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# NO PLACE LIKE HOME:

THE FOURTH PILLAR OF AUSTRALIA'S RETIREMENT  
INCOME SYSTEM



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23<sup>RD</sup> MARCH 2017

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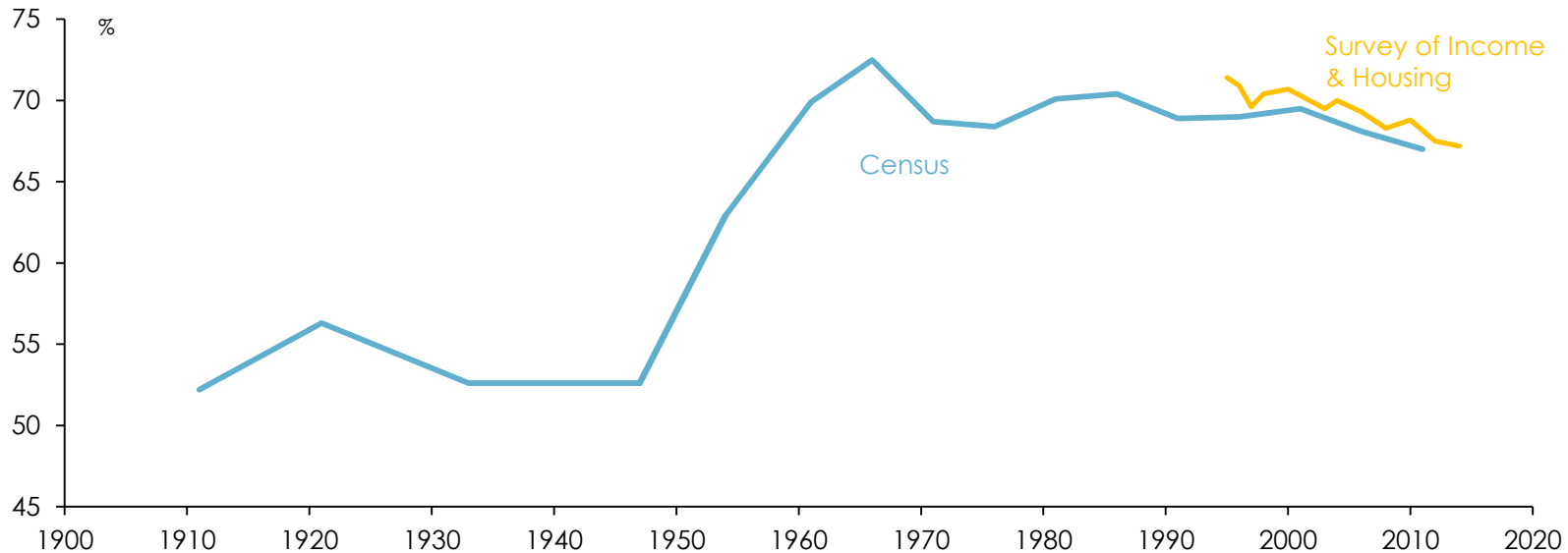
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## AUSTRALIA'S RETIREMENT INCOME SYSTEM IMPLICITLY ASSUMES MOST RETIREES HAVE ZERO HOUSING COSTS

- ❑ Historically over 80% of retirees have owned their own homes ...
  - ❖ ... and more than 90% of retired home-owners have owned their homes outright (with no debt)
- ❑ Historically the majority of retirees who don't own their own homes have rented from public housing authorities
- ❑ Hence the overwhelming majority of retirees have historically low housing costs ...
- ❑ ... which has helped successive Australian Governments to keep pension costs low by international standards

# AUSTRALIA'S HOME OWNERSHIP RATES HAS BEEN STEADILY DECLINING FOR OVER FIFTY YEARS

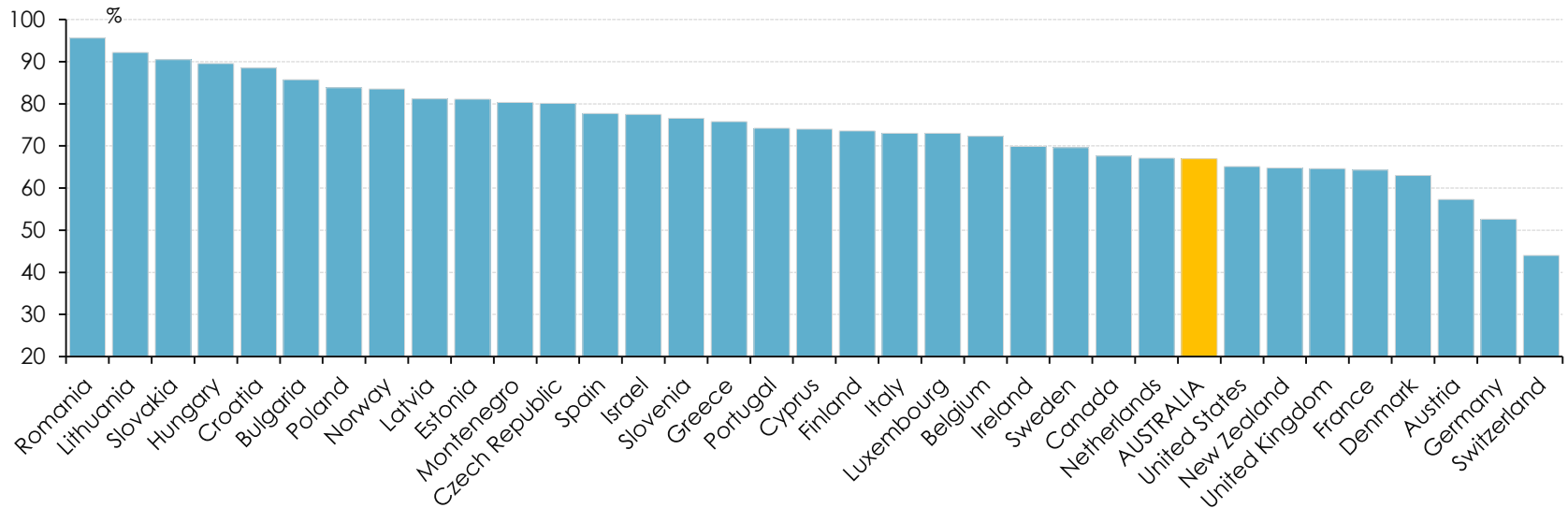
Australia's home ownership rate, 1911-2014



Sources: ABS, Census results 1911-2011 and Survey of Income and Housing 1995-96 to 2013-14.

# AUSTRALIA'S HOME OWNERSHIP RATE IS NO LONGER PARTICULARLY HIGH BY INTERNATIONAL STANDARDS

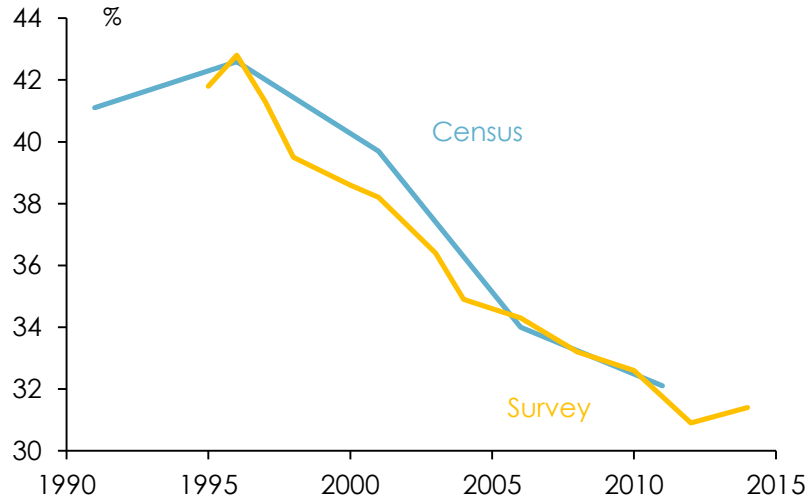
## Home ownership rates by country, 2013



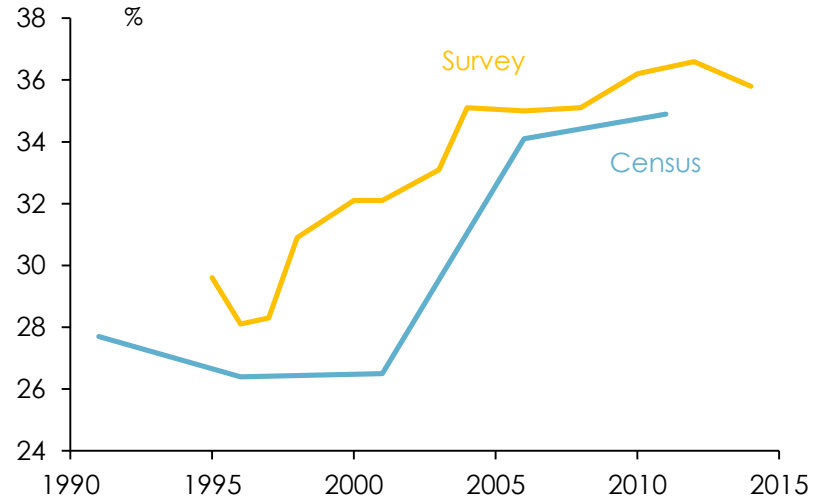
Source: RBA.

# OUTRIGHT HOME OWNERSHIP HAS DECLINED BY MORE THAN 10 PC POINTS OVER THE PAST TWO DECADES

## Pc of occupied private dwellings owned outright



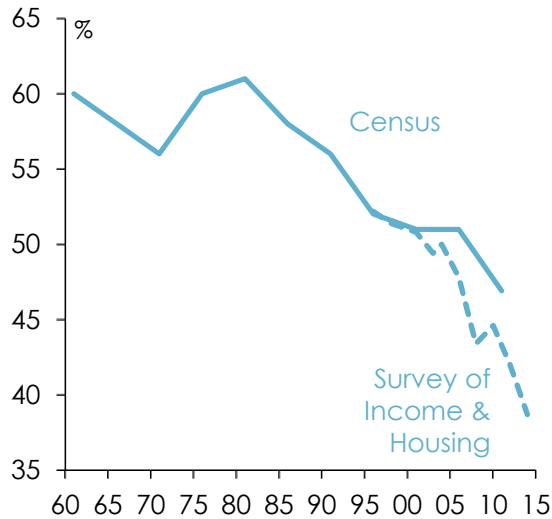
## Pc of occupied private dwellings with mortgage debt still owing



Sources: ABS, Census results 1911-2011 and Survey of Income and Housing 1995-96 to 2013-14.

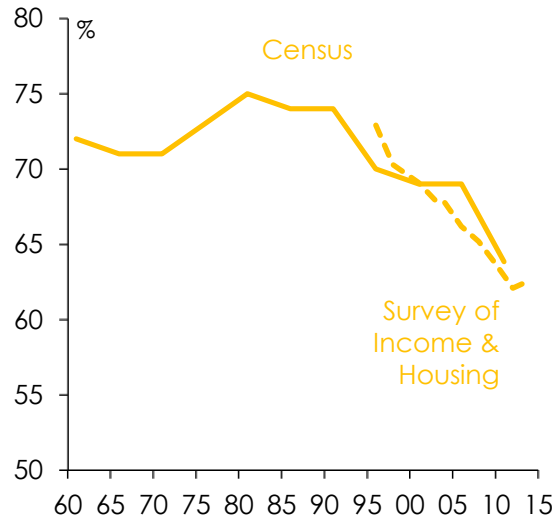
# HOME OWNERSHIP RATES HAVE FALLEN BY MORE THAN 10 PC POINTS SINCE 1991 AMONG YOUNG AND MIDDLE-AGE ADULTS

## 25-34 year olds



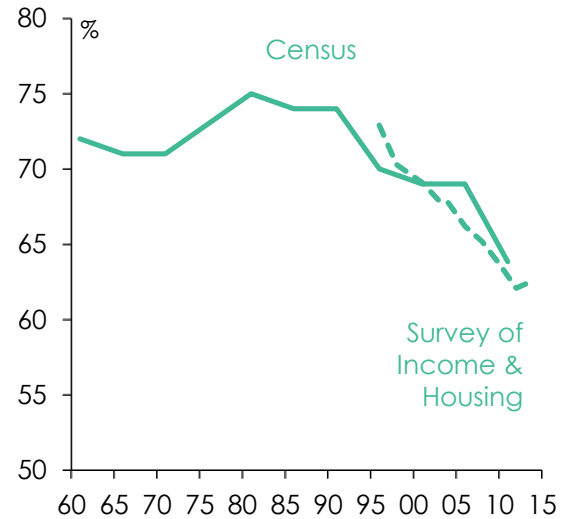
down 17.3 pc pts since 1991

## 35-44 year olds



down 11.4 pc pts since 1991

## 45-54 year olds

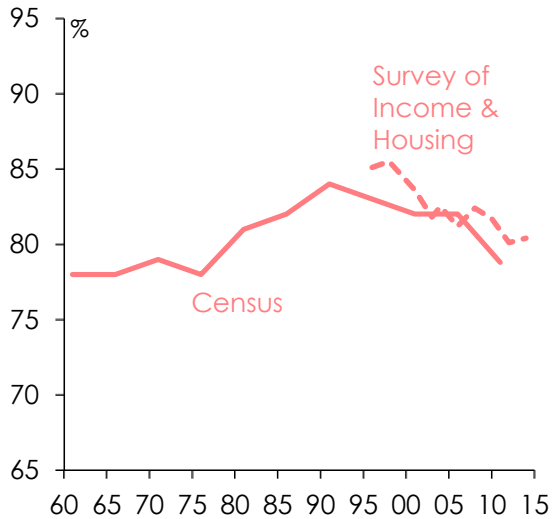


down 7.5 pc pts since 1991

Sources: ABS, Census results 1911-2011 and Survey of Income and Housing 1995-96 to 2013-14.

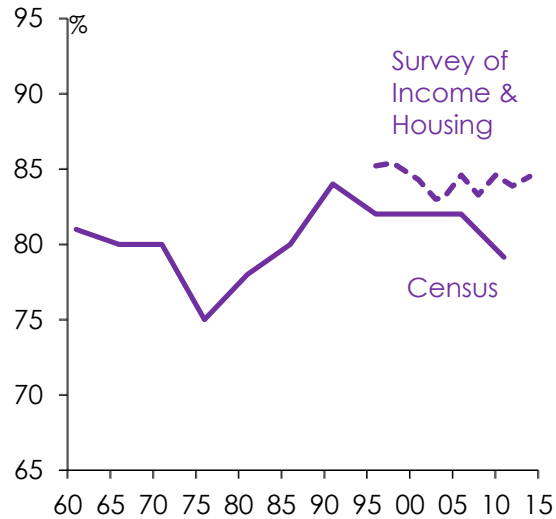
# THESE FALLS HAVE BEEN PARTLY OFFSET BY MUCH SMALLER ONES AMONG OLDER HOUSEHOLDS, AND BY POPULATION AGING

## 55-64 year olds



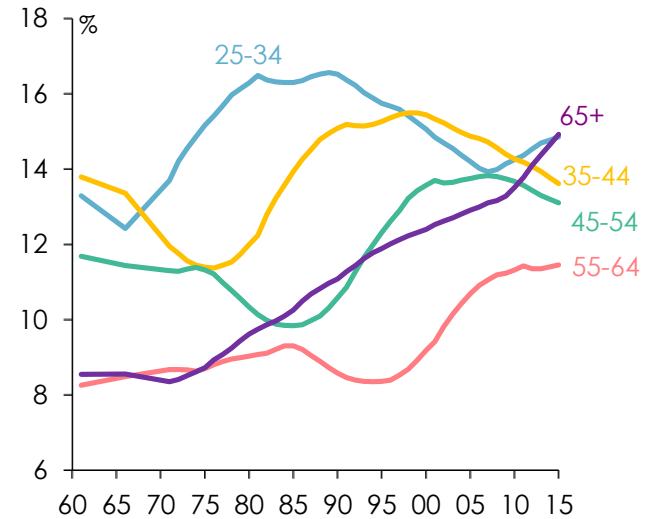
down 3.6 pc pts since 1991

## 65 year olds and over



up 0.5 pc pts since 1991

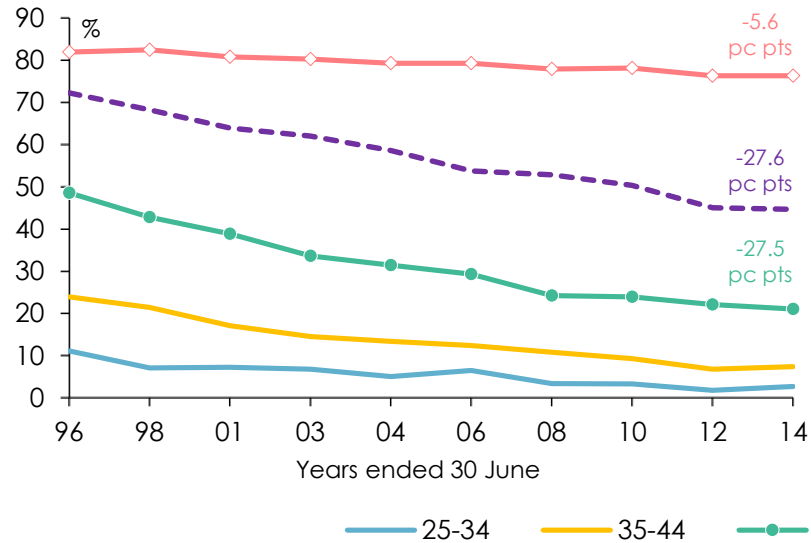
## Population shares



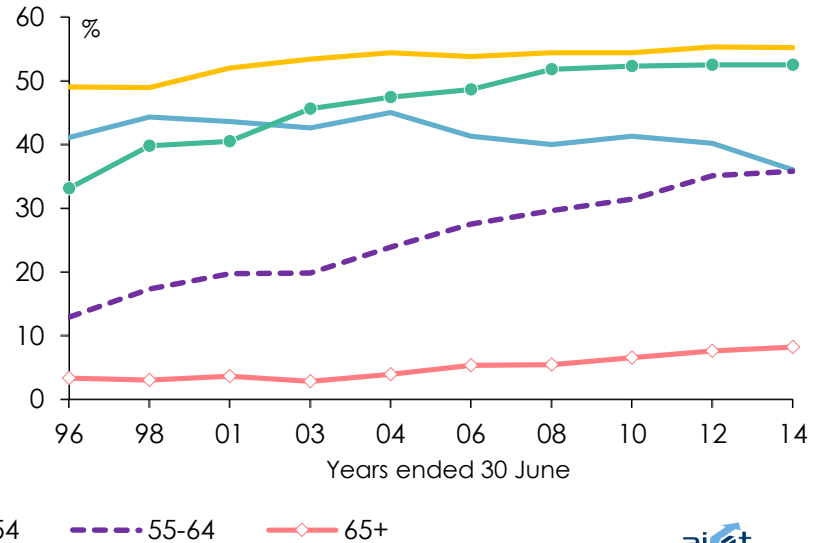
Sources: ABS, Census results 1911-2011 and Survey of Income and Housing 1995-96 to 2013-14; Australian Demographic Statistics.

# AND EVEN AMONG OLDER HOUSEHOLDS, OUTRIGHT HOME OWNERSHIP RATES HAVE FALLEN SIGNIFICANTLY

## Outright home ownership rates by age group



## Mortgaged home ownership rates by age group

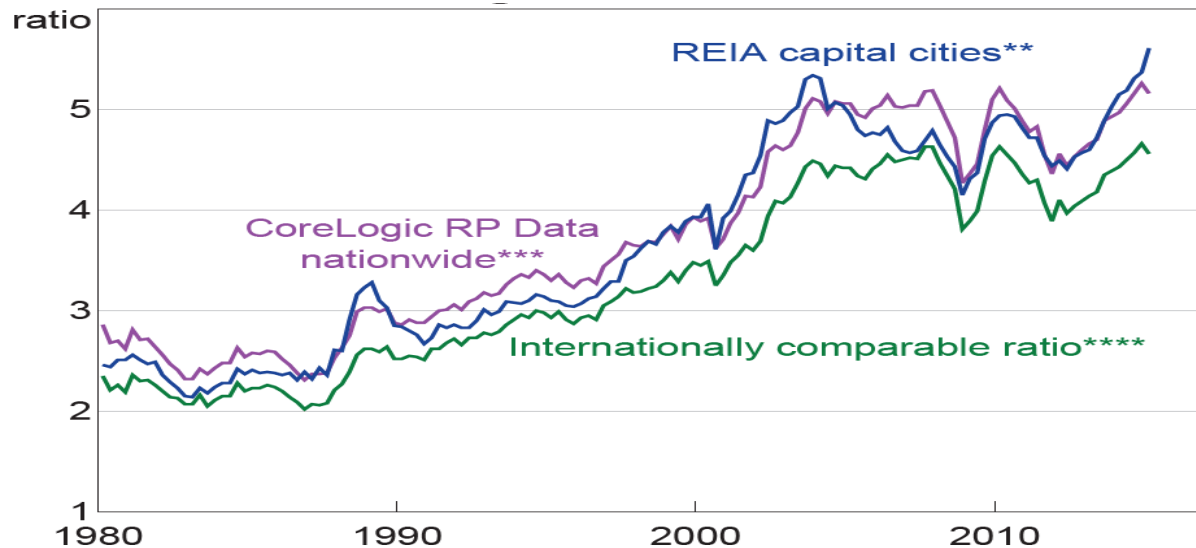


Sources: ABS, Survey of Income and Housing 1995-96 to 2013-14.



# RISING HOUSE PRICES RELATIVE TO INCOMES HAVE MORE THAN OFFSET THE 'BENEFIT' OF LOWER INTEREST RATES

Capital city house prices as a multiple of annual household disposable income

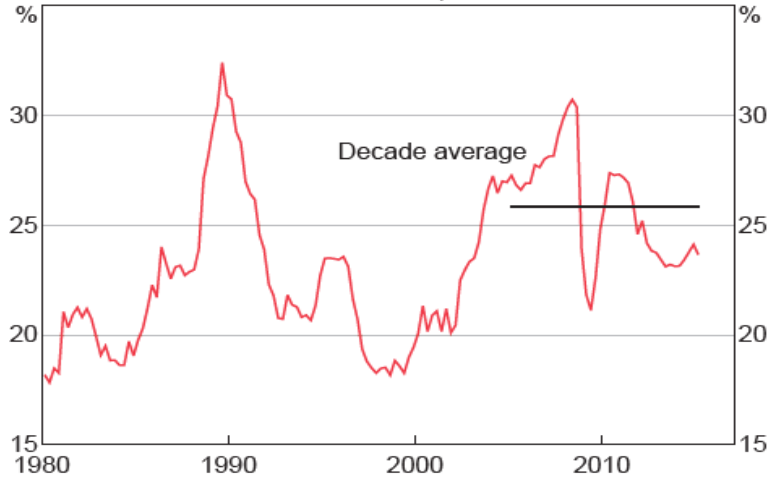


Note: household disposable income is before deduction of interest payments and (except for the internationally comparable ratio) excludes unincorporated enterprise income. REIA measure is median dwelling prices; CoreLogic RP Data measure is mean dwelling prices.

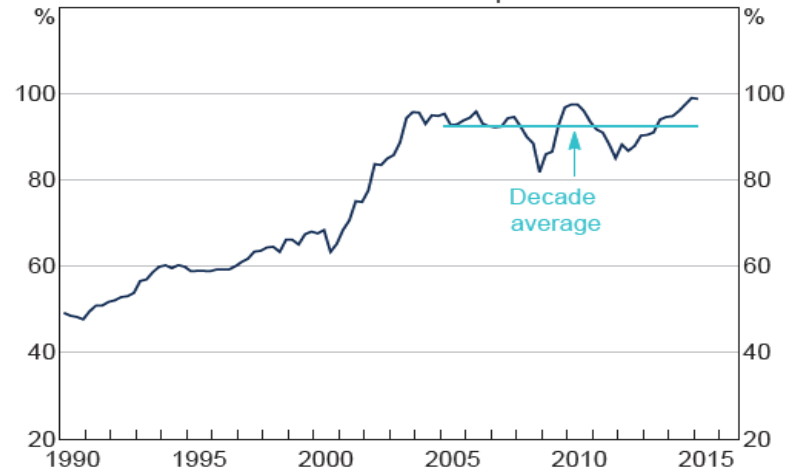
Source: RBA.

# DETERIORATING HOUSING AFFORDABILITY HAS BEEN A MAJOR FACTOR IN FALLING HOME OWNERSHIP RATES

## Repayments on new housing loans as a pc of disposable income



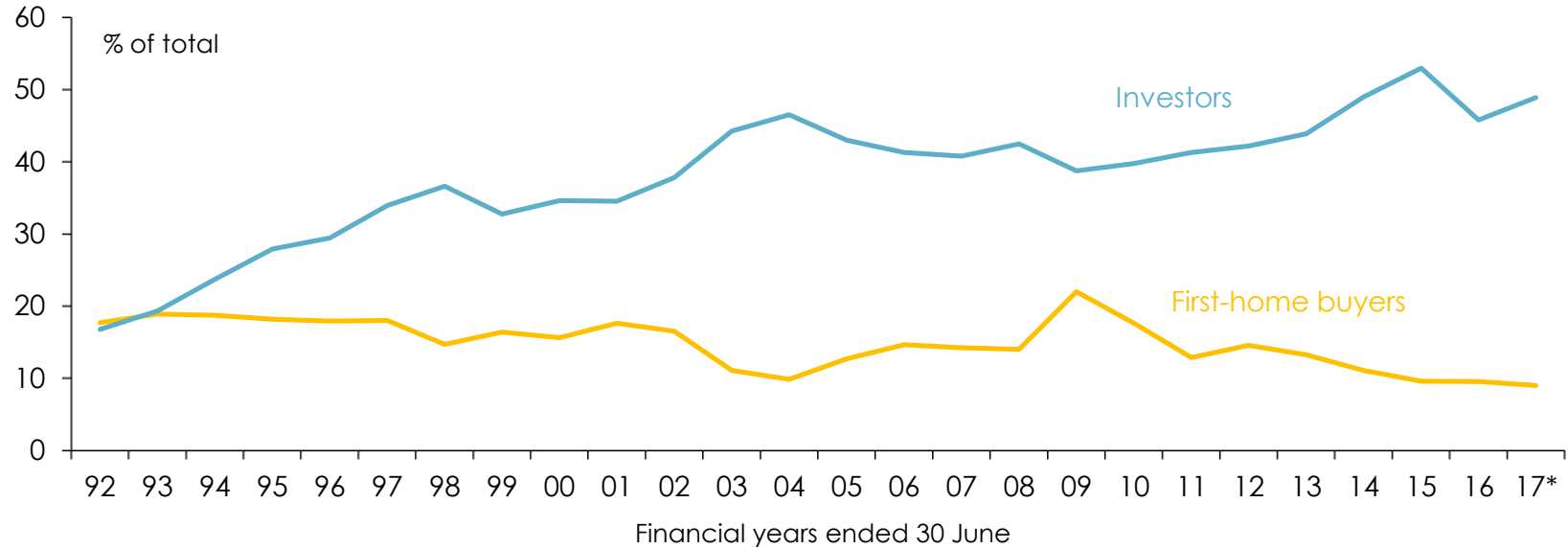
## Deposit for a home loan as a pc of disposable income



Note: Housing loan repayments calculated as the required repayment on a new 80% LVR loan with full documentation for the nationwide median-priced home; deposit calculated as 20% of the nation-wide median-priced home; household disposable income is before interest payments.  
Source: RBA.

# THERE'S LITTLE DOUBT THAT FIRST-HOME BUYERS HAVE BEEN INCREASINGLY 'SQUEEZED OUT' BY INVESTORS

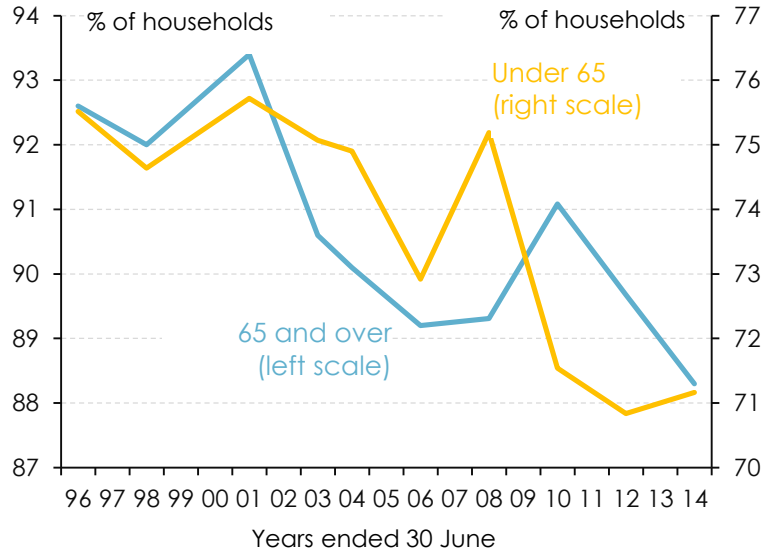
## Share of total housing finance commitments to first home buyers vs investors



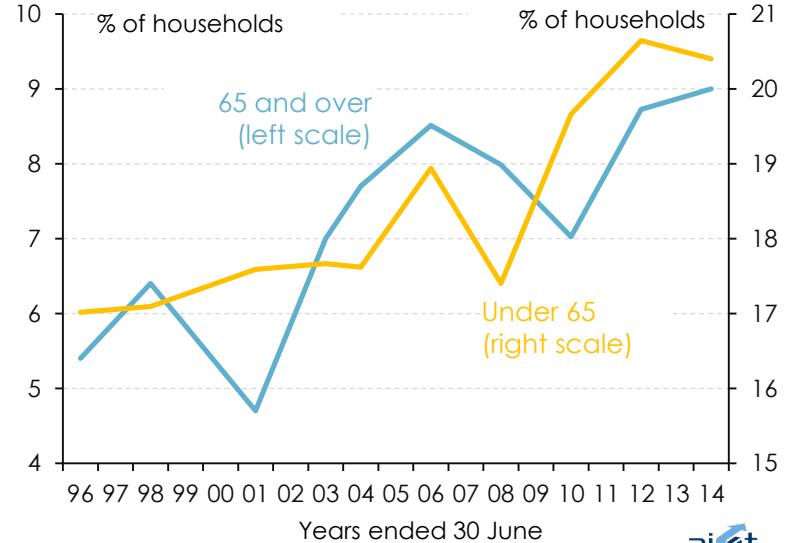
Note: Totals exclude re-financing. 2016-17 data are for the seven months ended January 2017.  
Source: ABS.

# THE ASSUMPTION THAT MOST RETIREE HOUSEHOLDS HAVE ZERO HOUSING COSTS IS ALREADY STARTING TO BECOME LESS VALID

**Households spending less than 25% of gross income on housing, by age**



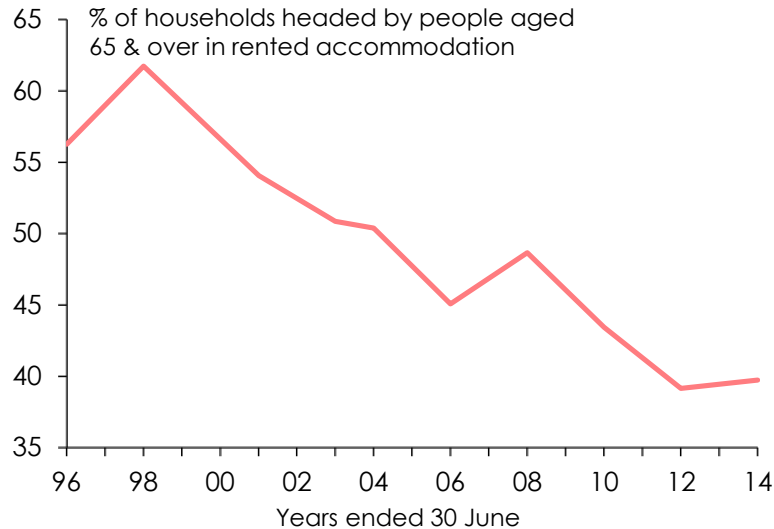
**Households spending more than 30% of gross income on housing, by age**



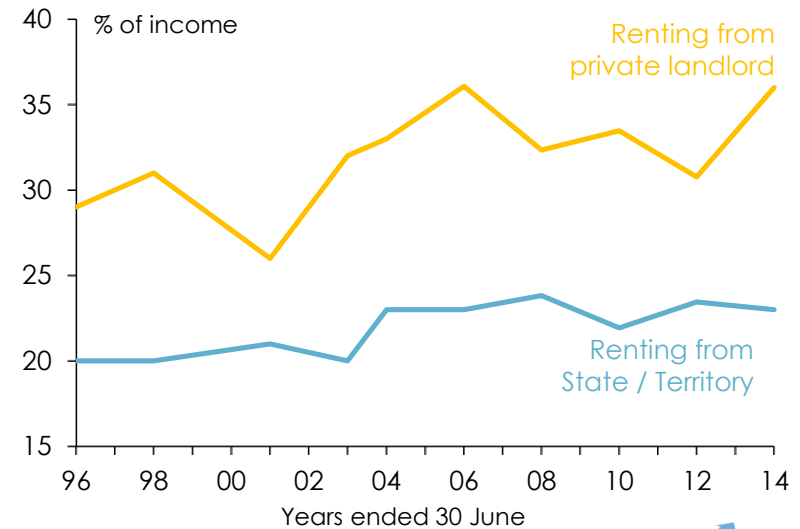
Sources: ABS, Survey of Income and Housing 1995-96 to 2013-14.

# AN INCREASING PROPORTION OF RENTING RETIREES ARE RENTING PRIVATELY – AND FACING MUCH HIGHER HOUSING COSTS

## Renters aged 65+ renting from public housing authorities



## Housing costs as a pc of income for renters aged 65+



Sources: ABS, Survey of Income and Housing 1995-96 to 2013-14.



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## WHAT SHOULD GOVERNMENTS DO – AND NOT DO?

- ❑ Ideally, governments should retreat from existing policies which serve primarily to inflate the demand for housing (especially existing housing)
  - ❖ ... and avoid embracing new policies which would further add to the demand for housing
- ❑ Governments should instead adopt policies which reduce impediments to increasing the supply of housing
  - ❖ ... or adopt policies which directly increase housing supply
- ❑ While this seems like a statement of the obvious, governments have spent most of the last fifty years doing the opposite

## **'SUPER FOR HOUSING' – AN EXAMPLE OF WHAT NOT TO DO**

- ❑ **'Super for housing' would allow prospective first home buyers to spend more on housing than they otherwise would**
  - ❖ **the principal result of which would be higher housing prices**
- ❑ **'Super for housing' would result in those who take it up having less by way of retirement savings than they would have done**
  - ❖ **... and carrying greater risk**
- ❑ **'Super for housing' would subtract \$1-2bn pa from federal government tax revenues (because super savings are subject to taxation whereas capital gains on owner-occupied housing are not)**

## WHAT THE FEDERAL GOVERNMENT COULD DO

- ❑ Reduce the competition which first home buyers face from domestic investors (CGT discount, negative gearing)
- ❑ Direct APRA to lower its 'ceiling' on the growth rate of property investment lending, and to tighten investment lending criteria
- ❑ Further tighten FIRB rules governing foreign purchases of established dwellings
- ❑ Bring real estate agents within AUSTRAC reporting requirements
- ❑ Include owner-occupied housing within the pension assets test, and lift assets test thresholds to reflect that
- ❑ Use fiscal policy more actively to boost economic activity when required, rather than relying primarily on monetary policy





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## WHAT THE FEDERAL GOVERNMENT COULD DO (CONT.)

- ❑ **Provide grants or low-interest loans to State & Territory Governments for the construction of more affordable rental dwellings**
- ❑ **Provide tax incentives for institutional or individual investment in new affordable rental housing**
  - ❖ **perhaps funded by winding back existing incentives for speculative investment in established housing**
- ❑ **Provide support (loan guarantees or interest subsidies) for borrowings by not-for-profit affordable rental housing providers**



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## WHAT STATE & TERRITORY GOVERNMENTS COULD DO

- ❑ **Scale back cash grants and stamp duty concessions to first home buyers that simply allow them to pay more to vendors than they otherwise would**
- ❑ **Replace stamp duty with a more broadly-based land tax (with appropriate transitional provisions)**
- ❑ **Reduce up-front taxes and charges on land developers for the provision of suburban infrastructure, permits and inspections (recouping foregone revenue through rates or land tax)**
- ❑ **Reform planning laws to reduce scope for vexatious objections**
- ❑ **Increase investment in urban transport infrastructure**
- ❑ **Increase investment in the provision of affordable rental housing, directly or via community housing providers**

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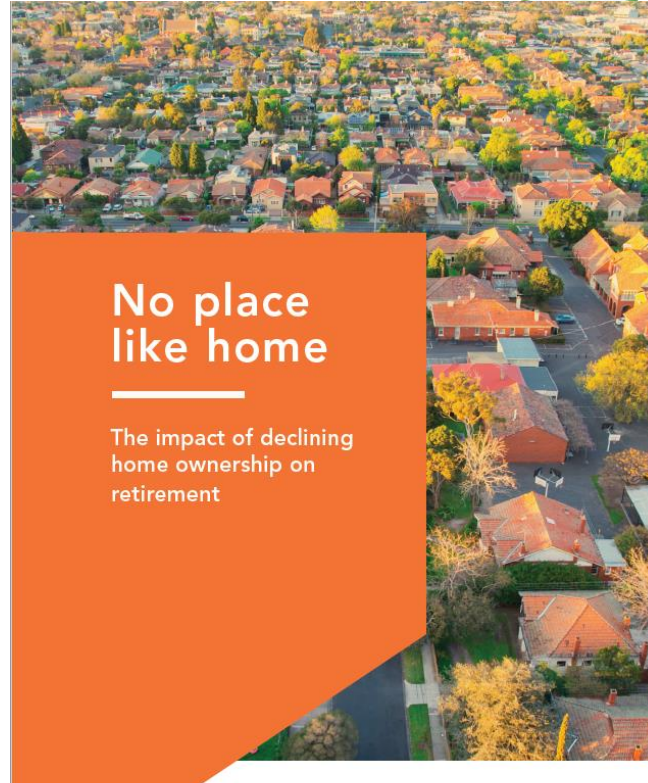
## CONCLUSION

- ❑ **Failure to address the ongoing deterioration in housing affordability will condemn future generations of Australians to poorer standards of living in retirement,**
- ❑ **and ultimately result in increased demands for higher levels of financial assistance to retirees,**
- ❑ **leading in turn to a higher burden of taxation on the diminishing proportion of the Australian population who will still be working**

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