SUBMISSION

Supplementary submission to the Senate Economics References Committee — Inquiry into improving consumer experiences, choice and outcomes in Australia's retirement system

2 July 2024

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File: 2024/29

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2 July 2024

Dear Sir/Madam

Inquiry into improving consumer experiences, choice and outcomes in Australia's retirement system – interim report into existing and proposed superannuation for housing policies

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this supplementary submission in response to the Committee's interim report into existing and proposed superannuation for housing policies.

ABOUT ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

ASFA's strategic objectives include to develop public policy position and advocate for:

- **Equity** between members in regard to levels of government assistance and in regard to superannuation balances and retirement incomes received
- The **dignity** of individuals in retirement, through ensuring the adequacy of retirement incomes, relative to the needs and expectations of retirees, and achieving the right balance between self-reliance and receipt of government assistance
- **Member outcomes** are appropriate, optimised and there are no unintended consequences
- **Operational effectiveness**, to deliver, at a reasonable cost, services of a type and standard that meet the needs and expectations of fund members and help them develop confidence in the system
- **Sustainability**, a super system underpinned by the principle of preservation fiscally sustainable, robust to changing demographics and to shifts in the structure of the economy and the associated funding needs of business and government

GENERAL COMMENTS

First-home buyers have a right to expect both access to housing and dignity in retirement. ASFA's view is that policy proposals which allow early withdrawal of super will put this principle at risk, without solving the underlying issue relating to Australia's housing shortage. The relative lack of supply of housing is the key issue to be resolved to ensure improved attainability and affordability.

Early release of super for housing will be largely ineffective in lifting home ownership rates and substantially detrimental to income in retirement. Early access to superannuation would not solve the barrier-to-entry challenge of insufficient housing deposits for first-home buyers.

Given the constraints on supply, any measures to increase the amount available to purchasers will only serve to increase demand and push up prices further. Acquiring a home should not be at the expense of a person's standard of living in retirement.

Over the last decade or so there have been several comprehensive reviews that have rigorously assessed the superannuation system.[1] None of these reviews has recommended the early release of superannuation for housing deposits, while several have made recommendations to the contrary, noting the strength of preservation as the underlying principle of superannuation in delivering financial security in retirement.

Superannuation funds are involved in investments towards social and affordable housing, but there is always more that can be done.

Funds increasingly are investing in residential property, especially in the relatively new build-to-rent sector, and through investment in Government backed bonds issued by Housing Australia is a key source of funding for social and affordable housing. Such investment has the capacity to increase housing supply and improve tenure and affordability in the rental market.

A range of structural and policy issues have created the housing crisis, and will necessitate a multi-faceted response. The problem of unaffordable housing and declining levels of home ownership cannot be solved through the early release of superannuation and in fact this is likely to exacerbate the problem and entrench inequality.

Improving housing affordability must be tackled more holistically which requires co-ordination across Federal, State and Local Government to address the underlying issues. What is needed is a national approach to improving the affordability of housing, and so we welcome the Department of Social Security Issues Paper on Developing the National Housing and Homelessness Plan – Issues Paper[2] and continuing conversations with government on the mechanisms of the Housing Australia Future Fund (HAFF).[3]

ASFA, as the voice of super, welcomes the opportunity to be engaged in this important discussion.

1. Super withdrawals for housing will benefit high income earners

Underlying the early release of superannuation for housing is an assumption that, were this not to occur, people would not ever be able to acquire a home.

The early release of superannuation, however, is more likely to bring forward when a house is purchased, as opposed to being the difference as to whether or not a house is bought at all. This is due to the nature of the policy's design – whereby those with higher super balances will benefit more in terms of tax concessions and withdrawal amounts than those with lower balances.

[1] The *Super System Review* chaired by Jeremy Cooper released in 2009-10
The *Financial System Inquiry* (FSI) chaired by David Murray released in 2013-14
The Productivity Commission *Review into Efficiency and Competitiveness in Super* in 2017-18
The *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* led by Commissioner Kenneth Hayne AC QC, 2017-19
The *Retirement Income Review* led by independent panellists Michael Callaghan, Deborah Ralston, and Carolyn Kay released in 2020
[2] Department of Social Security Issues Paper on *Developing the National Housing and Homelessness Plan* – Issues Paper
https://engage.dss.gov.au/developing-the-national-housing-and-homelessness-plan/developing-the-national-housing-and-homelessness-plan-issues-paper/
[3] Department of Finance, *Housing Australia Future Fund*
https://www.finance.gov.au/government/australian-government-investment-funds/housing-australia-future-fund

In terms of tax concessions, it is estimated that a person withdrawing $50,000 would receive $24,000 in tax concessions, while a person withdrawing $25,000 would receive $9,750 in tax concessions. People with low superannuation balances are often lower income earners.

2. Elevated house prices are a function of supply-side factors

The deterioration in housing affordability is attributable to significant increases in house prices across Australia over the past few years.

These increases in prices, as in all markets, are a function of the interaction of supply and demand. In the housing market, given the relative stability of the population, it is supply-side factors that are contributing to the deterioration in housing affordability.

Accordingly, the key to improving housing affordability is to look to measures that will increase the supply of housing available for purchase, which will serve to act as a constraint on house prices. Building more homes is the solution to Australia's housing shortage.

In its submission to the Committee, the Centre for Independent Studies (CIS) stated that:

> "*Each of the* [super for housing] *proposals would boost the demand for housing and hence housing prices. They would increase access to housing for the favoured recipients but decrease it for everyone else. Unless supply also increases, they would simply reshuffle a fixed housing stock*".[4]

Previous Parliamentary Committee reports have concluded that supply restrictions have increased the cost of housing substantially.

The House of Representatives Standing Committee on Economics' 2016 Report on the inquiry into home ownership concluded that:

> *'The committee's view is that government policy in this area should predominantly focus on boosting dwelling supply in underserved markets. Many of the witnesses before the inquiry stated that a lack of supply was contributing to rising house prices in Sydney and Melbourne. In the committee's view, state and territory governments need to do more to adequately address land supply and ensure that existing policies and processes are not unnecessarily causing an undersupply".*[5]

In its evidence to the House of Representatives Standing Committee on Tax and Revenue *Inquiry into Housing Affordability and Supply in Australia* in 2022, with respect to effect of tax changes, the Department of the Treasury expressed a view that ongoing price growth is more of a supply side issue

> *"But if the committee's concerned about ongoing price growth, year on year, then we don't really think changes to tax settings would do much to alleviate that. That's going to be more of a supply side issue".*[6]

In their report the House of Representatives Standing Committee on Tax and Revenue noted that there is a need for measures to increase supply

> *"The Committee acknowledges that unless first home buyer support programs are accompanied by increased housing supply entering the market, such policies usually lead to an increase in property prices …*

[4] The Centre for Independent Studies, Submission 21, p. 39

[5] House of Representatives Standing Committee on Economics, *Report on the inquiry into home ownership*, December 2016, Canberra, p. iii

[6] House of Representatives Standing Committee on Tax and Revenue *The Australian Dream, Inquiry into Housing Affordability and Supply in Australia* in 2022, Mr Geoffrey Francis, Assistant Secretary, Indirect, Industry and State Tax Branch, Committee Hansard, Canberra, 14 September 2021, p. 8.

> *Implementation of* [a super as collateral] *policy should depend on also implementing policies to increase the supply of housing (such as Recommendation 2). Otherwise, an increase in households' ability to borrow would likely increase property prices*."[7]

The National Housing Supply and Affordability Council report *State of the Housing System 2024* concluded that the housing system's inability to supply sufficient housing that meets the population's needs is the primary reason for worsening affordability.[8]

The Report discussed current supply and demand conditions in the housing system and their implications for the price of housing, focussing on the period January 2023 to April 2024.

Key points included that

- housing prices and rents have increased sharply over the past year and rental vacancy rates are near a 15-year low
- demand for housing is strong, reflecting recent rapid population growth
- new housing supply is inadequate. Approvals and commencements are at around a 10-year low.
- low levels of supply reflect cyclical factors such as elevated interest rates, which are compounding … structural supply issues …
- demand for social housing continues to outpace supply.[9]

Currently, the undersupply of housing, relative to the effective underlying demand for housing, is around 30,000 homes. Over the next few years, this shortfall is expected to rise by an additional 40,000 homes.[10]

3. Super funds contribute to the supply of housing

Superannuation funds, through their investments, contribute to the broader housing market, such as investing in mortgage-backed securities and some infrastructure investments.

It is in this space that superannuation can make a meaningful contribution to improving housing affordability.

3.1. Build to Rent

One example could be the proposed Build to Rent (BTR) measures, as contained in the Exposure Draft *Treasury Laws Amendment Bill 2024: Build to rent developments* and *Capital Works (Build to Rent Misuse Tax) Bill 2024* that were released for consultation during April.

ASFA made a submission to this consultation, in which we supported the objective of encouraging institutional investment into housing, including affordable housing, and recognised the potential of the BTR sector to contribute positively to the housing needs of Australians and yield appropriate risk adjusted returns.

In our submission we noted that:

- generally it is the under supply of housing in Australia which has an effect on affordability, through a lack of supply
- encouraging capital flow into housing is an important component of addressing this undersupply
- super investors have a responsibility to pursue appropriate, risk adjusted, returns for members
- as such, any encouragement of investment activity needs to be mindful that opportunities must meet this threshold, including BTR tax treatment settings which can act as a deterrent to investment.

[7] Ibid, para 5.36 and para 5.41
[8] National Housing Supply and Affordability Council, *State of the Housing System 2024*, Page 4
[9] Ibid, Page 61
[10] Ibid, Page 73

Our submission focussed on possible amendments to the draft Bill that would encourage the participation of institutional capital at scale to meaningfully enhance the supply of housing, including sustainable and affordable housing options.

ASFA's submission made the following recommendations:

1. that the Managed Investment Trusts (MIT) withholding rate should also apply to the distribution of capital gains
2. that the Australian government should consult with the States and local government on a nationally consistent definition of the term 'affordable'
3. that clarity should be provided with respect to the baseline of 'market rents' - we recommended that the test be the rents charged for equivalent housing units in the development that are subject to non-concessional rents
4. that the originally announced hold period of 10 years be retained
5. that the GST treatment of construction costs be considered – we recommended that the GST treatment of BTR residential properties by raised with the States
6. that the 'key worker' cohort be considered – we recommended that the Bills contain a regulation-making power that would enable key workers to be included as part of the target market for affordable housing in supporting regulations.

4. Early release of super would not improve affordability

Early release of superannuation would risk reducing access to, and the affordability of, home ownership for those who have relatively low superannuation balances, generally low income earners, and thus less funds available for a housing deposit. Even with access to additional funds, these members risk being priced out of the first home market.

ASFA research – *Early release of superannuation for home purchase: why it would not improve affordability,* March 2024 – has found that, for the majority of aspiring first-home buyers and those with low superannuation balances, allowing early access to superannuation for housing would not make home ownership more attainable.[11]

The research examined an ATO sample of 300,000 taxpayers, in conjunction with ABS data, to assess the distribution of superannuation balances for prospective first-home buyers aged 25-34 across Australia's major capital cities. It then charted that against the housing deposit required for a median-priced house and unit (equivalent to 20 per cent of home valuation).

The key findings of the research included that:

- the early release of superannuation would risk exacerbating the lack of access to, and unaffordability of, home ownership
- people who have relatively low superannuation balances, and thus a relatively low value of funds available for a housing deposit, could be priced out of the market for a first home – even with access to additional funds through superannuation
- the additional nominal purchasing power available to prospective first-home buyers would be competitively build into higher house prices.

The data show no-one in the 25 to 34 age group in Sydney, whether single or in a couple, could raise sufficient money for the deposit on an average house or unit through using their superannuation alone. A Sydney couple with the median amount of superannuation would be more than $150,000 short of the deposit on a median-priced house if they used only their super.

[11] ASFA Research Paper: *Early release of superannuation for home purchase: why it would not improve affordability,* 25 March 2024 – https://www.superannuation.asn.au/wp-content/uploads/2024/03/Early-release-of-superannuation-for-home-purchase-why-it-would-not-improve-affordability_March25-1.pdf

Similarly, prospective house buyers in Melbourne are unable to raise a house deposit by accessing their superannuation, while only a couple in the top 20 per cent of superannuation balance holders could gather a deposit for a unit using their retirement savings.

An overseas example of an early release scheme is New Zealand and the release of money from Kiwisaver accounts. Since this was introduced in 2007, NZ$2.43 billion has been released to 98,800 individuals, an average of NZ$24,600. Over the period 2006 to 2018 (the latest date available) home ownership rates in New Zealand for those aged 35 to 39 fell from 64.8 per cent to 59.2 per cent – the release of retirement savings has not resulted in higher rates of home ownership.

5. Using super for housing deposits is inequitable

Further ASFA research released in May 2024 – *Equity and the use of superannuation for housing deposits*, May 2024 – based on HILDA data collected in 2022, found that half of all renters aged 30 to 39 have less than $30,000 in superannuation savings, much less than the deposit of $120,000 or more currently needed to purchase an entry point home, while 57 per cent of this age cohort had achieved home ownership.[12]

The research indicated that of individuals aged 35 to 39, 75 per cent had less than $65,000 in their superannuation, with an average of around $48,000.

Early release from superannuation would benefit only a small minority of high income, high super balance first home buyers, with this group likely to achieve home ownership in any event, while early access for low income, low balance groups would make little, if any, difference to their capacity to purchase a home.

The key findings of this research reaffirmed that:

- generally those with higher superannuation balances already achieve home ownership
- opening up access to super balances would provide substantial tax benefits for upper income earners, with only small benefits going to low-income earners
- many low-income individuals have depleted their super balance through COVID early release
- allowing early release of superannuation for housing would worsen intergenerational equity.

5.1. Low income earners versus high income earners

The analysis highlights inequities associated with individuals being able to use their superannuation for a house deposit.

Allowing access to superannuation balances would likely benefit only a minority of people who have high superannuation balances, generally as a result of higher income, and would provide substantial tax benefits for them, with low income earners only receiving relatively small benefits. High income earners are more likely to be able to afford to purchase a home.

Further, many low-income earners have depleted their superannuation balance through the COVID early release measure.

5.2. Need for increase in supply of social housing

People need access to safe and affordable housing.

The demand for social housing has continued to outpace the supply.

[12] ASFA Research Note: *Equity and the use of superannuation for housing deposits* – 16 May 2024 – https://www.superannuation.asn.au/wp-content/uploads/2024/05/ASFA-Research-note_Equity-and-the-use-of-superannuation-for-housing-deposits-1.pdf

The National Housing Supply and Affordability Council, in observing in 2024 that social housing has not kept pace with demand, stated:

> *The amount of social housing stock has remained relatively unchanged over the past decade. In June 2022, Australia had around 443,000 social housing dwellings, a slight increase from 428,000 dwellings in 2013 … While public housing remains the primary type of social housing, there has been an ongoing shift towards community housing. Public housing has declined from 77 per cent of the social housing stock in 2013 to 67 per cent in 2022, with community housing rising from 16 per cent to 25 per cent over the same period. This shift has been partly driven by the gradual transfer of the ownership and management of public housing units to CHPs* [Community Housing Providers].
>
> *Demand for social housing has continued to outpace supply, driven by household formation and rising housing cost pressures. As of June 2022, there were around 418,000 households in the 4 primary social housing programs. Most main tenants were over the age of 50 (65 per cent) and female (62 per cent), while 36 per cent of households included a person with a disability and 16 per cent included an Indigenous Australian … Waiting lists for public housing are long. Despite falling in 2022–23, the number of households on waiting lists rose at an annual rate of 3.8 per cent over the 5 years to 2022–23, to reach 169,000 … The number of greatest need households on waiting lists rose at an even faster annual rate of 8.7 per cent over the same period, to reach 70,000. The number of State Owned and Managed Indigenous Housing (SOMIH) households on waiting lists rose by 10 per cent over the year to 2022–23, from 13,700 to 15,000.*[13]

Bringing about equity in access to housing necessitates greater provision of social and other affordable rental housing to people with low incomes and low financial resources.

The early release of superannuation is not a viable solution to the housing problem faced by people with low incomes and low financial resources who are not in a position to consider purchasing a home.

5.3. Intergenerational equity

The early release of superannuation for housing would worsen intergenerational equity.

Older age groups have benefitted from both more affordable housing and compulsory superannuation. Younger generations who often have the burden of HECS debts, should not be expected to sacrifice their own superannuation to address a problem which has its genesis in a systemic issue – the insufficient supply of affordable housing.

6. Investment returns from super relative to residential housing

Suggestions have been made that home ownership provides a larger financial return, through capital appreciation and an implicit net rental yield, than can be achieved through superannuation investment returns.

It is critical that comparisons such as this use reasonable assumptions and compare 'like with like' savings behaviour. A person saving an amount through superannuation can be better off financially than borrowing an equivalent amount to purchase an apartment.

ASFA has developed a cameo of comparative investment returns for superannuation and home ownership, on the assumptions that, on average, capital appreciation is equal to wages growth of 3.5 per cent per year and super investment returns average 7.3 per cent per annum, the average return for the last 30 years.[14] Using a deflator of wages growth of 3.5 per cent, to express all figures in current dollars, means in 30 years' time the value of an apartment is unchanged in today's dollars.

In the case of an $800,000 apartment, with a $160,000 deposit, contributing the deposit into superannuation and salary sacrificing an amount equivalent to ongoing ownership costs would, after 30 years, result in a super balance of $950,000 in today's dollars - more than the value of the apartment. Differences in the pattern of rent paid relative to mortgage repayments would complicate the cameo.

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[13] National Housing Supply and Affordability Council, *State of the Housing System,* 2024, Page 73

[14] ASFA Research note: *Investment returns from superannuation relative to residential housing*, June 2024

7. Super is for retirement – and preservation is at its heart

Superannuation is designed for the purpose of providing income in retirement.

Preservation of superannuation benefits until retirement is the cornerstone of the system and has been essential to the success of Australia's superannuation system – the outcomes achieved are a direct result of a paramount regard for the principle of preservation. Ensuring that balances are maintained for use in retirement has seen the average superannuation balance triple for men and quadruple for women between 2005-06 to 2020-21.

COVID-19 early release payments will have a lasting effect on the retirement savings of many Australians, particularly millennials. For a person aged around when they applied for a COVID-19 early release, the effect on their final superannuation balance could be over $43,000 in today's dollars.

Early release of superannuation serves to erode the eventual outcome for members – the loss of the amount withdrawn, exacerbated through the loss of compounding returns, serves to reduce significantly the amount of a member's final end benefit, needed to finance their retirement.

8. First Home Super Saver Scheme could be simplified and extended

The First Home Super Saver Scheme (FHSSS) applies to voluntary contributions only.

Given voluntary contributions represents savings which arguably would have been made anyway, where a person is accumulating a deposit, the early release of voluntary contributions through the FHSSS is not inherently price inflationary.

Member organisations have raised that it may be worth reviewing the operation of the FHSSS, with a view to potentially making it less complex for people to access, and possibly extending its application/eligibility criteria, to have greater utility.

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If you have any queries or comments in relation to the content of our submission, please contact Fiona Galbraith, Director Policy, on 0431 490 240 or by email fgalbraith@superannuation.asn.au.

Yours sincerely

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