Actuaries Institute.

More Than Just a Roof:

Changing the Narrative on the Role of the Home

Dialogue Paper
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About this Paper

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The Australian community is currently dealing with a chronic housing shortage, soaring prices, and a rental crisis that is rightly receiving widespread attention. In response, numerous new policies are being pursued to improve the supply of housing (especially 'affordable housing'), and there is a resurgence in calls to allow working-age Australians to use more of their superannuation to buy a home.

There have also been some recent concerns about the product disclosures and fairness of some housing related products being used by retirees, either as affordable housing solutions or to draw upon to help fund their lifestyle.

While housing affordability is a fundamentally important issue, including for retirees, the main focus of this Dialogue Paper is on the underappreciated role of the home in helping to fund retirement. It also discusses how policy settings could be reformed to improve the equity and sustainability of our retirement income system for the benefit of current and future generations of retiring Australians and, by doing so, help manage some other societal and budget challenges.

Another important and related topic is how to sustainably fund aged care into the future, which is currently being considered by Government following the Aged Care Taskforce Review. The appropriate funding, means testing and integration of aged care with the retirement income system will be left to a future paper.

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1. Executive Summary

Like many countries, Australia is facing an ageing demographic where a wave of baby boomers is now entering the retirement phase and living much longer than previous generations. To meet this challenge, Australia has developed a three-pillar retirement income system including government support, compulsory Superannuation Guarantee (SG) contributions and voluntary private savings. This is increasingly supplemented by additional sources of income that retirees can draw on such as salaries and wages from part-time work.

While the Australian superannuation system is one of the most successful in the world, it is still maturing. It will take another decade or two before most working Australians will have had compulsory superannuation contributions of 9% or more throughout their working lives when they retire from full-time work.

An important part of voluntary private savings is the family home, with more than 80% of people currently aged 65 to 74 living in their own home (AIHW, 2023). However, many people don't view their own home as a financial asset. In reality, it not only provides 'a roof over your head' and avoids significant rental costs, but it also often helps to finance any future aged care needs and is frequently left as a bequest to the next generation. Supporting this 'nest egg' mindset is the fact that homeowners enjoy significant tax and other concessions, including exemption from the means tests for Age Pension eligibility.

Yet it is also true that many 'asset-rich, cash-poor' retirees live more frugally than they need to. For these retirees who own their home but have insufficient superannuation or other liquid savings, perhaps the home should be treated and used more like any other financial asset to help fund their desired lifestyle, as long as there are appropriate consumer safeguards in place. So, is it time to reconsider the role of the home as a separate fourth pillar of our retirement income system?

All of this underscores the important and interdependent relationship between the home, superannuation, and the Age Pension when considering retirement outcomes. A conversation on reviewing various policy settings across these areas to create a more equitable and sustainable retirement landscape needs to start now.

Key areas of reform to focus on in relation to the retirement phase include:

- changing the narrative, so that it is more acceptable to access and spend part of the equity that has been built up in the home;
- improving financial literacy, especially in relation to retirement and longevity, so that retirees understand how they could use their accumulated assets to live a better life in retirement while still managing the various risks;
- ensuring we have strong disclosure requirements and consumer protections for the range of home equity release and related products, including "debt type" products, to improve the level of community understanding and expectations for these products;
- improving equity in the system for renters to make renting more affordable, especially in retirement;
- addressing the financial disincentives to access part of the wealth stored in the home, such as removing or refunding some of the frictional costs associated with downsizing and changing the means test treatment of the proceeds from sale; and
- reducing the incentives to store wealth in the home, such as gradually including the value of the home above a reasonable threshold into the Age Pension means test.

An important by-product of some of these reforms would be to improve the supply of more appropriate (and potentially more affordable) housing stock that is suitable for families and other working Australian households that is currently locked away for use by single or couple retirees.

2. Housing's Place in Retirement

2.1 The Purpose of Superannuation

In November 2023, the Government introduced the *Superannuation (Objective) Bill* 2023 to enshrine the objective of the Australian superannuation system into law:

> "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."

While this clarification is welcome and will provide a useful guide for any policy changes that are proposed in the future, there are a few points that we should remember about the Australian retirement income system.

Firstly, as with most other OECD countries, there are multiple pillars to our retirement income system:

- government support, including the means-tested Age Pension and its supplements, Commonwealth Rent Assistance (CRA), and subsidised health and aged care;
- compulsory SG contributions, which are tax advantaged and preserved until retirement in a complying superannuation fund; and
- voluntary private savings, including voluntary superannuation, other savings and investments outside superannuation, investment property as well as the primary residence (or 'the home').

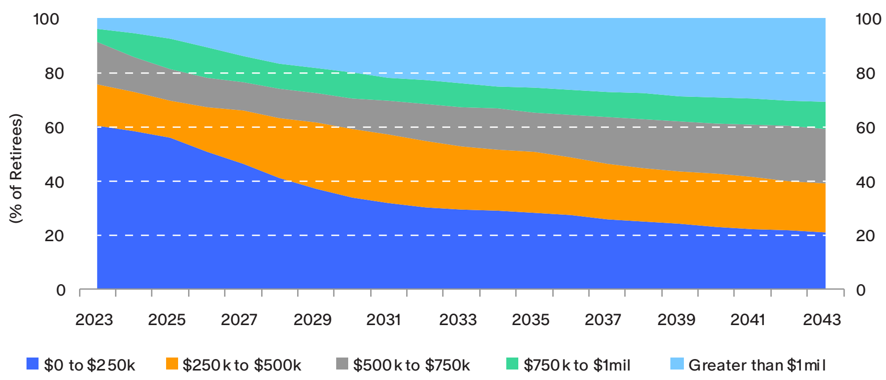
Secondly, the compulsory superannuation system is still maturing. The SG commenced in 1992 at 3% of a person's earnings (or 4% for employers with an annual payroll above $1 million), increased to 9% from 1 July 2002 and is scheduled to reach 12% from 1 July 2025. It will take another decade or two before most employees retire having only experienced superannuation contributions of 9% or more for all of their working lives.

Thirdly, like many countries, Australia is facing an ageing demographic where a wave of baby boomers is now entering the retirement phase, and they are living much longer than previous generations. There are just over 3 million Australians who are currently aged 55 to 64.

Further, while around 60% of current retirees have less than $250,000 in superannuation 'at retirement', this percentage is expected to decrease to around 20% over the next 20 years as the compulsory superannuation system matures (Boal & Somerville, 2023) (see Figure 1).

> "around 60% of current retirees have less than $250,000 in superannuation 'at retirement'."

Figure 1: Proportion of superannuation balance ranges at retirement



This maturing of the superannuation system is also expected to drive a reduction in the cost of the Age Pension from 2.3% to 2.0% of Gross Domestic Product (GDP) over the next four decades (Commonwealth of Australia, 2023b). Indeed, when compared with many other OECD countries, the cost of the Age Pension is expected to be sustainable over the longer term and allows a degree of flexibility in adjusting some other policy settings.

However, until the system fully matures, a large number of retirees will continue to retire with insufficient superannuation to meet their retirement spending needs. As a result, helping Australians to plan for their retirement has never been more important, especially for those whose superannuation savings alone won't be enough.

As called for by actuaries Andrew Gale and Stephen Huppert in their recent Dialogue Paper, *Retirement Matters* (Gale & Huppert, 2023), we should no longer talk about a three-pillar retirement income system. Is it time to give more voice to the role of the home as a financial asset and how it should continue to evolve?

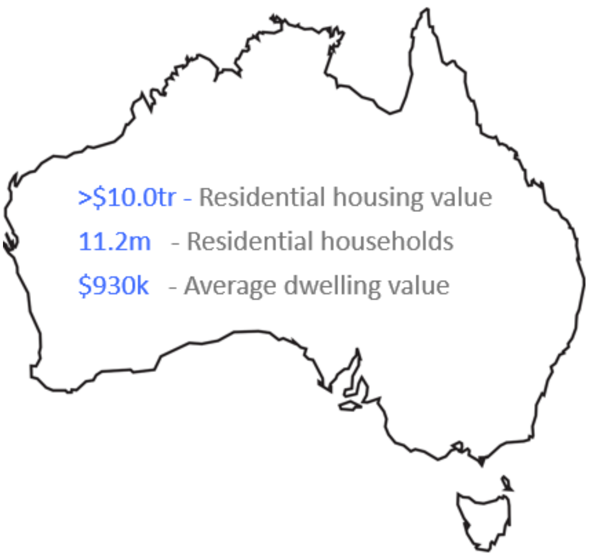
2.2 Unlocking Housing Wealth

In 2016, the Actuaries Institute published a Green Paper titled *Unlocking Housing Wealth – Options to Meet Retirement Needs* (Actuaries Institute, 2016). One key finding of that report was that:

> "for current retirees the family home is not only a place to live, but also a store of considerable, though relatively untapped, wealth."

Indeed, according to Deloitte, the residential real estate market in Australia now exceeds $10 trillion with an estimated $1.3 trillion of available equity held by retirees in housing.

Figure 2: Retirees have more than $1.3 trillion in housing equity[1]



Housing vs Superannuation Balances

- Average household value of c $930k
- Average superannuation balance (estimated)
  - Age 60-64: c $540k (average per household)
  - Age 60-64: c $300k (median per household)

Addressable Equity Release market potential

Breaking down the total $10tr housing value by retiree households, and those that would be eligible for equity release, we estimate that:

- $1.3tr of available equity held by retirees in housing
- $300bn of this is the potential market (adj. for LVR)

Current estimate is only c1-2% of this is being accessed i.e., Current lending is c$3-4bn vs addressable market of $300bn.

In addition, as noted by the Retirement Income Review (Callaghan et al., 2020):

> "outright home ownership supports retirement income by reducing ongoing expenses and acts as a store of wealth that can be accessed at retirement."

The Actuaries Institute Green Paper went on to propose six key principles that should underpin any policy changes that increase access to home equity:

- sustainability, which will require a shift in the mindset of retirees to also recognise their home as a financial asset;
- flexibility, especially in relation to when people decide to stay or leave their home;
- equity, so that the wealthy do not receive (pension) benefits meant for the disadvantaged and distortions between asset classes are removed;
- efficiency, to ensure that public expenditure is not wasted;
- simplicity, so that the need for advice is limited and is affordable when it is needed; and
- supportive regulatory frameworks, to foster both competition and consumer protection.

However, the Retirement Income Review also found that retirees tend to avoid using housing wealth to fund their retirement even when they are asset rich and income poor, despite various home equity release schemes being available.

[1] Actuaries Summit presentation, *Equity Release – The 'Other' Retirement Option* by James Hickey and Tim Barron, May 2024. Reproduced here with the permission of the presenters.

There are three main types of schemes, each with different terms and conditions, risks and considerations.

- Government initiatives like the Downsizer Super Contributions Scheme and Home Equity Access Scheme (HEAS) (Services Australia, 2023).
  - The Downsizer Super Contribution Scheme allows people 55 years and older to contribute up to $300,000 from the proceeds of the sale of their home into their super fund (and up to $600,000 for a couple). This allows people to 'top up' their super fund to support a higher level and/or longer period of drawdowns from their superannuation fund.
  - The HEAS allows people of Age Pension age or older to obtain a loan from the Government in return for the Government being entitled to a repayment of the loan, with interest. It is, in effect, a reverse mortgage with the Government as the lender and is therefore a debt type product. The loan can be repaid at any time and no later than from the proceeds of the person's estate. It has a no negative equity guarantee.
- Privately provided reverse mortgages. These operate similarly to the Government's HEAS, although they will have different terms and conditions. They are therefore also debt type products.
- Privately provided equity type products. These operate with the person receiving an amount of money from the provider in return for guaranteeing the provider an equity share in their home, to be paid at the time of sale or as otherwise agreed.

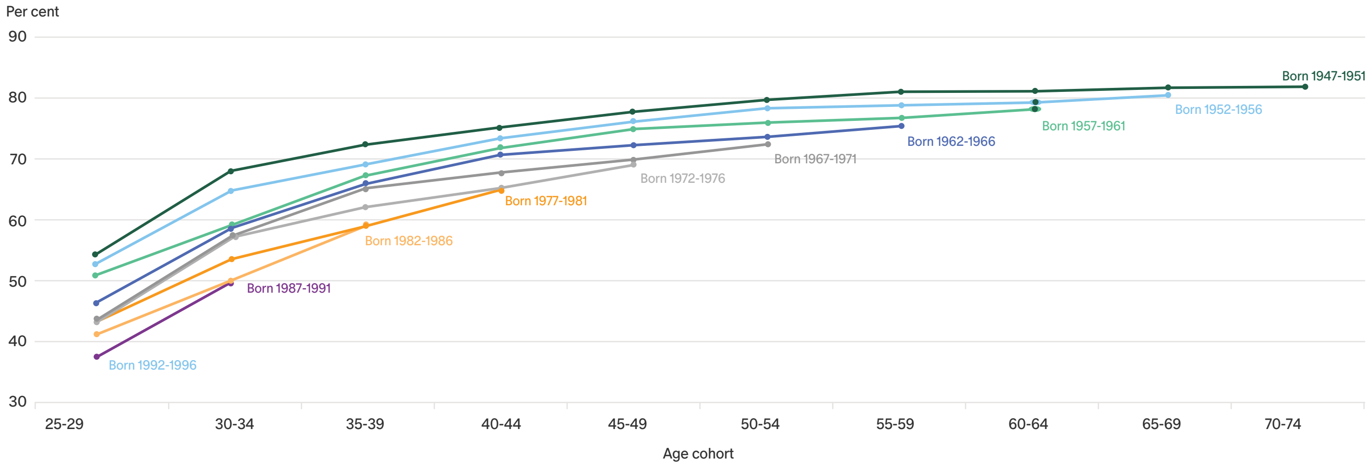
2.3. Home Ownership Trends

There has been much discussion recently about housing affordability and recent trends in home ownership. The latest Intergenerational Report (Commonwealth of Australia, 2023b) found that:

> "home ownership can no longer be taken as a fait accompli, as younger (and lower income) Australians struggle to break into the property market at the same rate as previous generations."

In fact, home ownership amongst 30–34-year-olds has fallen from 68% in 1981 to under 50% in 2021. For 35-39-year-olds, it has dropped from 74% to under 60%. In fact, right across the working age spectrum, from age 25 to 64, the proportion of people living in their own home has declined over the past 40 years (AIHW, 2023).

Figure 3: Proportion of people living in their own home



Source: Australian Institute of Health and Welfare.
Note: It should be noted that some people own a home but rent themselves. Around 4 per cent of individuals aged 30 to 39 are in that situation.

In addition, even for those that do own their home, as noted by the Grattan Institute, more people are entering the retirement phase with a mortgage than 30 years ago. Indeed, around 9% of homeowners aged 65 and over still had outstanding mortgages in 2015-16, compared with just 4% in 1995-96, with a median outstanding mortgage debt of $84,000 (Daley & Coates, 2018).

Some of the reasons contributing to these trends include higher property prices relative to income, more people staying in formal education for longer, thereby delaying their entry into the full-time workforce, later entry into home ownership and the subsequent inability to pay off their debt before retirement, and the relatively favourable tax and other concessions afforded to home ownership. These trends are something we will need to keep an eye on, in addition to the need to consider the equity of how renters are treated relative to homeowners in retirement.

3. Have One's Home and Spend It, Too

3.1 Asset Rich but Cash Poor

There are many stories about retirees who are 'asset-rich, cash-poor', such as those who are living in valuable homes yet living a very frugal lifestyle as they have accumulated limited savings for retirement and hence rely heavily on the Age Pension.

Meet Betty, an asset-rich, cash-poor retiree

Betty is an 80-year-old widow who resides in inner suburban Sydney in the family home bought 50 years earlier. Given recent rises in property values in the area, it is now worth $4 million. Betty has no other assets and relies fully on the Age Pension. She is a classic case of being asset rich and cash poor, but Betty doesn't want to move out of the family home and the area she has lived in for 50 years.

Betty has two children, aged 53 and 57, who she wishes to leave the family home to. Both children have had successful careers and have built up considerable wealth for themselves, including substantial superannuation savings and investment portfolios. Neither child directly supports Betty other than visiting regularly and meeting for meals. Betty is too proud to ask for financial support, although both children can see the deterioration in the condition of the family home and the frugal lifestyle Betty leads.

Betty has heard about home equity release schemes but does not seek advice and so remains unfamiliar and unaware of how one might help her. Betty worries that a home equity release product means she will not be able to leave the home to her children, that she will be left without a place to live or have to move to an unfamiliar house or suburb. She is also concerned about the potential impact of a home equity release product on her Age Pension entitlements, again unaware of how it will be treated, and so Betty decides not to release any equity from her property and continues to rely solely on the Age Pension whilst her property continues to grow in value.

With proper advice and a better understanding of her options, Betty could have used a home equity release scheme to improve her income and her current lifestyle in retirement whilst ensuring that she retained enough equity in the family home which, in time, could be used to fund aged care if needed. Betty could have discussed her circumstances with her children who do not need an inheritance given their circumstances.

Betty is within the group of retirees that could benefit significantly from being able to access part of their home equity efficiently. So what is stopping her, and others like her?

3.2 "It's Untouchable" – Changing the Narrative

The tax-free status and exclusion from the social security means test makes home ownership highly attractive from a financial perspective. However, because home ownership is also about lifestyle and security (especially given how insecure renting can be in Australia), it is also highly emotive.

Part of the value of the home is the certainty it provides in having 'a roof over your head' and the shelter and comfort it provides. There can also be a strong emotional attachment to the family home, local community and family networks that have been established over many years living in the same home and in the same area.

At the same time, there is also the financial security the home provides in relation to things like the uncertainty associated with funding any future health and/or aged care needs later in life. As a result, there has historically been a natural aversion to having debt in retirement which may reduce the financial security provided by the home. Internationally, studies have found that indebtedness adds to psychological distress, with the impact being more profound for older debtors who have less ability to recover from financial shocks (Hiilamo, 2022).

In addition, there is still also a strong bequest motive and desire to leave the home to the next generation. This is despite the fact that, with increasing longevity, many children are in or approaching retirement themselves by the time they inherit the family home.

In a Productivity Commission survey, 71% of respondents said they saw the family home as a safety net for adverse events, and 44% said they wished to pass the family home on to their children (Productivity Commission, 2015). An aversion against using the often-considerable equity in the family home to help partially fund retirement is keeping many people in an 'asset-rich, income-poor' trap.

Yet, if there is such a strong desire to help the children, might it be better for this assistance to take place earlier when the children are in most need (i.e., when they themselves are looking to get on the property ladder), even if it means entering and living in retirement with some debt on the home?

So, if we are to help retirees to improve their standard of living in retirement, we need to change the narrative so that it is more acceptable to access and spend part of the equity that has been built up in the home.

Much of this will come down to how we engage the community in discussions about superannuation and wealth, as well as the role of the home, when planning for what could be 25-30 years or even longer in retirement. This will involve changing the 'nest egg' mentality to one in which retirees are encouraged to gradually drawdown and spend their superannuation savings and, where appropriate, some or all of their other financial assets such as the home.

Enhancing the quality of financial education and guidance, as well as the affordability of financial advice to retirees, would be a good first step, with many retirees not across the ways they can more effectively utilise their superannuation savings and access part of the equity in their homes to improve retirement outcomes.

It would therefore be beneficial if we provide public information and education about accessing home equity to improve retirement outcomes for those retirees who own their home but have insufficient superannuation and other more liquid savings or investments to fund all their desired retirement living expenses.

3.3 Reducing Downsizing Costs

There is considerable 'red tape' and transactional effort required in the sale and purchase of a home. On top of that, there are significant frictional costs, such as stamp duty and legal and moving costs, which discourage people in or approaching retirement from downsizing.

On top of that, there might not be suitable alternative homes available in their own neighbourhood or at a suitable price point to downsize. This creates a difficult choice of having to move to an unfamiliar area with less access to the community they have already established themselves in.

Removing (or refunding) frictional costs such as stamp duty, even for targeted transactions such as for people over age 55 who are downsizing to a smaller home, could facilitate an increase in downsizing activity. This would provide the retirees with more spending capital and also increase the supply of larger homes for younger families with children.

Of course, there are alternative revenue sources available to government such as transitioning to a land tax instead of stamp duty. For example, more than a decade ago, the Australian Capital Territory (ACT) implemented a gradual 20-year reform to phase out stamp duty and to replace it with a land tax instead (ACT Revenue Office, n.d.).

"We need to change the narrative so that it is more acceptable to access and spend part of the equity that has been built up in the home."

3.4 Age Pension Treatment of Home Equity From Downsizing

One option worth considering is relaxing the Age Pension means testing rules for at least a portion of the value released from a protected asset, like a family home. At the moment, many retirees live more frugally than they need to by not downsizing, with the Government then paying a higher Age Pension amount than otherwise. It is effectively a stalemate, with the by-product of a certain amount of desirable housing stock locked away from families and instead used by single or couple retirees.

Under the current rules (DSS, 2024), amounts released from a protected asset (i.e., the home) are included in the means tests for the Age Pension, with the following exceptions:

- The first $40,000 of a loan (e.g., reverse mortgage) is excluded from the assets test for 90 days, after which any unspent amount will be counted. Hence, such drawdowns are best done for specific purposes as and when needed. Indeed, some equity release schemes avoid this problem by 'drip feeding' the equity release so that it is consumed and not therefore taken into account by the means test. However, if the retiree spends some of this money on an asset such as car, it may still be counted in the means test.
- If you sell your home, the proceeds are exempt for up to 12 months if you plan to use them to buy, build or renovate another home. Any unspent capital amount released by downsizing into a less expensive home is counted towards the means tests.

Consistent with the 2016 Green Paper (Actuaries Institute, 2016), the means test exemption could be maintained on a portion of the home equity that is released on the sale of the home. The protected amount could be (say) $300,000 per person ($600,000 for a couple) and would be excluded from both the assets and income tests.

This could be achieved by ring fencing the protected part of the released equity through some form of designated account or maintaining a record of released equity which is adjusted in value over time. Alternatively, the exemption could apply only if the protected amount is used to purchase certain lifetime annuities or similar longevity protection products within a 12-month period.

Such an approach would encourage (not discourage) greater access to home equity for spending in retirement, as it removes the disincentive for many people in or approaching retirement who would otherwise lose a significant part of their Age Pension due to the increase in their assessable assets. At the same time, this would improve the supply of more appropriate (and potentially more affordable) housing stock.

3.5 Improving Access to Home Equity Release Schemes

The means test exemption could also be maintained on amounts that are accessed through a home equity release scheme (e.g., a reverse mortgage).

Further, any equity released from property should be eligible as a downsizer contribution, enabling a broader range of approaches to compete on a level playing field and allowing super funds to play a more active role in this segment.

From 1 January 2023, the eligibility age for downsizer contributions was reduced to age 55 (ATO, 2024). This means that individuals who are aged 55 or over and have recently sold their home may be able to make a voluntary superannuation contribution of up to $300,000 per person ($600,000 for a couple) from the proceeds of the sale (eligibility criteria apply). Downsizer contributions **do not** count towards the contribution caps, and the work test doesn't apply. This opportunity could also be extended to amounts released through an equity release scheme (e.g., a reverse mortgage) up to the same cumulative limits.

It should be noted that there are various consumer safeguards in place for different types of equity release schemes, particularly for "debt type" products such as reverse mortgages, that help to manage the illiquid nature of the home as a financial asset which:

- ensures security of tenure;
- facilitates standard, simple disclosures that are well understood by consumers; and
- guards against the risk of financial abuse of older Australians.

On the other hand, "equity type" products, where the institution takes an ownership or equity position in a proportion of the home instead of providing a loan, are not necessarily regulated by the Australian Securities and Investments Commission (ASIC) as they are not a credit (debt) product. In effect they are regarded as a real estate transaction and, as a result, come under state / territory-based consumer protections which may not be at a consistent level with that of ASIC regulated "debt type" products such as reverse mortgages.

Given the recent concerns around product disclosures and fairness of "equity type" housing products for retirees, it would be an opportune time to improve the level of consumer protections for these products to be more in line with "debt type" products while also improving the level of community understanding and expectations for these products.

4. Improving Equity in the System

4.1 Australia Especially Values Home Ownership

For well over a decade, numerous experts have called out the special treatment of the home as contributing to inequitable outcomes for older Australians and structural problems in Australia's housing market, including the Henry Tax Review in 2010 (Henry et al., 2010), the Productivity Commission in 2015 (Productivity Commission, 2015), the Department of Social Security in 2016 (Commonwealth of Australia, 2016), the Retirement Income Review in 2020 (Callaghan et at., 2020) and the Reserve Bank in 2021 (Lowe, 2021).

Special Treatment of the Home

In 2010, the Henry Taxation Review supported a cap on the exemption from the assets means test of the principal residence (the home). It argued that there is a primary role of housing in providing shelter, but beyond this basic function, housing represents an asset that people purchase with an expectation of generating a future return. At the time, Henry estimated that a cap of $1.2 million would result in approximately 10,000 Age Pension recipients facing assessment. Subsequently, using 2018 data, the Retirement Income Review found that 15% of Age Pension recipients live in homes worth more than $1 million and 5% in homes worth more than $1.5 million.

In December 2015, the Productivity Commission published a report entitled *Housing Decisions of Older Australians*, which found that:

> "The family home now has an ingrained role in Australia's retirement savings and income system. Nevertheless, its exemption from the Age Pension means test creates an incentive for over-investment in principal residences, discourages downsizing and generally reinforces the perception that the family home should not play a role in the retirement funding mix. In effect, by giving home ownership a special status, the means test distorts and constrains the range of accommodation and retirement income choices of older Australians. The exemption is also inequitable — it favours home owners over non-home owners, who are typically less wealthy and possibly in greater need of assistance.
>
> "The Commission conducted illustrative and simplified analysis to investigate the effect of setting a cap on the principal residence exemption on eligibility for the Age Pension. Importantly, this analysis is only intended for indicative purposes and does not represent a comprehensively designed policy proposal... More fundamentally, it would provide a much needed signal from the Australian Government that the home is an asset that can be drawn upon by older Australians."

In December 2016, the Department of Social Service (DSS) published a Discussion Paper on the social security means testing of retirement income streams.

> "The primary policy objective of the means test is to equitably and fairly target income support to those people who are most in need. This helps to ensure that the system remains sustainable, both fiscally and in terms of community support.
>
> The means test also represents an expectation that people will draw upon their own income and assets to support themselves in retirement. The means test functions to assess a person's overall capacity for self-support and target social security expenditure according to need."

In 2021, the then Reserve Bank Governor Philip Lowe said that Australia should look at "the design of our taxation and social security system" as a structural cause of surging house prices.

As noted earlier, right across the working age spectrum, the proportion of people living in their own home has declined over the past 40 years. This trend is something we will need to keep an eye on. If more people are renters in retirement, it will be much more important to consider the equity of how renters are treated relative to homeowners in retirement.

In January 2023, the Productivity Commission released its annual *Report on Government Services* which found that almost half of all CRA recipients were still in rental stress (spending more than 30% of their gross income on rent) (Productivity Commission, 2023). In response, in its May 2023 Budget, the Federal Government announced that the maximum rate of CRA would be raised by 15% from September 2023 (to around $4,400 per year for a couple) (Commonwealth of Australia, 2023a). The median annual rent, however, was around $30,000 per year. A further 10% increase was announced in the May 2024 Budget which "will take maximum rates over 40% higher than in May 2022" after allowing for the indexation increases as well (Commonwealth of Australia, 2024).

New incentives have also been introduced for the private sector to undertake build-to-rent projects consisting of 50 or more dwellings, as well as additional support for the building of affordable and social housing.

The Federal and State governments are also considering a list of further changes for renters (such as a limit of one rent increase a year and minimum standards for renters, and even a two-year rent freeze followed by a cap on future increases linked to the Consumer Price Index (CPI), and a blueprint to speed up the construction of much needed affordable housing.

On the other hand, and as discussed earlier, home ownership enjoys tax-free status and exclusion from the social security means test. However, changes to these settings are politically difficult because of home ownership's emotive value centred on lifestyle and security.

4.2 Reviewing How the Age Pension Treats the Principal Residence

By way of background, it is worth noting that the "property test" was abolished in November 1976, although income from property was included as part of the income test. From March 1985, an assets test was applied if it produced a lower amount than the income test. At the time, single non-homeowners were allowed extra assets of $50,000, which increased over time to $79,500 by 1991 and $216,500 by 2021 (an increase of 272%) (DSS, 2024).

During that same 30-year period, according to CoreLogic (Aussie & CoreLogic, 2022) the Australian housing market delivered overall capital growth of 381% (415% for houses and 293% for units). House price growth during this period also far outstripped the growth in household disposable income, with the ratio of house prices to household income rising from around 2.5 in 1991 to over 5.5 in 2021. This ratio has further increased to 8.3 as of March 2024 (ANZ & CoreLogic, 2024).

More so than ever before, the home has significant value that could be unlocked to improve retirement living standards. Nevertheless, many still prefer to retain their asset to grow 'richer' while subsisting on a low income.

The financial incentives to store considerable wealth in the home, along with the dramatic rise in property prices over the past 30 years, have highlighted the inequity of the current means tests which allow many wealthy Australians access to the Age Pension, a welfare payment that was intended as a safety net for the relatively poor.

Given the substantial increase in property values over the last 30 years, there have been increasing calls to improve the equity in the Age Pension assets test by gradually including the value of the principal residence above a reasonable threshold.

Retirees would not be forced to downsize and move from their home in order to replace any lost income from the Age Pension, as they could access home equity release schemes (including the Government's own HEAS) to provide additional income. Of course, as part of the equity in their home is released and their net equity value reduces, they would gradually become entitled to more Age Pension until the threshold is reached.

How a reasonable threshold is determined could be subject to further consultation and potentially different thresholds could be applied to different regions or postcodes. As noted earlier, in 2010, the Henry Tax Review suggested a threshold of $1.2 million and estimated this would result in a reassessment of entitlements for around 10,000 Age Pension recipients (Henry et al., 2010). If this proposed threshold had been indexed at 4% p.a., it would be around $2.1 million in 2024.

4.3 Improving Financial and Longevity Literacy

When people reach the retirement phase they are faced with significant and complex financial decisions in relation to their superannuation, aged care arrangements and social security entitlements. Improving access to pre-retirement and retirement financial advice is the aim of many of the recommendations from the recent Quality of Advice Review – by removing regulatory red tape that adds to the cost of advice without benefiting consumers, expanding access to retirement income advice, and exploring new channels to advice (Levy, 2023).

To that end, the Government is responding by implementing the Delivering Better Financial Outcomes package (Jones, 2023; Commonwealth of Australia, 2023c). Assistant Treasurer and Minister for Financial Services, The Hon. Stephen Jones MP says he is seeking the "least imperfect solution" so that legislation can be considered by the Parliament before the end of this year (Prior, 2023).

Indeed, APRA Deputy Chair Margaret Cole (APRA & ASIC, 2023) highlights the need for superannuation funds to be able to assist members with their retirement plans at scale:

> "The need for action is mission critical and urgent from a member point of view – we stand here today with six million members of the Australian community at or above superannuation preservation age. A further three million members will become eligible to draw from their super in the next 10 years – a 50 per cent increase over the next decade."

In addition, ASIC Senior Executive Leader for Superannuation and Life Insurance, Jane Eccleston (APRA & ASIC, 2023) says that superannuation funds should focus on providing their members with access to high-quality products that meet their needs, supported by appropriate decision-making materials and tools that will improve the likelihood that they will select a portfolio of products that are suitable for their retirement needs.

Improving financial and longevity literacy are important ingredients to improving retirement outcomes. Financial literacy is about improving a person's ability to understand and effectively use various financial skills, including personal financial management, budgeting and investing. Longevity literacy is about understanding the time horizon they need to plan for in retirement, recognising that people are generally living longer than before and sometimes a natural point of reference is the age to which their parents live, which may cause under-planning for their own retirement. They both also require an understanding and balancing of short-term and long-term financial needs and objectives as well as risk tolerance.

Financial and longevity literacy includes knowing how decisions you make today will impact your financial position in the future, how long that future may last, and knowing which products and services are best to use for your personal circumstances, whether it is for buying a home or for retirement spending. But it doesn't happen overnight; it is a journey of continuous learning.

Importantly, for some people there will be a point at which cognitive decline impacts that journey and the various consumer protections, in particular around elder financial abuse, must be kept strong for the evolving environment.

We therefore need to continue engaging Australians with the right information, education, guidance and advice to help them prepare for success in retirement, accompanied by strong regulatory frameworks across providers and which include appropriate consumer protections.

> "Financial and longevity literacy… doesn't happen overnight; it is a journey of continuous learning."

5. A Way Forward

A big shift is underway when it comes to how Australians fund their retirement.

Our compulsory superannuation system is still maturing, and it will take another decade or two before most employees will have had SG contributions of 9% or more throughout their working lives when they retire from full time work. As the system matures, a growing number of Australians will be less reliant on the Age Pension and, as a result, will enjoy a better retirement funded wholly or in part by their superannuation.

It's what Treasurer Jim Chalmers calls "the intergenerational genius of super" (Ransley, 2023). But if we look at our ageing population and 'retirement' from an intergenerational perspective, we see there are many challenges. In particular, government-funded health and aged care costs are on the rise while the superannuation system is still immature.

For most current retirees, the family home not only provides 'a roof over your head' and avoids significant rental costs, it also provides financial security for potential aged care needs and a bequest for their children.

The family home enjoys significant tax and other concessions, including tax free capital gains on sale and exemption from the means test for access to the Age Pension. The property price boom of the past few decades means that even more modest properties have appreciated in value significantly, now accounting for a significant portion of the average homeowner's wealth.

Of course, this has made it much harder for younger people to get their foot on the property ladder. With home ownership on the decline, how the family home factors into the plans of current retirees will be vastly different to the plans of the retirees of tomorrow.

Tomorrow's retirees will, on average, have higher superannuation balances to rely on. However, trends over the past 40 years showing falling property ownership across the working age spectrum indicate we should reasonably expect lowering rates of home ownership in retirement.

So, given these trends, it is reasonable to now ask how we should treat the family home in retirement, in a fair way that supports the sustainability and equity of the retirement system both today and into the future, for homeowners and renters alike.

Much of this will come down to how we engage the community in discussions about superannuation and wealth, as well as the role of the home, as people plan for what could be 25-30 years or even longer in retirement. Improving financial literacy, especially in relation to retirement and longevity, will do much to help shift the 'nest egg' mentality to one in which retirees are encouraged to gradually drawdown and spend their superannuation savings and, where necessary, some or all of their other financial assets such as the home.

Addressing the financial disincentives for 'asset-rich, income-poor' retirees to access part of the wealth stored in the home is also part of the solution. Currently, there is also unnecessary friction that comes with downsizing and a general lack of awareness and understanding of how to convert illiquid home equity to financial assets.

We must also do more to narrow the gap in retirement outcomes between homeowners and renters. Including part of the value of the family home, such as the portion above a reasonable threshold, in the Age Pension assets test to both improve equity in the system as well as encourage retirees to access some of this store of wealth, continues to be a politically sensitive issue – but that doesn't mean we should fear having a conversation about it.

Given the amount of wealth stored in home equity in Australia, one could reasonably argue that the home is just as important as superannuation and the Age Pension when considering retirement outcomes. In any case, they are all important and interdependent. As policy makers bed down the legislated objective of superannuation and attention continues to shift to the retirement phase, we must take this opportunity to also review various policy settings in relation to how we treat the home and encourage greater use of home equity to improve retirement outcomes.

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