Chapter 12

Older people and home ownership

12.1 Dr Debbie Faulkner, a research fellow at the University of Adelaide's Centre for Housing, Urban and Regional Planning, told the committee that housing affordability issues for older people are often overlooked, 'because we just assumed they have home ownership'. However, home ownership rates for older Australians, like home ownership rates overall, are trending lower, from 81 per cent of over-65s today to a projected 55 per cent by the middle of the century. This trend, Dr Faulkner told the committee, is being driven not only by people not taking on home ownership, but by people falling out of home ownership for a range of reasons.[1]

12.2 In part, the declining trend in home ownership rates for older Australians underlines the importance of ensuring the rental market, community housing and housing services are able to meet their needs (subjects addressed in the next section of this report). However, to the extent the decline is correlated to worsening affordability, it also reinforces the need to address home purchase affordability. This is particularly the case given Australia's retirement income system is to a large degree predicated on the assumption that most retirees will own their own home outright and therefore have relatively low housing costs.

12.3 This chapter considers the importance of home ownership as a form of wealth in retirement, the merits of continuing to exclude owner-occupied housing from the aged pension means test, and the need for policies to remove potential barriers to downsizing (or 'rightsizing') by older homeowners.

Home ownership as a form of wealth in retirement

12.4 Home ownership, as noted previously in this report, is a significant form of private wealth in Australia, and this is particularly apparent for older home owners. As Mr Borrowman, Associate Professor Frost and Dr Kazakevitch noted in their joint submission:

> …older Australians are less likely to be in residual housing stress than younger Australians. This is driven by the length of working lives and the housing cost advantages of having paid off a mortgage. Home ownership is a form of saving that allows households to draw on home equity if their situation changes. Households that are able to enter and remain in home

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1 Dr Debbie Faulkner, Research Fellow, Centre for Housing, Urban and Regional Planning, Faculty of Humanities and Social Sciences, University of Adelaide, *Proof Committee Hansard*, 28 July 2014, pp. 11–12. Dr Julie Lawson and Professor Mike Berry pointed to research that suggested outright ownership for over 65s would likely decline by 10 per cent by 2046. Dr Julie Lawson and Professor Mike Berry, Centre for Urban Research, RMIT University, *Submission 24*, p. 5. COTA reports that 78 per cent of over 65s own their home outright, and 6.5 per cent have a mortgage. COTA, *Submission 191*, p. 1.

> ownership are much better off in older age than those who rent. This is further encouraged by the family home being exempt from means testing for the aged pension.[2]

12.5 Australia's retirement income system is in large measure based on the assumption that people will own their home by the time they retire. As the CFRC explained in its submission, Australia's relatively low pension rates, when considered against rates in other OECD countries, reflect typically lower housing costs resulting from higher levels of outright home ownership. As home ownership levels decline, however, so too will the adequacy of the aged pension.[3]

12.6 The Combined Pensioners & Superannuants Association of NSW (CPSA) noted that Australia's retirement income system is often characterised as having four pillars: the age pension, superannuation, voluntary savings and the family home. Whether a person owned their own home in retirement, it suggested:

> …can mean the difference between getting by and abject poverty. For this reason, CPSA is gravely concerned about the decline in home ownership among people entering retirement.[4]

12.7 Anglicare Australia submitted that because aged care and pension systems in Australia are, in effect, designed for home owners:

> …after-housing poverty rates are consequently higher for non-home owning older households. It also means those people have less capacity to modify their homes as they get older and, in most cases, are unable to find more suitable housing in the private market. One of the consequences is the increasing isolation and disability that older people in unsuitable or inaccessible housing face. Another related trend is for people in those circumstances to move into residential aged care at an earlier age as there are no other options available to them, which can also be as costly, if not more so than private rental.[5]

12.8 The UDIA noted that home ownership was a major factor in limiting the demands of an ageing population on government finances:

> Government spending on pensions in Australia is able to be considerably lower than in many other countries, because high levels of home ownership amongst retirees have made their housing costs very low. Increasing numbers of people entering retirement reliant on social housing or private rental as a result of their inability to achieve home ownership will result in rapidly escalating costs for government.[6]

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2 Dr Gennadi Kazakevitch, Associate Professor Lionel Frost and Mr Luc Borrowman, *Submission 23*, p. 10.

3 City Futures Research Centre, UNSW, *Submission 152*, p. 9.

4 Combined Pensioners and Superannuants Association of NSW Inc., *Submission 164*, p. 3.

5 Anglicare Australia, *Submission 159*, p. 3.

6 Urban Development Institute of Australia, *Submission 190*, p. 7.

12.9 Similarly, Dr Vivienne Milligan from the CFRC suggested that if home ownership for older people declined, then this would likely mean that 'pensions are going to have to rise very significantly or rent assistance for pensioners is going to have to rise very significantly'. The potential cost to the Commonwealth, Dr Milligan argued, was itself reason enough for the Commonwealth to be deeply engaged in addressing home purchase affordability.[7] Mr Graham Wolfe, Chief Executive of the HIA, told the committee that with the proportion of Australians entering retirement as non-homeowners rising, home ownership as a form of wealth in retirement was 'a very, very important issue for the government today and for payments and social security going into the future'.[8]

12.10 Also noting that importance of home ownership in Australia's retirement income system, the Equality Rights Alliance drew the committee's attention to the difficulties experienced by older non-homeowners. Beyond the financial disadvantage experienced by older renters, the Alliance noted that non-homeowners had poorer outcomes in terms of social integration and participation. It was particularly concerned about the growing cohort of older women who did not own their own home as they moved towards or entered retirement age:

> Using figures from the 2011 Census, we estimate there are 222,958 women who are over the age of 45, single, on low to median incomes and paying off a mortgage. More than half of these women are over the age of 55 and one quarter of these women are already experiencing mortgage stress. 119,844 men are in the same situation. Australia has recently seen a large increase in the proportion of those aged 50–64 carrying mortgage debt and older women in particular are less able to maintain home ownership at this age. This is particularly concerning when we consider that older women have lower levels of workforce participation and face intersecting age and sex discrimination in the labour market.[9]

12.11 COTA recommended that the government create a facility to enable older Australians to borrow against the equity in their home to pay for aged-care services costs. COTA noted that the Productivity Commission had in fact recommended the establishment of such a scheme in its *Caring for older Australians* report (2011).[10] The scheme proposed by COTA would be HECS-like in its design, in the sense that as people incurred their bills, they would be set against the equity in their home:

> Unlike HECS, where we do not have a guarantee of recovery, in this type of scheme you certainly would have a guarantee of recovery, because

7 Dr Vivienne Milligan, Associate Professor, City Futures Research Centre, University of New South Wales, *Proof Committee Hansard*, 10 November 2014, p. 40.

8 Mr Graham Wolfe, Chief Executive, Industry Policy and Media Relations, Housing Industry Association, *Proof Committee Hansard*, 30 July 2014, p. 46.

9 Equality Rights Alliance, *Submission 95*, p. 12.

10 On the Productivity Commission's proposed Australian Aged Care Home Credit scheme, see Productivity Commission, *Caring for older Australians*, Vol. 1 (2011), p. xxxvii.

> generally speaking we all die. It is a way of using your house as a line of credit without doing something really clunky like a big reverse mortgage which then becomes a loan you have to repay.[11]

Pension eligibility and home ownership

12.12 While most federal income support payments are subject to an asset test, the value of a person's principal home (or, colloquially, the 'family home') is exempt from inclusion in the asset test of most transfer payments, including the aged pension. This means that pensioners can still access the pension irrespective of the value of their principal residence. When a person sells their home, the proceeds are exempt from the asset test for up to 12 months, as long as they are intending to buy another home. However, the interest earned on sale proceeds is counted under the income test, and if a cheaper home is bought any surplus cash is included in the test.

12.13 While owner-occupied housing is not included in the asset test, the asset threshold above which the full pension is reduced is higher for non-homeowners than for homeowners.[12]

12.14 AHURI suggested that while the exemption of the family home from the aged pension asset test encouraged 'ageing in place', it might also work to:

> …undermine incentives to downsize or sell the house if this serves to reduce access to pension entitlements (Ong 2012). Judd et al. (2014) showed that older people tend to occupy larger houses than suggested by their household size suggesting some inefficiency according to typical standards of occupancy. While most older people desired to stay in their homes, downsizing may also have benefits in terms of better fitting needs as people age and releasing equity.[13]

12.15 Similarly, Associate Professor Yates argued that the asset test on pensions can create 'lock-in' effects that may discourage the sale of housing, even when a retiree might wish to move to more suitable accommodation.[14]

12.16 WALGA, stressing the importance of the family home as a store of wealth for retirees, argued that for its continued exemption from the aged pension means test:

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11 Mr Ian Yates, Chief Executive, Council on the Ageing, *Proof Committee Hansard*, 28 July 2014, p. 25.

12 As of March 2015, the lower thresholds (that is, the thresholds above which the full pension is gradually reduced) are $202,000 and $286,500 for single and couple combined homeowners respectively, and $348,500 and $433,000 for single and couple combined non-homeowners respectively. Department of Human Services, http://www.humanservices.gov.au/customer/enablers/assets/.

13 Australian Housing and Urban Research Institute, *Submission 93*, p. 3.

14 Honorary Associate Professor Judith Yates, University of Sydney, *Submission 53*, p. 6.

> This recognises the attachment many Australians have to their family homes and the benefits of allowing retirees to age in place. It also enables older Australians to stay in communities they may have spent most of their lives in. Furthermore, owner-occupied housing is an important source of wealth and financial security for older Australians.
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> Within the context of housing affordability, the exemption of the family home from the Age Pension means test probably lowers turnover in the housing market and, as such, contributes to unaffordability. Nonetheless, given the importance of the family home to retirees, the Government should not punish this group of Australians for remaining in owner-occupied housing through measures such as including their homes in means testing.
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> Instead, disincentives for retirees to downsize could be addressed. For example, when a retiree sells their home and downsizes to a smaller dwelling, the means test exemption should apply not only to their new dwelling but also to the proceeds from the sale of the original home. By 'quarantining' these funds, downsizing retirees will not be penalised relative to those who choose to keep living in their family home.[15]

12.17 Similarly, both COTA and Seniors Australia expressed opposition to including the family home in the assets test.[16] Seniors Australia submitted:

> Seniors whose only source of income is an age pension or annuity tied to superannuation have no capacity to generate additional income other than divesting themselves of the family home. This would lead to additional pressure on the private housing rental market and social and public housing, and increase the risk of homelessness.[17]

12.18 COTA did, however, suggest there might be scope:

> …for increasing the difference between the asset holding of home and non-homeowners but this would need to be done in a way that does not offer too much of an incentive for older people to sell their homes and move into rental accommodation.[18]

12.19 However, Mr Michael Basso argued that the best way to address the existing disincentive to downsizing to more appropriate accommodation, thereby 'freeing up larger homes for new families', was to include the principal residence in the aged pension means test.[19]

15 Western Australian Local Government Association, *Submission 37*, p. 7.

16 National Seniors, *Submission 165*, p. 4; COTA Australia, *Submission 191*, p. 5.

17 National Seniors, *Submission 165*, p. 4.

18 COTA Australia, *Submission 191*, p. 5.

19 Mr Michael Basso, *Submission 209*, p. 5.

Downsizing, resizing, 'rightsizing'

12.20 A number of witnesses explained that while many older people might prefer to move out of the family home and into more appropriate accommodation, financial and other barriers sometimes prevented them from doing so.

12.21 It might be noted while witnesses generally talked about 'downsizing', COTA told the committee that it preferred the term 'rightsizing'. The term 'downsizing', COTA Chief Executive Mr Ian Yates told the committee, could be taken to mean:

> … that you want to put all older people into single-bedroom [residences], because they are old and they do not need more than a single bedroom. The reality, of course, is that in later life your home is also your workplace, and older Australians contribute to our society in all sorts of ways, including that they might look after grandchildren, including that they might have hobbies and voluntary activities that require space in the home. So it is often more about getting rid of the big garden than [it] is about not needing more than one bedroom. Indeed, many need two or three bedrooms for those kinds of reasons. So it is about right-sizing.[20]

12.22 The committee believes COTA raises a useful point in this regard, and believes the policy discourse might benefit from reframing the issue to be about 'rightsizing'. However, for the purposes of this report, the term 'downsizing' is used, given this was the term generally used by witnesses and because it has a commonly understood meaning.

12.23 While noting that older Australians who owned their home were better off than older Australians in rental accommodation, Mr Borrowman, Associate Professor Frost and Dr Kazekevitch outlined obstacles to downsizing that meant some people remained in unsuitable accommodation. They noted, in particular, that would-be downsizers were often discouraged by substantial transaction costs attached to changing houses. As such, they recommended exempting downsizers from stamp duties, which would 'help them to release some of the funds for supporting their incomes and contribute to the supply of established housing for younger growing families'.[21]

12.24 CPSA noted there were several barriers that often inhibited people from downsizing, including the cost of stamp duties (except in the ACT where over 65s are exempt from stamp duty). It therefore recommended that states and territories remove stamp duty for pensioner home owners.[22]

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20 Mr Ian Yates, Chief Executive, Council on the Ageing, *Proof Committee Hansard*, 28 July 2014, p. 23.

21 Dr Gennadi Kazakevitch, Associate Professor Lionel Frost and Mr Luc Borrowman, *Submission 23*, p. 10 (emphasis in source).

22 Combined Pensioners and Superannuants Association of NSW Inc., *Submission 164*, p. 13.

12.25 As KinCare acknowledges in its submission, existing government policy is based on a recognition that most older Australians are living at home, and many older Australians have a preference to remain in their home for as long as they can. The Australian Government has committed almost $1 billion over five years to help older people stay at home through a range of measures, including an increased number of home support packages.[23]

12.26 National Seniors Australia's research, as relayed to the committee, has shown that two-thirds of older Australians want to stay in their own home or, if they have to move, to at least remain in their local area.[24]

12.27 Mr Ian Yates, Chief Executive of COTA, told the committee that oftentimes retirees:

> … actually do not necessarily want to live in the family home but they do want to stay connected to the networks and the services and so on, and converting from one form of housing to another in your same area is frequently a significant challenge, both financially and in terms of things like planning laws and all that. As a society, I think we need to get our head around that a bit better.[25]

12.28 In its submission, COTA noted the benefits of rightsizing, both for older people and in terms of the availability of housing stock more broadly:

> Right sizing allows older people to accommodate their life as it changes, frees up housing stock for the broader community and can reduce the cost of ongoing service delivery. For homeowners there need to be some incentives to encourage them to 'right size' so that their accommodation better meets their later life needs.[26]

12.29 Ms Mary Wood, Executive Director of Retirement Living Council, part of the Property Council of Australia, told the committee that because sale of the family home could negatively impact a person's access to the aged pension:

> …a very large number of seniors end up staying much longer than they want to in their family home, which is full of trip hazards and [leads to] social isolation, which is a huge problem and an expensive problem. They lose some control over their life, thereby making it much more likely that they will end up being admitted into a residential aged-care facility, which for many people is the very situation they want to avoid. They are also

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23 KinCare, *Submission 76*, p. 3.

24 Ms Marie Skinner, Senior Policy Adviser, National Seniors Australia, *Proof Committee Hansard*, 10 September 2014, p. 9.

25 Mr Ian Yates, Chief Executive, Council on the Ageing, *Proof Committee Hansard*, 28 July 2014, p. 23.

26 COTA Australia, *Submission 191*, p. 6.

> precluded from using proceeds from their home sale to help pay for the health and other supports that they need.[27]

12.30 The Productivity Commission addressed the adverse effect the sale of a residential home might have on a retirees access to the pension in its 2011 report, *Caring for Older Australians*. The Productivity Commission recommended the government establish:

> …an Australian Age Pensioners Savings Account scheme, for those on a full or part-rate Age Pension who wish to deposit all or some of the proceeds of the sale of their principal residence. The real value of the savings account would be maintained by consumer price indexation, and be excluded from the Age Pension assets and income tests. The savings account could be drawn down flexibly by the account owner for any purpose.[28]

12.31 However, the scheme recommended by the Productivity Commission would have been part of a broader package of reforms, including the removal of the exemption of a person's principal residence for the aged pension assets test. The former government, in its *Living Longer Living Better* aged care reforms, did not take up the Productivity Commission's recommendation for an Australian Age Pensioners Savings Account scheme.[29]

12.32 However, in the 2013–14 Budget the then government announced its intention to implement the Housing Help for Seniors pilot program, with a commencement date of 1 July 2014. Had the pilot been implemented, it would have allowed a homeowner who had lived in their home for at least 25 years to sell their home and have at least 80 per cent of the proceeds from the sale of the home (that is, the sale price less any valid encumbrance such as a mortgage, and less the purchase price of the new home), up to a cap of $200,000, quarantined in a special account so that it was not considered as part of the aged pension asset test. The money in the account plus any interest earned would be exempt from the asset test for up to ten years, providing there were no withdrawals during the life of the account. The exemption was to be available to people assessed as home owners who moved into a retirement village or a granny flat, but would not have been available to people moving into residential aged care. The program, according to the budget papers, would have cost $112.4 million over the forward estimates period.[30]

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27 Ms Mary Wood, Executive Director, Retirement Living Council, Property Council of Australia, *Proof Committee Hansard*, 10 November 2014, pp. 46–47.

28 Productivity Commission, *Caring for older Australians*, Vol. 1 (2011), p. xl.

29 Parliamentary Library, Research Paper No. 3, 2012–13, *Budget Review 2013–14* (May 2013), p. 175.

30 Budget Paper No. 2, *Budget Measures 2013–14*, p. 152. Also see Parliamentary Library, Research Paper No. 3, 2012–13, *Budget Review 2013–14* (May 2013), pp. 175–76.

12.33 Mr Yates explained that COTA was supportive of the Housing Help for Seniors pilot. While it was a modest scheme, COTA nonetheless believed it should be trialled and evaluated, and it might then form the basis for a broader set of initiatives directed toward encouraging rightsizing.[31]

12.34 National Seniors Australia informed the committee that its surveys of aged pensioners indicated that 28 per cent thought the proposed pilot scheme would have influenced any decision they made to downsize. National Seniors did note its concerns regarding restrictions within the scheme, including the inability of pensioners to access the money set aside in a special account for medical costs, housing repairs or modifications, and emergency bills. However, it told the committee it 'would have welcomed attempts by the current government to address some of the shortcomings of the pilot rather than disband it completely'.[32]

12.35 The RDC (part of the Property Council of Australia), suggested the scheme was too restrictive, both because it was limited to pensioners who had owned their own home for 25 years and because the equity released could not be spent, even on health or care services. Writing prior to the government's announcement that it would not proceed with the scheme, the RDC suggested that the scheme be redesigned so as to:

> - limit the trial to Australians aged 75 and over—i.e. move to age based eligibility rather than the length of home ownership test;
> - limit eligibility to those Australians who qualify for the full rate age pension; and
> - allow Australians who take advantage of this initiative to use the non-means tested funds held in their special account for a range of approved health and age-related service costs (up to $25,000 per year on health and wellbeing costs including private health insurance, community care, meals-on-wheels and cleaning).[33]

12.36 Ms Wood outlined how the Property Council's proposal for 'unlocking home equity' would work. It would, she told the committee, be limited to full-rate aged pensioners aged 75 and over 'so that you are not getting into welfare creep by part-pensioners or people who want to plan their affairs to qualify for a part-pension'. Pensioners would be able to access a capped amount of proceeds from the sale of their home—Ms Woods suggested $150,000—for health and wellbeing expenditures without affecting their pension eligibility. The scheme would, Ms Woods argued:

> …remove this major barrier to downsizing and unlock home equity for productive economic purposes, including allowing spending by age

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31 Mr Ian Yates, Chief Executive, Council on the Ageing, 28 July 2014, *Proof Committee Hansard*, p. 23; COTA Australia, *Submission 191*, p. 7.

32 National Seniors Australia, answer to a question on notice from a public hearing held in Brisbane on 10 September 2014, received on 13 October 2014, p. 2.

33 Residential Development Council, Property Council of Australia, *Submission 212*, p. 12.

> pensioners on health and wellbeing services that otherwise the taxpayer would need to fund or that they just do not get and so end up living an impoverished life in every sense of the word.[34]

12.37 CPSA, however, thought the scheme was too restrictive, and unlikely to encourage many pensioners to downsize.[35]

Committee view

12.38 For a majority of Australians, the family home remains their most valuable asset, even with the introduction of compulsory superannuation in the early 1990s.

12.39 The committee notes that some witnesses argued for inclusion of the family home in the aged pension assets test. However, the committee believes such recommendations do not afford sufficient weight to the attachment many people have to their home, or recognise the benefits of allowing people to age in place.

12.40 It may be that the exemption of the family home from the aged pension means test encourages some overinvestment in housing and, in some cases, discourages people from moving to accommodation better suited to their needs. However, improved housing affordability achieved through policy which pressures older Australians to sell their homes to access capital, potentially disrupting their ties to family, friends and community, would be a hollow achievement. The committee believes a better approach would be to explore innovative and affordable policies that allow retirees to downsize (or 'rightsize') when they wish or require to do so, without the sale proceeds necessarily jeopardising their pension eligibility. Programs such as the Housing Help for Seniors program, announced by the former government in the 2013–14 Budget but abandoned by the current government in the 2014–15 Budget before it was legislated, would be worth exploring in this regard.

12.41 More generally, the committee believes there is currently a lack of overall strategy to facilitate 'rightsizing' and ageing in place. As such, governments should consider including measures in the national housing affordability plan proposed at recommendation 4 to ensure the housing market properly meets the needs of older Australian homeowners.

Recommendation 17

12.42 The committee recommends that the government investigate new policy settings that will address barriers to downsizing (or 'rightsizing') by retirees, including schemes along the lines of the Housing Help for Seniors pilot.

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34 Ms Mary Wood, Executive Director, Retirement Living Council, Property Council of Australia, *Proof Committee Hansard*, 10 November 2014, p. 47. On the proposal, see Property Council of Australia, 'Unlocking home equity solution to ageing population', 6 March 2015, https://www.propertyoz.com.au/Article/NewsDetail.aspx?p=16&id=10665.

35 Combined Pensioners and Superannuants Association of NSW Inc., *Submission 164*, p. 13.