Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 7

Topic: **First Home Saver Accounts**

Hansard Page: **Written**

Senator Payne asked:

1. How many First Home Saver Accounts is it expected will be opened this year?
2. Has any modelling been done on expected take up rates?
3. If this money is transferred into a superannuation fund. Will there be a contribution tax charged?
4. Minister Plibersek stated in the second reading of the *First Home Saver Accounts Bill 2008* on 2 June 2008, that $6.5 billion would be secured in savings accounts by 2012. How was this figure calculated?
5. If a young person applies to their superannuation fund to access the funds, will the criteria for release be different for the FHSA funds tan their usual superannuation? What is the person does not have a superannuation fund?
6. What are the tax consequences of a couple separating who may have previously combined their FHSA incomes?
7. Have there been any steps taken to ensure that investment linked FHSA's do not lose value as they are not capital guaranteed?
8. Has the department analysed the potential risks of a short-term investment, superannuation-style account?
9. Has Treasury modelled the possible effects of first home savers losing the capital of their investment in these accounts?
10. What impact does the number of financial institutions offering the FHSA have on the overall success of the scheme?
11. How many institutions does the Government project will offer the FHSA?
12. Does the FHSA have the potential to put upward pressure on prices?

Answer:

1. Take-up of accounts and contributions levels are highly uncertain. There is no savings vehicle similar to FHSAs that existed previously, consequently it is difficult to accurately predict individual behaviour.

After considering existing savings behaviour and the rates of purchasing first homes Treasury estimates 220,000 people will contribute to FHSAs over the first year. This is estimated to grow over the first four years, before reaching a steady state of 730,000 contributors a year.

On this basis, estimates of take-up numbers over the first 4 years of FHSAs commencing:

	Total Savers
2008-09	220,000
2009-10	415,000
2010-11	575,000
2011-12	730,000

This can be compared to an estimated one million savers for their first home. This estimate is consistent with the estimate in Kelly and Toohey (2002) that 35 per cent of 25-34 year olds are saving for housing.

2. Refer to answer provided for question 2

3. A contribution from an FHSA to superannuation will be treated as a non-concessional contribution and will generally not be taxed when contributed to superannuation.

However, the non-concessional contribution cap will apply as normal and if the person breaches their cap, the excess non-concessional contributions tax will apply.

4. Take-up of accounts and contributions levels are highly uncertain. There is no savings vehicle similar to FHSAs that existed previously, consequently it is difficult to accurately predict individual behaviour.

The $6.5 billion consists of estimates for accumulated personal and Government contributions and investment earnings less fees and taxes over the 4 years.

To obtain estimates of personal and Government contributions, estimates of take-up rates and contribution rates were formulated based on apparent savings behaviour and rates of first home purchase.

The motives for contributing to FHSAs will differ between individuals. Some individuals will contribute significantly to FHSAs, whereas some will only contribute the $1000 a year that is required for a year to be counted toward the withdrawal requirement of saving at least $1000 in each of at least four separate financial years.

Estimates on take-up numbers are consistent with an estimated one million people saving for their first home by Kelly and Toohey (2002).

5. There will be no early release mechanism under the First Home Saver Accounts framework. Instead, individuals may choose to contribute their FHSA balance into superannuation, so that their FHSA funds becomes part of their superannuation balance, and then seek early release of part or all of their superannuation balance from the fund trustee. The criteria for early release of superannuation will not differentiate between money contributed to superannuation from an FHSA and that contributed from another source. FHSA funds will be treated in the same manner as all non-concessional contributions.

There is no requirement for an individual to have a superannuation fund before opening an FHSA. If an individual does not have a superannuation fund but wishes to contribute their FHSA funds into superannuation, the individual may apply to the superannuation fund of their choice to become a member of the fund.

6. FHSAs may only be opened individually. Joint accounts will not be allowed. Where there is a relationship breakdown, the balance in an individual's FHSA may be split and either paid into to an FHSA held by the individual's partner, or paid into the superannuation fund of the individual's partner (where it will become part of the partner's superannuation balance).

Tax will generally not be payable by a recipient partner.

7. By providing choice to account holders, individuals will be able to choose the FHSA which best reflects their needs and risk profile.

APRA will be responsible for the prudential regulation of First Home Saver Accounts. This includes ensuring providers offer investment options which are suitable for the nature of First Home Saver Accounts.

FHSA Product Disclosure Statements must comply with the requirements of the Corporations Amendment Regulations (No. 4) 2008 and other relevant provisions of the Corporations Act 2001.

The FHSA disclosure regulations require providers to disclose the composition of the investments of the product, the nature of the return that the product may generate, and the current rate of return for the product after tax (or information about how the rate is calculated or where the rate can be found). In addition, providers must disclose summary information about the reasons why the balance of the product can decrease (if the product is not capital-guaranteed), as well as a summary description of the likelihood of that decrease (for example, if the product is 'low risk').

Where consumers are advised to invest more than $15,000 in a market-linked FHSA product (as opposed to a capital guaranteed product) the consumer must be provided with a Statement of Advice (SOA).

The FHSA product disclosure is designed to be concise, readable, and easily understood, providing the consumer with the information they need to choose the product that best suits their needs.

8. In developing the investment rules for FHSAs offered by superannuation funds, consideration has been given to the potential risks associated with investment-linked FHSAs.

Investment-linked FHSAs differ from other products such as superannuation and life insurance. FHSAs are likely to be much shorter term investment products than superannuation and have less predictable withdrawal patterns. In addition, given that the purpose of FHSAs is to save for a first home, account holders are likely to have a greater aversion to risk and lower tolerance for capital losses, relative to holders of superannuation and life insurance.

For this reason, principles based investment rules will apply to investment-linked FHSAs offered by trustees and life insurance companies to ensure that FHSA investments reflect the purpose and nature of the accounts. These rules will not apply to accounts that are offered by banks, building societies and credit unions as these must be capital-guaranteed and do not carry the same risks as investment-linked accounts. If life insurance companies offer capital-guaranteed FHSAs, these also will not be subject to investment management requirements.

In addition, APRA's Prudential Standards emphasise the requirement for FHSA trustees to consider the short-term nature of FHSAs when formulating investment strategies.

9. Treasury has not modelled the possible effects of FHSA holders losing investment capital, as it is not possible to create accurate modelling of the possible performance of all FHSA holders' investments over time; it is also not possible to accurately model the effects on each FHSA holder of any losses. A number of variables affect the likely performance of investment-linked FHSAs, particularly the investment strategy selected by the account holder and the account provider (within the investment management parameters in the Act) and the investment climate during the time they have held an FHSA. Additionally, it is not possible to model the effect of any capital losses on FHSA holders because there are significant differences between FHSA holders' financial circumstances, the local housing market and the type of first home they would wish to purchase.

Although no formal modelling was conducted to assess the possible effects of capital loss from individuals' FHSAs, consideration has been given to the potential risks of capital loss from FHSAs when developing the investment management rules.

A range of financial entities will be able to offer these accounts, including authorised deposit-taking institutions (ADIs), life insurance companies and trustees.

Individuals will have access to capital guaranteed options offered through ADIs. These will be provided as deposit accounts, which provides lower risk for the account holder. Other providers are also able to offer capital guaranteed products.

In addition, trustees and life insurance companies may offer FHSAs as investment-linked products. Potential account holders may choose to open an FHSA with an entity that offers a product that is appropriate for their circumstances, including their timeline for saving for a first home and their appetite for risk.

10. A breadth of providers offering different types of products will give consumers choice and availability of competitive products.

11. The Government has not made a prediction as to the number of FHSA providers.

12. The Australian Government recognises that rising house prices and rents have increased financial pressures on households and made it harder to purchase a first home. In order to address this problem, the 2008-09 Budget provides $2.2 billion over four years to boost housing supply and assist those most in need; namely, first home buyers and renters on low incomes.

First Home Saver Accounts are a part of the Government's policies to increase affordable housing which include a number of supply side measures. These policies include:

a $500 million Housing Affordability Fund;

the identification of surplus Commonwealth land which could be developed into additional new housing;

a National Rental Affordability Scheme; and a National Housing Supply Research Council, which will examine the adequacy of housing supply over the next 20 years.