Industry Super Australia

Super Bad

Why Super for a House Will Hurt First Home Buyers

Contents

About Industry Super Australia

Industry Super Australia (ISA) is a research and advocacy body for Industry Super Funds. ISA manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of over five million industry super members.

Executive Summary

- Making early use of super to buy a house will be bad for aspiring homeowners, bad for retirees and bad for taxpayers.
- There is widespread agreement among housing experts that encouraging people to raid their retirement savings for a deposit will simply increase house prices. This is because the resulting additional demand for housing will not be matched by an increase in supply. The Retirement Income Review, a Senate Inquiry and Grattan have all rejected 'super for a house.'
- On existing housing affordability measures that focus on giving cash to first-home buyers, former ANZ Chief Economist Saul Eslake has argued: 'It's hard to think of any government policy that has been pursued for so long, in the face of such incontrovertible evidence that it doesn't work, than the policy of giving cash to first home buyers in the belief that doing so will promote home ownership.'
- 'Super for a house' will impose extra costs on taxpayers and retirees. Early withdrawal will mean reduced savings at retirement, potentially adding billions to the cost of the retirement income system as entitlements to the Age Pension increase – and putting pressure on taxes to rise to pay for them. Retirees will also have less income from their super, with increased Pension entitlements making up only around one-third of the loss.
- New analysis by ISA estimates the impact of 'super for a house' on median house prices in each of Australia's eight capital cities. Encouraging aspiring first home buyers to raid their super savings could see median prices in the five biggest cities increase by between 8 and 16 per cent. Across all the capital cities, 'super for a house' would see median prices rise by at least five-figures.
- ISA supports a strategy to increase the affordability of housing that ensures supply responds to demand, while attracting new sources of funding from investors such as industry superannuation funds.

1. Introduction

One claimed solution to the current crisis of high and rising house prices is to allow first home buyers to have early access to some of their superannuation savings for the purposes of helping to pay a mortgage deposit. It is argued that more people will be able to afford their first home.

However, this paper shows that encouraging people to raid their retirement savings will not solve the problem of falling housing affordability. In fact, it will make the problem worse. In addition, it will not only aggravate the problem of falling home ownership – it will reduce retirement living standards while increasing reliance on taxpayer funds to make ends meet.

'Super for a house' is a lose-lose proposition – for individuals saving for retirement, for retirees and for taxpayers. This should not come as a surprise. Similar 'demand-side' policy approaches to the problem of unaffordable housing have been tried before – and have failed. The next section explains why.

2. Why 'super for a house' will increase prices

The current debate sparked by the 'super for a house' idea is not new. Providing first-home owners with additional financial resources to help them buy a home has been tried before – and found to have failed. This is because Federal policy has emphasised stimulating demand for housing, while largely ignoring problems of supply. But because in practice supply is constrained, problems of housing unaffordability have persisted. We discuss these issues in more detail below.

Experts agree that additional funds alone will hurt, not help first home buyers

The problems created by focusing on the stimulation of demand were considered by a 2015 Senate Inquiry into affordable housing which collected evidence on the impact of a number of policy programs such as First Home Owner Grants (FHOGs). FHOGs are Federally-funded subsidies, administered by the states and territories, paid to successful applicants to help them buy their first home. While FHOGs are not the same as providing early access to superannuation, they have the same effect: providing additional funds to first-home buyers.

Expert opinion is highly critical of FHOGs, with many arguing that they should be abolished.[1] In his submission to the 2015 Senate Inquiry Saul Eslake, former Chief Economist at ANZ, stated:

> 'Its hard to think of any government policy that has been pursued for so long, in the face of such incontrovertible evidence that it doesn't work, than the policy of giving cash to first home buyers in the belief that doing so will promote home ownership…
>
> And its pretty obvious why. Cash grants and other forms of assistance to first-time home buyers have served simply to exacerbate the already substantial imbalance between the underlying demand for housing and the supply for it.

[1] Senate Economics References Committee (2015), p. 172

> In those circumstances, cash handouts for first home buyers have simply added to upward pressure on housing prices, enriching vendors (and making those who already own housing feel richer) whilst doing precisely nothing to assist young people (or anyone else) into home ownership.
>
> For that reason, I often think that these grants should be called 'Existing Home Vendors Grants' – because that is where the money ends up – rather than First Home Owners' Grants.'[2]

Eslake's criticisms of grants are consistent with those of the Reserve Bank of Australia (RBA). In a 2008 speech the Head of Economic Analysis at the RBA argued that a key role for government in the area of housing policy was to facilitate more efficient housing outcomes. That involved avoiding measures that fuelled excessive demand, while simultaneously easing constraints on supply. The speech concluded:

> 'On the demand side, it is now widely accepted that policies that simply give people more money to spend on housing is likely to be capitalised into higher housing prices. On the supply side, efforts to improve housing affordability should be focused on policies regarding land use and on improving efficiency in the supply of land and housing.'[3]

Senior politicians reject super for a home deposit

The idea that first home buyers should be encouraged to raid their retirement savings for a deposit is not new. It is an option that a number of previous governments have considered and rejected. According to former Treasurer Peter Costello:

> '…this idea has been around for a long time. Every generation thinks it invented the wheel. We went through all of this back in the mid 90s. We had a look at it [and] because we thought superannuation should be for retirement savings we decided not to allow superannuation to be available for housing.'[4]

When Malcolm Turnbull was in the Cabinet the notion came up again. He publically rejected it as 'a throughly bad idea.' He continued:

> 'It's not what the superannuation system is designed to achieve. Housing affordability is a big issue in Australia but as we've demonstrated over many studies over many years, this is a supply side problem.'[5]

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[2] Eslake, S. (2013) Australian Housing Policy: 50 years of Failure, p. 7, 9.

[3] Richards, A. (2008) Some Observations on the Cost of Housing in Australia, address to the 2008 Economic and Social Outlook Conference, The Melbourne Institute.

[4] 'Malcolm Turnbull: First home buyers using super a thoroughly bad idea,' The Guardian, 11.03.15

[5] Ibid

While Minister for Finance, Senator Mathias Corman agreed that the 'super for housing' proposal was not consistent with the purpose of superannuation – which is to provide an income in retirement. On house prices he warned:

> '…pumping more money into the housing market by letting people access their superannuation savings more freely will not bring down the cost of housing; if anything, it would probably lead to further increases in the cost of housing.'[6]

The Retirement Income Review, a Senate Inquiry & the Grattan Institute have not supported super for a home deposit

While the recently published Retirement Income Review (RIR) pointed to the importance of homeownership as a source of adquate living standards in retirement, it did not recommend that early access to super should be allowed for housing.

Deborah Ralston, a member of the RIR panel, has noted the role that super already plays in supporting home, such as via the First Home Super Saver Scheme and the use of super savings at retirement to help pay out mortgages. However, she concluded:

> 'In each of these ways super makes a contribution to homeownership. The review did not conclude there was a case for allowing further withdrawals from super to enable it to do more.'[7]

The 2015 Senate Inquiry into affordable housing received some arguments in favour of allowing early access for a home deposit. It noted claims that any new capital made available to help pay a deposit would be helpful. However, it concluded that early access would not be in the interests of future retirees or the broader retirement income system. It stated:

> '…the committee believes providing first home buyers with access to their superannuation would significantly add to demand-side pressures, with the extra money available being capitalised into higher housing prices. Moreover, such moves would leave Australian workers with less money at retirement, and more broadly compromise the integrity of Australia's retirement income system.'[8]

More recently Brendan Coates, Director of the Grattan Institute's Household Finances Program, has expressed a similar view:

> '…the more people we allow access to their super to buy a house, the more you're adding to demand for housing. And the more you add to demand for housing, particularly in a world where supply is constrained by the planning system in our major cities, the more you will push up prices.'[9]

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[6] 'Mathias Cormann warns super not the key to housing,' The Australian, 30.09.14

[7] Deborah Ralston, 'Home ownership and super are far more entwined than you might think,' The Conversation, 11.12.20

[8] Ibid, p. 186

[9] Quoted in 'Inside Tim Wilson's campaign against super,' The Saturday Paper, 06.02.21

Housing Supply: theory and practice

Today's advocates of 'super for housing' have little, if anything, to say about how demand and supply actually work in real-world housing markets. The assumption appears to be that increasing demand for housing will stimulate new supply to an extent that prices may fall, or stablise around a long-run equilibirum that makes housing more affordable over the longer term.

However, in reality housing supply is often not responsive to prices. There are a number of constraints on supply that mean increased demand – perhaps because aspiring home owners suddenly have a new source of cash to spend – translates into ever-higher prices. Common constraints on supply include:

- Limited availablility of land for new housing in places where aspiring home owners want to live, such as urban centres or locations close to good transport links into such centres.
- Complex and lengthy planning processes at local government level that inhibit land release for new housing developments.
- Hoarding of land owned by public and private agencies, such as disused former factory and office sites, that could be redeveloped for new house building in desired areas.

Why do demand-side proposals appear worthwhile?

Despite their failure, housing affordability policies that focus on stimulating demand appear attractive to some. Economics commentator Ross Gittins explained this appeal in terms of the tendency for aspiring homeowners to evaluate such policies in individual terms, missing their broader impacts. He argues:

> 'All these measures would work if you were the only person who benefited from them. That is why they *sound* like they would help. But because all the other would-be home buyers you are competing against also benefit, the attempt to make prices more affordable ends up pushing them higher.'[10]

In addition, demand-side policies can have significant political appeal. Policies that increase house values, even if that is not their stated justification, may help to cultivate political support among important constituencies of older homeowners who experience increases in their wealth and a greater sense of financial wellbeing.

The 'super for a home' proposal appears to have the added political attraction of providing additional financial resources to aspiring homeowners in a manner that does not impose immediate additional costs on the Commonwealth budget and taxpayers.

However, this discounts the fact that withdrawing money from super accounts will mean lower balances at retirement and increased reliance on the taxpayer-funded Age Pension to support retirement living standards. We discuss these costs next.

[10] Gittins, R. (19.09.07) 'Renters can't home in on jackpot,' Sydney Morning Herald.

A lose-lose for taxpayers and retirees

'Super for a house' is a losing policy for taxpayers and retirees.[11] Modelling by ISA shows that increased Age Pension entitlements as a result of early withdrawals of super will negatively impact taxpayers. The extra government-funded Age Pension entitlement for a 30-year-old accessing $20,000 today could be as high as $50,000 – or $100,000 for a couple if they withdrew $20,000 each. In effect, for every $1 taken out early from super, the taxpayer contributes up to $2.50 extra via the Age Pension.

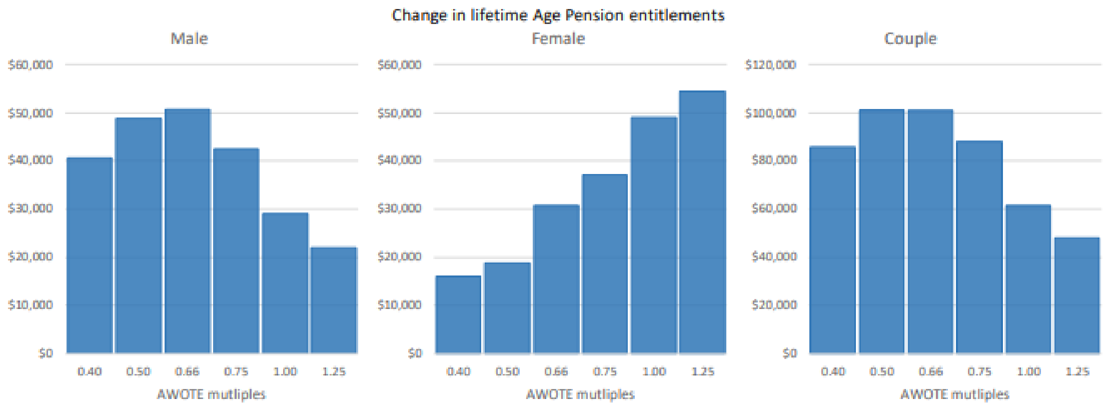
Figure 1 shows the extra lifetime costs for a 30-year-old individual and couple, differentiated by gender and earnings.

In relation to individuals' super savings, if a 30-year-old withdrew $20,000 from their super today they can expect to retire with around $80,000 less in today's dollars (wage deflated).

In addition to a lower balance at retirement, they will also be able to spend less during the years they are retired. Assuming average life expectancy, the 30-year old will draw around $90,000 less in superannuation benefits over the course of their retirement. Increased entitlement to the Age Pension will only make up around one-third to half of the shortfall.

In short, 'super for a house' will impose extra costs in lost super, lost income and additional Pension expenditures – likely leading to higher taxes to help fund the retirement income system than would otherwise be the case.

Figure 1 Effect of early withdrawals on lifetime Age Pension entitlements by gender



Source: ISA modelling

[11] Detailed analysis by ISA of the costs of allowing early withdrawal of super savings, in the context of the COVID early release scheme, can be found here: https://www.industrysuper.com/assets/FileDownloadCTA/ISA-Briefing-note-Early-Release-Long-Term-Cost-AP-Cameos_F-v2.pdf

3. The costs of 'super for a house'

New analysis by ISA has estimated the impact of encouraging first home buyers to raid their super savings on house prices in each of Australia's eight capital cities. Table 1 (below) summarises key results.

Table 1 Impact of 'super for a house' on median house prices in Australian capital cities

City	Current median price	Super price hike range%	Median after super price hike	Difference $
Sydney	$826,000	16%	$960,000	$134,000
Melbourne	$640,000	9%	$695,000	$55,000
Brisbane	$475,000	8%	$510,000	$35,000
Adelaide	$448,400	8%	$485,000	$36,600
Perth	$435,000	14%	$495,000	$60,000
Hobart	$453,900	6%	$480,000	$26,100
Darwin	$444,500	10%	$490,000	$45,500
ACT	$613,800	13%	$690,000	$76,200

Source: ISA modelling[12]

The main points from this analysis are:

- Encouraging first home buyers to raid their super for housing deposits could see median prices in the five biggest cities increase by between 8 and 16 per cent.
- In Sydney, where the market is already overheated, median prices could rise by up to $134,000 – making the market even more expensive and inaccessible to new entrants.
- In all of Australia's capital cities 'super for a house' would see five-figure median price rises.
- In most cities the resulting price increases and extra property taxes would quickly surpass the super that first home buyers may be able to withdraw. With the exception of Hobart, a

[12] Methodology notes: This modelling assumes that first-home buyers would be able to access $20,000 per person, or $40,000 for a couple. ISA's modellers analysed current non-homeowner rates by age, marital status and geographical regions and compared this to 10 years prior as a measure of pent-up demand. They then applied an assumed take-up rate based on a combination of national consumer sentiment survey results and observed take-up of the previous COVID early release scheme to estimate the potential increase in demand. ISA estimated the impact this sudden influx of demand would have on prices by applying demand, supply and income elasticities sourced from a number of Australian academic papers.

Importantly, there is a distinction between an increase in demand and those who may ultimately be successfully at an auction. That is, even those who want to/attempt to access their super but remain priced out of the market would impact demand and play a role in driving up house prices because they are able to then bid more at auction even if ultimately unsuccessful. A full technical paper will follow this report outlining methodology.

couple that took $40,000 from their super would lose nearly all of it through the price hikes that increased demand would fuel. In Sydney the increases would spike by three times that amount.

- The 'supercharging' of housing markets by 'super for a house' would lock even more potential buyers out of homeownership and burden others with much larger mortgages than would otherwise be the case.
- While aspiring home owners will be hit hard by rising prices, the big banks will reap a windfall from the interest on bigger mortgages.

4. Better policies for affordability

This paper has shown that housing affordability policies which consist of a one-sided emphasis on stimulating demand, such as providing early access to super for a deposit, do not work. Many workers will find it harder to buy a home. Retirees will have less to live on. And taxpayers will end up footing more of the bill for funding retirement.

By contrast, ISA strongly supports an effective housing affordability strategy that comprises a mix of supply and demand measures, while attracting new sources of funding from investors.

ISA works in close collaboration with national community housing providers to contribute to the policy debate about making home ownership available to many more Australians. This work has informed a number of papers that provide the basis for further discussion with housing experts, government and investors. This will include a new paper to released soon by the National Affordable Housing Alliance that will detail the causes of declining housing affordability and suggest policy solutions. Potential measures to increase affordability include:

On the supply-side:

- Provide tax incentives to attract more long-term equity investment into residential housing by institiutional investors such as superannuation funds.
- Reform state land taxes by replacing stamp duties with a small annual land tax – following the lead already taken by the ACT and NSW.
- Streamline town planning procedures by lowering barriers or restrictions for urban infills and density upgrades, and reducing approval timeframes.

On the demand-side:

- Reorientate those existing tax reforms that are fuelling excess demand toward greenfield construction, for example by limiting the exisiting negative gearing concession to new building.
- Special tax concessions to attract large-scale instituional investment in affordable housing.
- Restricting investment from overseas to new buildings, so redirecting such investment to expanding supply.