SUBMISSION – RETIREMENT INCOME REVIEW 3 February 2020

I am a retiree and I own my own home, outright. I believe that it is unconscionable that my main asset, my home, is ignored in the assets test for the age pension. This is the focus of my submission.

This extract from an article by Anthony Asher that appeared in The Conversation, 23 October 2019, summarises my concerns well.

The worst off retirees, as recognised by a Senate Committee, are those without homes making do with grossly inadequate rental assistance.

Right now it is possible for a single person owning a $1.3 million mortgage-free home and $260,000 of other assets to get the full age pension.

Assuming that person draws down on those other assets at the rate of 5% per year, he or she can spend $37,000 per year and pay no rent.

A non-home owner with $785,000, or half the assets, would be denied the pension.

Like the much-richer homeowner, that person would be able to draw an income of about $37,000 per year, but half it will have to go on rent.

It's hardly fair.

It encourages retirees with homes to stash more and more of their assets into them in order to get the pension (and pass something valuable on to their children). Retirees with lesser assets miss out and have to rent.

http://theconversation.com/postcode-by-postcode-a-clever-way-to-include-homes-in-the-age-pension-assets-test-125500.

I am not necessarily endorsing his solutions (see link) but he summarises my view of the inequity of ignoring the family home.

Those of us who live in our mortgage free home are greatly advantaged, both financially and psychologically. Importantly it gives us independence – to do with our dwelling as we wish. It also gives us emotional security. We are not fearful of the impact on our budget of an unexpected rent increase, or the calamity of an eviction notice. We have 'control' – a safe place to live.

It is also true that rates of home ownership are decreasing, and government policy needs to take this into account when determining future arrangements.

Currently retirees are encouraged to overinvest in our homes. There are negatives in this for both the government and society.

It locks away assets that would otherwise be assessed under the assets test. In 2017 I attended a talk by Centrelink staff about changes to the taper rates. Their advice was demonstrated in a slide that suggested ways of reducing our assets (I am looking at it as a write). Listed were: spending, gifting (within the limits), prepaid funerals, and 'Improving your principal home'.

Retirees add rooms they do not need, make elaborate improvements that they would otherwise happily live without, and all of this investment is there to reclaim when they later downsize, take out a reverse mortgage, or leave their home to their children.

And retirees often delay downsizing so as to not release the assets tied up in their home. This means that larger homes that families with children would love to live in are locked away. It contributes to the numbers of people forced to travel great distances to work because homes in the more desirable and accessible suburbs are not turning over.

But how should we treat the assessment of the ‘family home’ in the assets test so as to avoid creating further inequities? I expect academic researchers will provide a range of suggestions, but the obvious one is grandfathering. And then the value of the home could be phased in, allowing retirees and those heading to retirement to adjust.

I am not suggesting that the full value of the home should be taken account of for purposes of the assets test, because much of it is not a realisable to use as income. But the cap should be low enough to remove the incentive that currently exists to hide assets away in it.

Perhaps the government could even release some of the money saved by a reduction in the cost of the age pension to build public housing for those pensioners struggling to rent.