

## Chapter 9

### Housing and economic security in retirement

9.1 Home ownership is a significant component of the third retirement pillar—voluntary private savings. Some consider home ownership so important that it should be considered the fourth pillar of the retirement income system.<sup>1</sup> As noted in chapter 5, adequacy of retirement income and economic security in retirement are highly dependent on home ownership and access to affordable housing. People who retire without owning a home, particularly single women, are at greater risk of living in poverty and experiencing housing stress.

9.2 This chapter discusses the increase in the number of Australians, particularly women, who are relying on private rental accommodation in retirement. It also examines proposals to assist retirees who own their own homes, but find themselves cash poor in retirement.

#### Women in retirement and housing stress: a troubling trend

9.3 A number of participants in the inquiry highlighted the interrelationship between housing and economic security in retirement. In particular, submitters noted that older people living in rental accommodation faced much higher risks of poverty than older people who owned their own home. Because older women—and in particular older single women—are more likely to be renters than single men or couples, some inquiry participants argued that assisting older renters was an important aspect of improving women's economic security in retirement.

9.4 The AIFS explained that although the majority of retirees own their own home outright, in 2013 single women were more likely than single men or couples to be renting or still paying off their mortgage in retirement. As such, single women of retirement age are disproportionately more likely to experience housing stress. Together with the fact that single older women are more likely to rely entirely on the Age Pension (as discussed in the previous chapter), they are therefore more exposed to poverty in retirement:

After taking housing expenses into consideration, over 60% of single retired women were not able to afford a modest lifestyle, relying almost entirely on the age pension as their source of income. Single men fared slightly better, with fewer than half of single male retirees aged 65 to 69, and around 60% of those aged 70 or older not able to afford a modest standard of living. These results highlight the relatively poor standard of living among current retirees, who have not had the benefit of compulsory superannuation for most of their working lives and have little in the way of retirement savings.<sup>2</sup>

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1 Sarah-Jane Derby, 'CEDA overview', in Committee for Economic Development of Australia, *The Super Challenge of retirement income policy*, September 2015, p. 20.

2 Australian Institute of Family Studies, *Submission 18*, p. 23.

9.5 The AIFS also pointed to a worsening trend in housing security for Australian retirees, with estimates suggesting that by 2036 one in four retirees will be renters rather than homeowners. Given the trend toward deteriorating housing security, the AIFS submitted that 'retirement policy needs to ensure that assistance to meet housing costs keeps pace with the increasing costs of housing'.<sup>3</sup>

9.6 Similarly, ACOSS noted that while only 11 per cent of Age Pension recipients currently rent privately, this number is projected to increase in future years.<sup>4</sup> In this connection, it noted the Australian Housing and Urban Research Institute's (AHURI) warning about projected trends in home ownership among older people over the next decade:

The number of renters aged 65 or over living in low income households is projected to increase by 115 per cent from 195,000 in 2001 to 419,000 in 2026. The greatest projected change is in the 85-and-over age range, where the number of low income renters is estimated to increase from 17,300 to 51,000, creating a continuing demand for affordable housing suited to older households.<sup>5</sup>

9.7 The NFAW also observed that the changing circumstances and demographics of Australian women suggest there will be growing demand for housing support in the future. In this respect, it referred to a report by AHURI, *Too Big to Ignore Report—Future Issues for Australian Women's Housing 2006-2025*, which stated:

Over the next 10 to 20 years then, Australia's female population will not only be much older, and also include significant populations of (older) Indigenous women and women from CALD [culturally and linguistically diverse] backgrounds, as well as older women with disabilities, it will also include more women who have never married or had children, more women living in de facto relationships or remaining unpartnered for extended periods of time, more women who have had their first child in their 30s (or later still) and more women who are divorced or separated and who will not formally remarry.<sup>6</sup>

9.8 Underlining the difficulties faced by non-homeowners in retirement, the NFAW submitted that the 'main group still suffering persistent poverty' in Australia were people reliant on the pension and living in private rental accommodation. This cohort, the NFAW noted, was 'overwhelmingly women, especially single women'.<sup>7</sup>

9.9 The committee's 2015 report on housing affordability in Australia noted that to meet their changing housing needs older people may require modifications to their

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3 Australian Institute of Family Studies, *Submission 18*, p. 23.

4 A recent Productivity Commission report suggested that about 15 per cent of older Australians are renters rather than homeowners. Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, pp. 8–9.

5 Australian Council of Social Service, *Submission 61—attachment 1*, p. 13.

6 Quoted in National Foundation for Australian Women, *Submission 14*, pp. 9–10.

7 National Foundation for Australian Women, *Submission 14*, p. 3.

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dwellings to improve access, to make the surroundings safe and secure, to ensure that certain appliances (heaters, taps, showers) are maintained and simpler to use, and to cater for limited mobility and other health conditions. In other words, the dwellings of older people need to be made free from hazards and obstacles, comfortable, and take account of reduced mobility, and be liveable.<sup>8</sup>

9.10 Anglicare Australia explained that because older renters suffer from higher levels of housing insecurity, they are less able to 'age in place' than older homeowners. This not only leads to poorer outcomes for renters, but also places a heavier demand on the aged care system. Anglicare explained that:

...older people living in private rental are very afraid to ask for changes to be made to that accommodation so they can live in it for longer. They feel afraid that if they ask for a rail in the shower or a rail up the steps at the front of the house this will call the landlord's attention to them and the landlord will put the rent up or they will become known as problematic tenants and be asked to leave. We know that most people want to age in their own homes. It means that people in private rental do not stay in their own homes as long as those who have access to privately owned housing. That in itself brings people into the aged care system earlier, which we know costs more.<sup>9</sup>

9.11 UnitingCare Australia observed that retirees often depend on their home to fund aged care and other retirement expenses. It noted that with declining home ownership rates for retirees, alternative means should be identified to help people save for their retirement:

While we recommend that more work is done to unlock the potential of the home to self-fund retirement we also know that home ownership in Australia is in decline and that for many low-income and disadvantaged people it is unachievable and that the risk of poverty is often greater for non-home owners than for home owners. Therefore we believe we need to increase the options that are available to help people save for retirement and aged care costs which are not dependent on home ownership.<sup>10</sup>

9.12 With declining home ownership rates, older women also face growing risks of homelessness. Research commissioned in 2014 by the Mercy Foundation identified a growing group of older women experiencing homelessness. It found that:

These are women who have never before experienced homelessness or a housing crisis in their lives. This group of women had raised children, volunteered in their communities and/or cared for older relatives. Due to the unpaid (yet valuable) nature of their contribution throughout their lives,

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8 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 274.

9 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

10 UnitingCare, *Submission 9*, p. 10.

many are arriving in retirement single and poor. As a direct consequence of this they are experiencing homelessness or housing crises.<sup>11</sup>

9.13 Mr Ian Yates, COTA Australia, rightly observed that 'it is heartbreaking and shameful that a new cohort of Australians—vulnerable older women—are joining the ranks of the homeless, rather than homelessness being reduced across the board'.<sup>12</sup>

9.14 COTA Australia outlined the range of factors that threaten to increase housing stress and homelessness among the most vulnerable older Australians, which includes a large proportion of women, in coming years. They include:

- a consistent trend to reduced outright home ownership for people going into retirement in the future;
- a public pension system in older age that largely presumes outright home ownership or appropriate housing security is already in place for recipients;
- reduced access to affordable public and social housing in all age cohorts;
- the lack of appropriate, affordable, private rental housing across all ages; and
- the inadequacy of public rental assistance in the face of a housing affordability crisis.<sup>13</sup>

### **Proposed measures to assist renters**

9.15 Anglicare Australia informed the committee that its most recent annual research on costs of renting revealed a striking lack of affordable rental accommodation available in the current housing market:

In 2015 we surveyed 65½ thousand properties and tested them for affordability if you were on an age pension. We found that out of 65,614 rental properties, only 0.9 per cent would have been affordable for a single person living on an age pension.<sup>14</sup>

9.16 A number of submissions recommended proposals aimed at improving the supply of affordable rental properties available for pensioners, or supplementing the Age Pension to ensure pensioners in rental accommodation were better able to meet their housing costs. Recommendations made in this regard focused on two policy mechanisms in particular: the National Rental Affordability Scheme (NRAS), and Commonwealth Rental Assistance (CRA).<sup>15</sup> The committee notes that both NRAS

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11 Mercy Foundation, *Submission 24*, p. 3.

12 Mr Ian Yates, Chief Executive Officer, COTA Australia, *Committee Hansard*, 19 February 2016, p. 2.

13 COTA Australia, *Submission 86*, p. 14.

14 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

15 Other recommendations included a recommendation from Women's Health Goulburn North East and Women's Health in the North that the government research and subsidise cooperative living arrangements. Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. xii.

and CRA were addressed in greater detail in the committee's 2015 report, *Out of Reach?: The Australian housing affordability challenge*.

### ***National Rental Affordability Scheme (NRAS)***

9.17 The committee has noted in the *Out of Reach* report that affordable and secure housing brings health and wellbeing advantages for renters, especially as they grow older. In that inquiry, COTA noted that the supply of social housing was an essential part of the housing stock, which provided low income people and homeless people or people at risk of homelessness with a pathway to secure long term accommodation. Social housing is particularly important as public housing is no longer guaranteed—being old or over 65 is no longer a criterion for entering into public housing.<sup>16</sup>

9.18 Social housing is better able to meet the needs of disadvantaged groups as it offers lower rents, more secure and stable tenure and appropriately modified housing. However, there is fierce competition and long waiting lists for social housing as supply is limited.<sup>17</sup>

9.19 Some submissions supported the continuation of NRAS. NRAS is a partnership between the Australian Government and the states and territories to invest in affordable housing. It was designed to stimulate and add to the supply of affordable housing by offering annual financial incentives to private investors and community organisations to build and rent homes to low- and moderate-income households at a rate at least 20 per cent below market rates.<sup>18</sup>

9.20 COTA Australia supported the development of government initiatives to encourage private sector development of affordable housing options, and expressed its support for NRAS in this connection. It argued that NRAS:

...made a very useful contribution to increasing the supply of affordable housing, particularly in locations that are close to services and [we] are deeply disappointed that the Government has withdrawn funds for Round 5 of the Scheme and there are no plans for further investment.<sup>19</sup>

9.21 COTA Australia acknowledged that there were problems with the administration of NRAS, but maintained these could have been addressed.<sup>20</sup>

9.22 According to Dr Hodgson, NFAW, the type of housing that is available is often unsuitable and unaffordable for older women. She noted:

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16 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, pp. 275–277.

17 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 291.

18 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 7.

19 COTA Australia, *Submission 86*, p. 16.

20 COTA Australia, *Submission 86*, p. 16.

NRAS was one of the few instruments that was introduced to look at the supply of housing as opposed to the tax system, which is mostly a demand focused instrument. What it was doing was giving an incentive to people to rent properties at less than market rate, which would have been suitable for some older women who do not want to go into share housing or who do not want to live in a hostel. So we think that, with the axing of NRAS, a whole spectrum of people who are low income and disadvantaged are missing out.<sup>21</sup>

9.23 The committee's aforementioned 2015 report, *Out of Reach?: The Australian housing affordability challenge*, contained a number of recommendations relating to NRAS. These included a recommendation that:

...in the absence of any credible alternative scheme designed to increase the supply of new affordable housing and considering steps have already been taken to improve the administration and implementation of NRAS, that the Australian Government continue with NRAS round 5.<sup>22</sup>

### ***Committee view***

9.24 The committee supports the development of innovative government initiatives to encourage private sector development of affordable housing options. The committee considers that in the absence of any credible alternative scheme, the Australian Government should consider continuing with NRAS.

### ***Commonwealth Rental Assistance (CRA)***

9.25 A number of submissions recommended that CRA be reviewed to ensure it adequately meets rising housing costs in Australia.<sup>23</sup>

9.26 ACOSS noted that for the one in eight older people who rent privately, the maximum CRA is well below typical private rents at a maximum of \$64 a week.<sup>24</sup>

9.27 In its report on affordable housing in Australia, the committee noted that older people who rent are one of the most disadvantaged groups in Australian society and that their numbers were increasing. Older people living in private rental properties report that they experience high levels of anxiety due to 'unstable tenure, high and frequent rent rises and the need to move relatively frequently'. Approximately one in four recipients of the CRA payment aged over 65 was still in rental stress after receiving the payment. The committee noted that single women with low

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21 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 40.

22 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 375.

23 Mercy Foundation, *Submission 24*, p. 4; Women and Work Research Group, *Submission 76*, Australian Council of Social Service, *Submission 61*; NSW Council of Social Service, *Submission 68*; COTA Australia, *Submission 86*, p. 12; Grattan Institute, *Submission 87*.

24 ACOSS, *Submission 61–Attachment 1*, p. 5.

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superannuation balances and those facing relationship breakdowns in their later years were 'very vulnerable to housing stress'.<sup>25</sup>

9.28 COTA Australia argued that the Commonwealth government, in addition to prioritising measures to address a sufficient supply of affordable and appropriate housing, should significantly increase the maximum CRA payment for Age Pensioners. It noted that as home ownership rates are trending downwards and future retirees will increasingly be renters, the inadequacy of the Age Pension for retirees who rely solely on the pension and do not own their home needs to be urgently addressed.<sup>26</sup>

9.29 The Grattan Institute argued that a boost to CRA would help those already experiencing poverty in old age, as well future low-income retirees. Increasing CRA could provide targeted support to retirees who do not own their own home, in particular older women. The Grattan Institute argued that increasing the CRA would be more beneficial than proposals to boost retirement savings.<sup>27</sup>

9.30 The need to address the adequacy of the CRA was also examined in detail during the committee's inquiry into housing affordability in Australia, which reported in 2015. The report recommended that the Australian Government:

- review the eligibility criteria for CRA to ensure that it is targeted at those most in need;
- review the method of indexing CRA with a view to retaining its adequacy; and
- review the adequacy of CRA.<sup>28</sup>

#### ***Committee view***

9.31 Australians are becoming less likely to own their own home in retirement, with increasing numbers of older people relying on private rental accommodation. The committee is concerned that the retirement income system does not adequately address the rising housing costs for older people renting in retirement, particularly single women, who are at greater risk of living in poverty. The evidence received during this inquiry supports the findings of the *Out of Reach?: The Australian housing affordability challenge* report that the adequacy of the CRA to meet housing costs for renters needs to be addressed. The committee considers that increasing CRA is one of the most significant measures that could immediately assist those retirees under the greatest financial stress.

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25 For further information see chapter 16, Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015.

26 COTA Australia, *Submission 86*, p. 12.

27 Grattan Institute, *Submission 87*, p.7.

28 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 394.

**Recommendation 18**

9.32 In light of the growing number of older people, particularly women, who are relying on private rental accommodation in retirement, the committee recommends that the Australian Government urgently review the adequacy of Commonwealth Rent Assistance.

**Recommendation 19**

9.33 The committee reiterates recommendation 26 of its 2015 report, *Out of Reach?: The Australian housing affordability challenge*:

In light of the anticipated rise in the number of older Australians in the private rental market, and the insecure tenancy confronting many older renters, the committee recommends that the Australian Government look closely at its aged care policy so that it takes account of the particular difficulties confronting older Australians in the rental market. The aim would be to determine how policies designed to assist older Australians to remain in their home could take better account of, and accommodate, the added difficulties for older people accessing safe and secure housing and in conducting modifications to rental dwellings, and more broadly in renting in the private rental market.

**Accessing equity in the home**

9.34 Women in Super observed that the family home is the largest asset for many retirees, yet many older people may be income poor if their cash income is not enough to meet their daily needs. While home owning retirees may have the benefit of not paying rent and be considered asset rich, the family home is an illiquid asset and there may also be ongoing maintenance costs.<sup>29</sup>

9.35 Women in Super noted that many retirees are reluctant to sell their homes to improve their retirement incomes. One explanation is concern that they may need the asset to cover the cost of aged care.<sup>30</sup>

9.36 Research by the Productivity Commission found that around 40 per cent of Age Pension recipients who owned their own home did not meet a 'modest retirement standard'.<sup>31</sup> Of those people, the majority could use their home equity to reach and maintain this income level over the rest of their lives.<sup>32</sup> The research also found that

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29 Women in Super, *Submission 50*, p. 16.

30 Women in Super, *Submission 50*, p. 16.

31 Productivity Commission, *Housing Decisions of Older Australians: Research Paper, December 2015*, p. 24. The Association of Superannuation Funds of Australia publishes the income levels necessary to meet particular living standards in retirement, available at <http://www.superannuation.asn.au/resources/retirement-standard>

32 Productivity Commission, *Housing Decisions of Older Australians: Research Paper, December 2015*, p. 24.

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'there is currently little interest among older Australians in making use of financial equity release products'.<sup>33</sup>

9.37 In light of the Productivity Commission's finding that many older Australians are asset rich and income poor, UnitingCare Australia supported 'further consideration of unlocking the value of the principal residence to help people self-fund their retirement and aged care needs whilst maintaining a decent standard of living'.<sup>34</sup>

9.38 Women in Super considered that more work needs to be done to help retirees remain in their own home while relieving the burden of maintenance and need for additional retirement income to live comfortably. It suggested further developing home equity release schemes.<sup>35</sup>

9.39 The Bankwest Curtin Economics Centre cautioned that careful consideration needed be given to any proposals to encourage reliance on personal housing assets in old age, as women are more reliant on primary home assets than men. As such women are more vulnerable to the risks and costs associated with realising housing equity.<sup>36</sup>

9.40 Similarly, Professor Miranda Stewart was mindful that for women who do own their own home, it is a critical element of their economic security in retirement as it is often the only substantial asset that many women acquire during their lifetime. As such, she argued that any proposals to include home ownership in the age pension asset test or to change tax concessions relating to home ownership should be carefully scrutinised as they would likely have a differential and negative effect on women.<sup>37</sup>

9.41 Professor Alan Duncan, Bankwest Curtin Economics Centre, argued that the desire for flexibility in accessing home equity in the retirement phase is likely to increase as the baby boomer generation enters retirement. He observed:

I think individuals now more than ever before have different lifestyle aspirations around the retirement age and beyond. We are seeing a substantial hump of retirees from the baby boomer generation; they will be hitting the retirement phase over the next five to 10 years. Arguably, the aspirations and the lifestyle choices of the baby boomer generation are different to previous cohorts of the builders. As a consequence, I think flexibility in the way that one can manage finances and lifestyle opportunities over the retirement phase is different now from before, and, hence flexibility in product to allow that to happen is important. But there are risks, and I think an awareness of those risks—in some sense the accumulation of financial literacy, amongst others, moving into

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33 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 170.

34 UnitingCare Australia, *Submission 9*, p. 6.

35 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 170.

36 Bankwest Curtin Economics Centre, *Submission 80*, p. 29.

37 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78*, p. 4.

retirement—would be helpful to provide more security and to offset some of the risks that might otherwise be in place.<sup>38</sup>

9.42 The Australia Institute proposed expanding the Pension Loans Scheme, a government run reverse mortgage scheme which allows eligible users to borrow against their home to increase their retirement income. The scheme is not well known and in its current form has very strict eligibility criteria. The Australia Institute argued that an expanded Pension Loans Scheme should be used to increase retirement incomes for those who rely on the age pension.<sup>39</sup> The Pension Loans Scheme was originally designed to accompany a proposal, which was never implemented, to include the principal residence in the assets test for the Age Pension.<sup>40</sup>

### *Committee view*

9.43 The committee considers that there may be merit in further considering the development of products to unlock equity in the home for those who find themselves asset rich but cash poor in retirement. However, the committee is of the view that any such proposals should have regard to the evidence of women's greater reliance than men on the home as their primary asset in retirement. Further, the committee is concerned that any proposals to enable access to home equity for retirement income should not be tied with a move to include the principal residence in the assets test for the Age Pension.

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38 Professor Alan Duncan, Director, Bankwest Curtin Economics Centre, *Committee Hansard*, 12 February 2016, p. 24.

39 The Australia Institute, *Submission 8*, p. 10.

40 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 168.