PROPERTY COUNCIL of Australia

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Mr Mike Callaghan AM PSM
Panel Chair
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: retirementincomereview@treasury.gov.au

Dear Mr Callaghan

RE: Retirement Income Review Consultation Paper

The Retirement Living Council (RLC) welcomes the opportunity to make a submission to the Retirement Income Review Consultation Paper released in November 2019, and thanks your office for the extension of time granted to lodge our submission on 10 February 2020.

The Retirement Living Council is a division of the Property Council of Australia and is the peak industry body for the owners and operators of retirement living communities across the nation. Members of the RLC provide homes for over 75,000 older Australians and play a significant role in ensuring the well-being and satisfaction of their residents.

The key priorities for the RLC going into this consultation are the following:

Creating a broad Seniors Housing Strategy

Australia's population is ageing with the percentage of the population aged 65 and over going from 12.1 per cent in 1999 to almost 16 per cent in 2019 (Figure 1 - Proportion of population aged 65 years and over; source: ABS 2020 – twenty years of population change.Figure 1). Housing will be a key component to ensuring the health and economic wellbeing of older Australians. Facilitating access to retirement villages and providing age appropriate housing options should be treated as a priority by all levels of government.

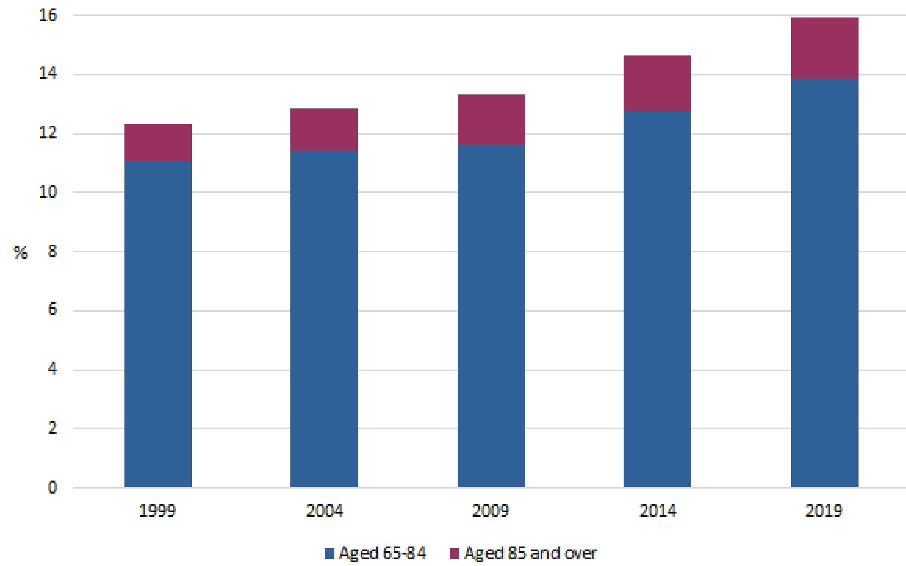

Figure 1 - Proportion of population aged 65 years and over; source: ABS 2020 – twenty years of population change.

Currently there is a piecemeal approach to seniors housing and care which is delivering suboptimal outcomes. This approach must be consolidated into a Seniors Housing Strategy to deliver a broad, comprehensive plan. This plan should include the following elements:

1. **Removing barriers to seniors who are seeking to rightsize their home**
2. **Allowing seniors to unlock their home equity to free up extra retirement income**
3. **Developing an information platform for older Australians outlining housing and care options**
4. **Providing equal opportunity under the Pension Loans Scheme for Retirement Village residents**
5. **Providing access to financial and legal advisors with expertise in retirement housing**
6. **Removing obstacles to the development of more age-appropriate housing stock and retirement villages**
7. **Providing alternative loan funding models for retirees wishing to enter into lease-for-life contracts vs freehold options**

Key aspects of this plan are discussed below.

1. Removing barriers to seniors who are seeking to rightsize their home

Research conducted by AHURI[1] at the University of New South Wales shows that up to 24 per cent of seniors would like to move into more age-appropriate housing but are unable to do so. Reasons for this include difficulties performing maintenance, lack of suitable housing options and financial barriers to moving. This shows that there is strong demand for an overhaul of the barriers to downsizing and a need for more purpose-built seniors' accommodation in this country.

[1] Downsizing amongst older Australians; Australian Housing and Urban Research Institute. 2014

Steps were taken by the Federal Government with the introduction of its "downsizing scheme" which came into effect in 2018, however more must be done to remove the financial barriers to rightsizing:

- Allowing seniors to unlock their home equity without negatively impacting their Age Pension (see **section 2**).

- Providing a last homeowners' grant or stamp duty reductions. State and Territory governments should investigate using the policy levers at their disposal to provide incentives for seniors seeking to rightsize their family homes. Over six percent of seniors' responding to a survey conducted by AHURI[2] identified the imposts associated with stamp duty as a reason not to downsize, while slightly more identified other costs, such as fees charged by real estate agents and removalists. The benefits of this would be multiple including: releasing housing stock, increasing housing affordability and allowing for increased density in key areas.

2. Allowing seniors to unlock their home equity to free up extra retirement income

For several years, the Property Council has actively promoted age pension reform that allows full-rate age pensioners to 'rightsize' and free up some of the significant home equity that many have built up in their principal place of residence. A pensioner's home is part of their wealth but is underutilised in retirement income support policy.

The age pension reform the Property Council supports does not incentivise pensioners to move, or in any way distort pensioner's housing preferences, which is an individual choice that public policy settings should respect. What the reform does is remove the penalty on those who want to move to a home that is more appropriately sized, easier to manage, cheaper to maintain and potentially safer and designed to ensure better health outcomes – thereby extending independence and potentially reducing the need for taxpayer funded aged care and health services.

This following explains the rationale, policy proposal, indicative costs and offsetting savings that can be conservatively forecast from allowing eligible pensioners to access a portion of their home equity by increasing the asset free area for homeowners.

The problem

All Australians over 66 who satisfy either the income or assets test for the age pension are eligible to receive it. The full rate of pension is payable under the asset test for homeowners who have total assets (excluding principal place of residence) of less than $263,250 ($394,500 for a couple).

Under current settings, single pensioners who have more than $263,250 of assets have their pension reduced by $3.00 per fortnight for every $1000 of assets over the asset free threshold. If a pensioner with assets close to the threshold downsizes, and makes a cash surplus of $100,000 from selling her family home and buying a smaller home, her pension would be cut by $7,800 per year.

[2] Downsizing amongst older Australians; Australian Housing and Urban Research Institute. 2014

This clearly acts in practical terms as a penalty, and means that some pensioners who wish to downsize choose not to. Their decision not to downsize does not save the Australian Government any money – they continue to receive the pension at a high rate, because they have not got the cash benefit of any of their home equity. If anything, this decision costs the Australian Government money, because of the health risks, and subsequent health care costs, associated with living in homes that are not designed for the needs of older people.

While it is impossible to be certain what numbers of pensioners wish to downsize, a survey of more than 5,700 Australians seniors by National Seniors Australia in 2017 showed that a third of pensioners who are considering downsizing see the pension asset test as a significant barrier[3].

Table 1 - The effects of downsizing on pension payments.

Examples	Jane	Kelly	Martin and Mary	Steven and Danielle
Total non-home assets	$300,000	$300,000	$300,000	$300,000
Value of old home	$400,000	$400,000	$550,000	$550,000
Value of new home	$250,000	$500,000	$350,000	$600,000
Total non-home assets after sale of home	$450,000	$200,000	$500,000	$250,000
Annual pension before sale of the house	$19,067	$19,067	$33,067	$33,067
Annual pension after sale of the house	$7,367 (-$11,700)	$21,934 (+$2,867)	$24,838 (-$8,229)	$33,067 (no change)

Table 1 shows that the perverse effect of the pension means test is to penalise people who move into a smaller home, even when this home is designed to extend physical independence and alleviate social isolation (as, for example, retirement villages are).

The Solution

In order to get around this public policy problem, the Retirement Living Council suggests the following reform.

1. Make a highly targeted adjustment to the age pension means test, by increasing the asset free threshold for age pensioners who:

[3] *Downsizing: movers, planners, stayers* (August 2017), National Seniors Australia.

a. Are homeowners;

b. Aged 75 or over;

c. Receive the full age pension; and

d. Purchase a cheaper home within 12 months (this aligns with the time Centrelink currently allows for sale proceeds from a family home not to be assessed). NB: a lower price is the best proxy for downsizing.

2. The asset free area for eligible pensioners should be increased by a modest amount – we suggest somewhere between $100,000 and $200,000 - to avoid inequity and achieve the public policy objectives set out below. Fairness and welfare system integrity suggests that age pensioners who make hundreds of thousands of dollars out of a home sale should not retain the full pension.

Unlocking home equity: maximising the private and public benefits of downsizing

The policy criteria outlined above will:

1) Protect against exploitation (or 'welfare creep') by Australians who qualify for a part pension (those at the upper end of allowable assets for the pension), but for whom the age pension means test is not a real barrier to downsizing;

2) Reduce government distortion of personal preferences, and enables older people on low incomes to downsize if they wish to, and to live in smaller homes that are more manageable to clean and maintain, with lower rates and utility bills;

3) Potentially extend the independence of frail older people, and significantly delay entry into residential aged care, by freeing over 75s to move into smaller homes and apartments that are specially designed for older people (e.g. ramps rather than stairs, grab rails in bathrooms, close to public transport and community facilities);

4) Allow full rate pensioners to enjoy a higher quality of life by accessing services they currently struggle to pay or simply can't afford, e.g. private health care, home care services, meals-on-wheels, taxis;

5) Enable pensioners to support themselves better, and reduce certain taxpayer subsidies for health and aged care through higher co-contributions (e.g. to home care packages, PBS payments, residential aged care);

6) Improve efficiency in the housing market – thousands of large family homes may be sold, and private money (age pensioner's home equity plus capital investment by senior's housing developers) leveraged into greater housing supply; and

7) Does not rely on the value or valuation of principal place of residence either for policy design or implementation.

Cost of unlocking home equity

The 'cost' of increasing the age pension asset free area for full rate home owning pensioners over 75 years old is notional. That is, it represents the cost of continuing to make age pension payments that the Government already pays, because most age pensioners make the economically rational decision not to downsize under current rules.
Above 1.57 million, or 62 per cent, of all pensioners receive the full pension, with this number forecast to increase over time. 23.7 per cent of pensioners are over 75 years of age and own their home[4].

Indicative costings done for the Property Council show that the costs are very sensitive to assumptions about the existing level of assets of eligible pensioners. There is no publicly available information on how many pensioners are close to the existing $263,250 threshold under the assets test, so assessment has been done on two scenarios, described below.

The assumptions used in estimating the cost of the scenarios are:

- Ten per cent of all pensioners who are eligible (using eligibility criteria outlined under solutions section above) will decide to downsize because of the new policy, or 59,800 people;

- An additional 35,900 pensioners who may have downsized regardless of the policy will also benefit. This is the economic 'deadweight' of the policy. (Six per cent of all homeowners sell their property annually at the moment);

- 33 per cent of those who downsize will have a cash surplus of $100,000 after they have purchased a smaller home; 33 per cent will have a cash surplus of $150,000, and 33 per cent will end up with $200,000 more than they started with.

Scenario 1 is the most conservative model, and assumes that the average existing assets of eligible pensioners are already at the top of the asset free area ($263,250). Therefore, the ongoing pension cost to Government per annum is:

- $93.3 million if the assets test threshold is lifted by $100,000;

- $233.4 million if the threshold is lifted by $150,000 and

- $420 million if the threshold is lifted by $200,000.

Scenario 2 is a less conservative average, and assumes that the average existing assets of eligible pensioners are currently around half of the threshold for eligibility for the full pension, or $131,625. Therefore, the ongoing pension cost to Government of the new policy per annum is:

[4] Data provided by the Data Request section of the Department of Social Services. Figures were correct at 30 June 2019.

- zero if the threshold is lifted by $100,000;
- $17.1 million if the threshold is lifted by $150,000 and
- $80.8 million if the threshold is lifted by $200,000.

These calculations are all for single pensioners under the asset test. There would be minor downward variations for couples, and for pensioners assessed under the income test (Centrelink applies the income or asset test, whichever results in less pension payable).

Savings from unlocking home equity

There are many public policy benefits of allowing the least 'well off' pensioners in Australia (i.e. those eligible for the full pension) to unlock a modest amount of their home equity without it affecting their pension, as summarised above.

Many of these benefits can be modelled, but one of the most significant and direct cost savings is in reduced residential aged care expenditure by the Australian Government.

In 2014, a specialist aged care consulting firm (Grant Thornton) was commissioned by the Property Council to quantify savings to the health and aged care portfolios of people over 65 who choose to downsize to a retirement village, which evidence shows keep people healthier, happier and living independently for longer.

This research showed that the savings represented by the current number of over 65s who then lived in retirement villages included $1.98 billion p.a. (in 2014 dollars) in federal aged care savings.[5] This is because people who live in retirement villages, and subsequently move to residential aged care, enter on average five years later than the general population (Australian Institute of Health and Welfare). As the annual cost to the federal government of an aged care bed is $64,077,[6] a five-year delay saves the government around $320,000 per person.

The AIHW findings about delayed entry to residential aged care can be applied to the number of pensioners assumed to take up the 'unlocking home equity' proposal outlined above and move to a retirement village. Currently, 5.7 per cent of older people live in retirement villages. Therefore the estimated savings to the Australian Government from implementing the policy, counting only the residential aged care savings from 5.7 per cent of downsizers electing to move to a retirement village, is $80.8 million (assuming the average full rate pensioners has assets in the middle of the asset free area- Scenario 2 - and the Government increases the threshold by $200,000).

Other government savings, and additional revenue, will come from:

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[5] *National overview of the retirement village sector* (2014) – Grant Thornton on behalf of the Property Council of Australia.

[6] Productivity Commission – Report on Government Services, (January 2019)

- Spending by pensioners of the home equity they unlock;
- Tax and jobs from building more retirement communities and seniors housing;
- Reduction in hospitalisation rates (from less falls and faster discharge) of older people freed up to move to homes and communities built to support independence.

Conclusion

A structural change to the age pension as described in this submission would remove a significant disincentive to downsizing for senior Australians, and create many social and economic benefits because the health and aged care savings would significantly outstrip the notional cost of continued age pension spend.

Equal opportunity under the Pension Loans Scheme

A key issue for members of the RLC is the fact that most pensioners in retirement villages are not eligible to access the Pension Loans Scheme. This ineligibility arises from a requirement for the applicant to own real estate that can be used as security for the loan.

While the RLC understands, and does not object to the intent of this requirement, it does limit most retirement village residents from accessing this scheme, even though a majority are deemed by the Department of Social Services (the Department) to be homeowners, and consequently not eligible for rent assistance.

The RLC believes there is a scope for the Department and industry and government to easily address this matter so that eligibility for the Pension Loans Scheme can be extended to retirement village residents, without increasing risks to government.

Retirement villages in Australia are regulated by state and territory governments and each of these governments administers legislation that sets out the financial arrangements to be agreed when a resident enters and exits a village. These arrangements are usually documented in loan and lease agreements, which through legislative and contractual provisions typically provide residents with a 'lease for life' in exchange for what is described in law as an 'ingoing contribution', a 'loan', 'lease premium', or 'premium'. In such circumstances, the lease may be registered on the land title, and is likely to have a term expressed as being for the life of the resident, or for at least 50-years.

State and territory laws also provide for each resident to be repaid the ingoing contribution, in-full, at the termination of a lease. In most instances, but not all, the timing of this payment is contingent on the payment of an ingoing contribution by the next resident and the quantum will be offset by an agreed amount for the cost of the lease, and any capital gain, or capital loss, arising from the resale. However, an increasing number of residents have contracts, which clearly define repayment entitlements and specify a maximum, unconditional, timeframe for payment. Additionally, several states have mandated maximum timeframes for settlement, which means all resident loans, less agreed fees, are repaid within a fixed period.

Through legislation and contractual agreements, retirement village residents have security of tenure, and a legal entitlement to the repayment of their ingoing contribution. It is on this basis that the RLC believes there is scope to work with the Department to find a legal solution that would facilitate access for residents wanting to use the Pension Loans Scheme, while ensuring operators make a priority payment to government in the event a debt remains outstanding when the ingoing contribution is repaid.

Th RLC would like to engage further with the Department on this matter and is confident that the Government and industry can agree a solution that will extend the Pension Loans Scheme to Australians in retirement villages.

Thank you once again for the opportunity to provide input to the Retirement Income Review consultation paper. We look forward to further involvement as the process matures. Should you wish to discuss any of our recommendations in further detail, please don't hesitate to reach out to myself or Leida Pirts, Senior Policy Manager at lpirts@propertycouncil.com.au.

Yours sincerely

Ben Myers
Executive Director – Retirement Living
Property Council of Australia