, should they need to enter into a hospice or nursing home accommodation.

For further examples of the benefits delivered under HOMEX please see Attachment B titled "HOMEX Benefits Summary Table".

What is the impact of HOMEX on Governments ?

The (State) Government gains ownership of participating older Australian's homes, granting back to the homeowner a rent-free life tenancy. Upon the death of the older Australian, this home could be used as an addition to the stock of public housing or could be sold in the open market to recoup the costs associated with having progressively funded HOMEX (see section titled "How is HOMEX Funded ?").

[21]These estimates are based on a Public Funding of HOMEX. Under a Private Funding of HOMEX a Health Care Grant of approximately twice that estimated here is available.

The Federal Government, by effectively delivering a new voluntary pensioner benefit mechanism (i.e. HOMEX), can now allocate any incremental budgetary expenditure to those most in need, i.e. Older Australians who do not own their home (and who are not participants in HOMEX), and whose only income source is Government Pension and Allowances.

The potential benefits of this on the effectiveness of Federal Government expenditure to support payments to older Australians can be demonstrated by way of the following example.

Consider a Federal Government intending to allocate an incremental $500 million (recurrent) expenditure to the betterment of Aged Pensioners. Under current arrangements, with about 2 million Aged Pensioners, the allocation of this expenditure across the group would deliver on average a $9.60 increase in the fortnightly pension payment (based on a single full pensioner rate) or an increase of 2.28%. However, under the adoption of HOMEX, the expenditure could be fully allocated to the 500,000 (approx.) older Australians who do not own their home, and are dependent on Government payments for 90% or more of their income. This would allow a pension payment increase of $1,000 annually or $38.36 fortnightly to these most needy older Australians. This 9.09% pension increase would almost fully offsetting the headline GST rate of 10%.

Those older Australians who own their home but claim hardship entitles them the additional pension payments would be directed to HOMEX as the mechanism to enhance their life stage needs, with the HOMEX program delivering significant benefits including additional monthly “pension payments” of up to a 114% increase in the pension (based on the example provided in the previous section).

What is the impact of HOMEX on the Economy ?

Essentially HOMEX unlocks otherwise passively invested capital (the equity in a pensioner home) so that it can be used for investment and consumption purposes. Through the unlocking of this capital not only are the income and welfare positions of the participating older Australians improved, but the economy and jobs growth are supported as their ability to potentially purchase health and other aged care services will potentially increase the private provision of these services, as a viable economic dynamic will exist (i.e. demand, supply and means to purchase the services).

The propensity for older Australians to spend any additional cash resources is well demonstrated by the recent in retail sales following the Howard Governments June 2001 one off bonus payment, as reported in The Australian Financial Review in an article titled “Pension handout beefs up retail figures”[22] (see attachment A8) :

“*…the retail sales result for June was undoubtedly boosted by the Government’s $300 cash handout to pensioners … The impact of this payment could have been significant on the June retail numbers…*”

The potential to see the efficient and economically viable development of the aged care services sector of the economy is a key and critical issue if Australia is to deal effectively with the impacts of a “greying population” over the next 50 years.

Relieving some of the burden on public and charitable provision of aged care services through a demand driven growth of private sector providers could be a major economic benefit delivered by HOMEX.

How is HOMEX funded ?

HOMEX involves an initial debt funding element by the Federal Government to allow the purchase of homes involved. These funds would be passed to the State Government via the existent Commonwealth – State Housing Agreement. However, due to the structure of HOMEX :

- The amount of initial funding required is about 25-66% of the market value of the homes purchased (dependent on the age and relationship status (single or couples) of the older Australians entering HOMEX),
- The funding would be by way of issue of Government Bonds which would be pre-placed to Financial Services Groups who are already contracted participants in HOMEX (see section titled “What is the Role for Financial Service Groups in HOMEX?),
- The Government Bonds issued will be progressively retired over a time period equivalent to the expected remaining life term of the older Australians participating in HOMEX.

The payment of interest commitments on, and the progressive retirement of, these Government Bonds issued at the initial stage of HOMEX could be funded in one of two broad ways :

1. Public funding.

[22] The Australian Financial Review, 2 August 2001 –“Pension handout beefs up retail figures”- p21.

The public funding structure of HOMEX will require progressive budget expenditure by either the State and / or Federal Government to meet interest and principal repayments on the Government Bonds issued at the initial stage of HOMEX. This would be implemented through the existent Commonwealth-State Housing Agreement as part of the budget allocation (Federal and State) to Public Housing.

To give a sense of the scale of the funding required, for a portfolio of $1 billion of homes (say 4,000 homes each of market value $250,000), sold into HOMEX by older Australians who are male, single and aged 65, the budget expenditure required (covering full interest payments and retirement of debt principal) would be a maximum of $51 million (approx.) in the first year, and thereafter declining each year, with a maximum cumulative principal funding of $209 million - this cumulative peak being reached in the 11th year. At the end of the expected life term of the HOMEX Clients involved all of the initially issued Government Debt would be retired.
(For the same scenario but involving homes of women who are single and aged 65 the budget expenditure required drops to a maximum of $39 million (approx.) in the first year, and thereafter declining each year, with a maximum cumulative funding principal of $220 million - this cumulative peak being reached in the 13th year).

Upon the death of the older Australian participating in HOMEX the State Government could retain the home as public housing, or sell it for its market value and fully recoup (in present value terms) all of the incrementally expensed budget costs of HOMEX for that participant.

2. Private funding.

Under a private funding structure of HOMEX, private investment capital is progressively sourced to meet interest payments on, and retire the principal outstanding of, Federal Government Bonds issued in the initial program phase.

This funding would be achieved by the incremental sale of an equitable interest in the HOMEX Property Portfolio to private investors, and provision of a Government guaranteed rental income stream to those investors. All of these costs would be fully funded within HOMEX resulting in no incremental Government expenditure (in present value terms), and once again, full retirement of the Government Bonds issued in the initial phase of HOMEX.

Under a Private Funding scenario, an equity interest in the homes in the HOMEX Property Portfolio progressively passes to private investors (on a pool basis), but the benefits to the participating older Australians remain till those individuals are deceased.

Potentially up to about 55-60% of the HOMEX Property Portfolio becomes “owned” by private interests, however the State Government retains control of the HOMEX Property Portfolio and also retains the economic benefits of up to 40-45% of the portfolio despite all funding demands having been provided for via the Private Funding mechanism.

What is the role for Financial Services Groups in HOMEX ?

The structure of HOMEX provides for the participation of one or more Financial Service Groups (FSGs) to fulfill certain elements of the program. In each of these roles, HOMEX has been structured to provide remuneration to the participating FSG, consistent with the current market pricing for such activities.

Three core roles exist :

1. Additional Payment Provider.

This role is required in all potential structural versions of the HOMEX and sees the FSG utilize existing product structures to deliver such payments.
From the perspective of the FSG, HOMEX allows the FSG to access (potentially exclusively) a potential market size of up to an estimated $32.6 billion ($14.7 billion in NSW) using an existent financial services product, while a potentially conservative uptake of HOMEX of say 5-10% of the target potential market results in product sales of up to $1.6-$3.3 billion ($0.7-$1.5 billion in NSW).

This large potential market is currently perceived as not existing. HOMEX, and the participation in it by older Australians turns this non-existent market into a crystallized reality of product sales.

2. Private Funding Arranger, Conduit Manager and Lender.

This role arises should the Private Funding alternative for HOMEX be adopted, and utilizes a combination of existing products and financing techniques in a new and innovative synthesis. As a part of this potential element of HOMEX, it is estimated that the FSG will be able to incrementally generate a residential property backed loan portfolio of the order of 70% - 90% of the total funding required from Private Funding sources.

Once again, this market is currently perceived as not existing. HOMEX, the participation in it by older Australians, and the use of the Private Funding mechanism, turns this non-existent market into a crystallized reality of residential property backed loan sales.

3. Program Manager.

With the adoption of HOMEX potential exists for a Government to choose to outsource the program management of HOMEX. In such circumstances, a participating FSG may be the likely choice for the role of Program Manager, potentially attracting fee revenue for the provision of such services.

How do I find out more details about HOMEX ?

HOMEX is a new and innovative structural process and program aimed at serving the needs of older Australians, Governments, Commercial and Private participants in relation to the impacts of an ageing population and the increased demands that this implies.

Third Son Financial Services, is the creator of HOMEX and has created the HOMEX Program Design Document which incorporates the structural design of HOMEX and the detailed HOMEX Financial Model from which the outcomes and key mechanics of HOMEX can be verified. The Program Overview Document (i.e. this document) forms a part of the HOMEX Program Design Document. The financial structure of HOMEX also incorporates “income stream / royalty payments” to the program creator as payment for the usage rights to the HOMEX process and program including usage of copyright and intellectual property that forms HOMEX.

To preserve the intellectual property and copyright in relation to HOMEX and the delivery of the “income stream / royalty payments” to Third Son Financial Services, all interested parties are required to sign a confidentiality agreement with respect to HOMEX, before Third Son Financial Services will provide further details as to the program design and the financial modeling that support the outputs of the HOMEX process and program.

To progress you interest in HOMEX, please contact Third Son Financial Services on 0401 140 106 to obtain a confidentiality agreement with respect to HOMEX.