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Standing Committee on
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SUBMISSION 57

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Economics, Finance and Public Administration
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The Committee Secretary
Standing Committee on Economics,
Finance and Public Administration
Parliament House
Canberra ACT 2600

**INQUIRY INTO IMPROVING SUPERANNUATION SAVINGS
OF PEOPLE UNDER AGE 40**

Dear Committee Secretary

I'm a young 29 year old saving for my first home in the western suburbs of Sydney.

Many people my age just don't have any extra money to save in super until their mortgages are paid. From my experience and listening to others, saving a deposit and paying off their house is first priority and saving for super is a distant second, with no real timeframe.

My submission is based on the argument that saving for superannuation is impossible due to many under 40's taking out massive mortgages, and sacrificing savings and children, etc just to own their own home.

Owning a house

When leaving university in 1998, a house in my street sold for $280,000. Using this as a benchmark, my plan was to save for 5 years at which I would have about $35,000 as a 10% deposit for a house in the area, of roughly $350,000 allowing for a 5%p.a. increase in value. By 2003 I had reached my savings goal of $35,000 but a similar house next door sold for $545,000. Unfortunately if I had borrowed to the maximum I still would have required a $200,000 deposit, meaning another 10 to 12 years of saving to buy the same house.

My point here is that in principal - paying off a house for 20 years and saving for 20 years has now changed to 30 years paying off the house and 10 years of saving for retirement. As compound interest is an exponential function, my ability to add extra funds to super has been savagely eroded.

The major cause of this price inflation was due to ever increasing investors in the real estate market between 1998 and 2003. Baby boomers rushed in and brought forward future prices to now by borrowing. Meaning they have profited at the expense of our future savings.

To boost savings, government should look at removing and changing incentives to investors to flatten house prices to a sustainable level. e.g. 5 times average yearly earnings. Whereas they currently stand at 9 to 10 times average yearly earnings. A system similar to how they curb inflation by raising interest rates would be useful.

If house prices made up a bigger proportion of the CPI index over the past 10years, I believe interest rates would have risen over that period (1998 to 2003) to curb the booming price rises. Hence this situation may not have eventuated.

Age Pension - Assets Test exemption for housing

Given our countries ageing population, the older generation will be drawing ever more pensions from government coffers. One area that could help reduce house prices for younger people and save the government considerable money now and into the future is the removal of the exemption of housing under the assets test for the age pension.

For many baby boomers about to retire, they would be looking at everyway of getting a full or part pension. For those who take their super and upgrade their house by adding on a new room, or by moving to a higher price suburb, means that instead of funding their own retirement, they are passing the buck onto the younger generation who are still paying extra taxes instead of saving.

A case that highlights this ridiculous exemption is that of a NSW department of housing tenant with $90,000 in an allocated pension. Under the income test the tenant would only receive a part pension. Yet a neighbour with a $500,000 property with no other assets can receive the full pension. It would be obvious to anyone with commonsense too stash their super savings back into their house and let the government pay their pension. Or should that be me paying !!!!

By having owner occupied residences assessed under assets and maybe income tests, the incentive to stash their super savings into housing will disappear, and may help reduce upward pressure on house prices. The policy would also force the older generation to draw down on their capital using reverse mortgages and allow younger people to pay less tax and provide the opportunity save more through tax cuts.

Access to Superannuation to pay Mortgage

Access to employer contributions from superannuation to pay for mortgages repayments, I believe is a wrong move.

By accessing super would be moving valuable income producing assets into non-income producing assets. Essentially the problem we have now.

It would also mean an instantaneous step up in prices due to extra cash available, and the ratio of house price to yearly earnings, would increase further. The only gain is to those who already own a home. For those renting, and about to buy, they will not be able to pay off their future home any faster using super as they will have to borrow even more due to the step up in prices. Hence those who "have" now would "have more".

All super money should not be allowed to be used on Non income producing assets.

Summary

- For many of my age group on middle incomes, superannuation has no real priority, and I don't believe that any incentives introduced would change this, given our large mortgages.

- The co-contribution is an excellent idea, but only for those on low incomes.

- I believe carers should receive some sort of compensation in the way of a super contribution for sacrificing their career to care for their disabled children or partner on a 24/7 basis.

- To increase savings into superannuation, a reduction in time spent paying mortgages in a young persons life would provide the greatest results.

    As an example - Paying off a $400,000 mortgage over 30 years can take only 16 years at the same repayments ($2594/m) if $300,000 is borrowed, meaning 14 extra years can be used to save for retirement.

    If the repayments were then invested at $2594/month over 14years at 7% p.a. this would result in $728,000. A massive saving !!!!!!!

- Unfortunately I cannot see many retirees giving up a 30% price drop in their own home, though they didn't mind when prices doubled and we saw our future savings disappear into ever increasing mortgages.

I hope my perspective as a young person saving for my future can contribute to this important debate.

Your Sincerely

Christopher Moore