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Homesafe
Wealth Release®

6th August 2021

Director
Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

By Email: superannuation@treasury.gov.au

Dear Sir/Madam.

Homesafe Solutions Submission

Thank you for the opportunity to provide feedback on the Government's retirement income covenant position paper.

It is our view that in considering the development of Australia's retirement income covenant, the important role of housing wealth should be incorporated. For a trustee to meet the objective of supporting members *to maximise their retirement income*, housing wealth cannot be ignored.

Please do not hesitate to contact us if we can provide further input to the development of the covenant.

Yours sincerely,

Peter Szabo
Managing Director

Christine Brownfield
Executive – Strategy,
Company Actuary

Retirement Income Covenant – Submission

1. Introduction

Homesafe Solutions Pty Ltd ("Homesafe") is the provider of Homesafe Wealth Release, a home equity release solution which makes it possible for senior Australians to release housing wealth while continuing to live in their homes. Homesafe Wealth Release enables the separation of the family home into the two components of (a) a place to live and (b) a store of wealth. This wealth can be a significant proportion of a retiree's total wealth yet is sometimes overlooked in public debates around Australia's Retirement Income Framework.

It is important that housing wealth is considered in the development of Australia's retirement income covenant. In fact for a trustee to meet the objective of supporting members *to maximise their retirement income*, housing wealth cannot be ignored.

Homesafe welcomes the opportunity to provide a submission regarding the proposed retirement income covenant. Having worked with senior Australians for over 15 years we have a deep understanding of how home equity release can be utilised by retirees. We would be happy to work with Treasury to share our understanding if this would be of assistance.

2. Beyond Super

Whilst the proposed retirement income covenant will place obligations on trustees of superannuation funds, the requirement to assist superannuation members to "balance key retirement income objectives" means that considerations must extend beyond superannuation assets.

In retirement, senior Australians have a range of sources of income:

- The age pension;
- Superannuation assets;
- Non-superannuation savings; and
- The home.

Each of these can be considered to be a pillar of the retirement income system and there are intricacies to each in terms of how they are treated by our legal, taxation and social security frameworks. The importance of each pillar will vary from one retiree to another, and over time for an individual retiree. A subset of retirees will rely solely/ predominantly on the age pension, others might own their home and draw an age pension whereas wealthier retirees could be expected to have substantial super and/or non-super wealth.

3. Home Ownership

3.1. *The importance of home ownership*

It is well recognised that senior Australians who own their homes are, on average, more comfortable in retirement than non-homeowners. There is a financial benefit in that housing costs are lower than for retirees who rent, but non-financial benefits such as security of tenure and the "being part of a community" aspect that comes with that are significant and should not be ignored.

From a social security perspective, owning assets in the form of the family home is advantageous over other forms of assets as the family home is not included in the age pension assets test. Although non-homeowners benefit from having a higher asset threshold, the extent to which it is higher effectively attaches a value to the home of only $216,500. For the income test there is no deemed income in relation to the family home.

From a taxation perspective, proceeds from selling the family home are exempt from capital gains tax.

These social security and taxation settings provide advantages, besides the amenity of living in it, to storing wealth in the family home. Some retirees therefore own more expensive homes than they otherwise would. The home should be taken into account when considering retirement income.

Historically, Australians have achieved high rates of home ownership – but in recent years home ownership rates have been in decline. The impact of this for retirees is gradual but it is likely that future retirees will have lower rates of home ownership than current retirees. This has long term implications including increasing shortages of public housing stock and worsening rates of poverty – and possibly homelessness – for subsets of older Australians.

Given the recognised benefits of home ownership, financial and non-financial, the declining rates of home ownership for future senior Australians are cause for concern. Initiatives to help senior homeowners to achieve and maintain home ownership are very important and should be supported.

3.2. *increasing debt levels at retirement*

Increasing numbers of Australians are ceasing full-time work with outstanding debt, for a range of reasons which include:

- houses becoming more expensive;
- earlier than planned retirement due to job insecurity or ill health;
- buying a house at an older age than previous generations;
- having drawn down on 'line of credit' home loans in the years preceding retirement; or
- incurring non-housing debt – credit card, gambling, outstanding rates etc.

If a homeowner does not have the means to extinguish debt, there may be no option available other than to sell the home.

3.3. *Superannuation as a means of maintaining home ownership*

Some retirees use their superannuation to extinguish housing debt and maintain home ownership. Whilst this is not the intended purpose of superannuation, taking a lump sum is permitted under legislation, and there is an argument that a retiree is better off with a lower/zero superannuation balance and a home than retaining the super balance but being forced to sell the home due to outstanding housing debt.

Data from the ABS Retirement and Retirement Intentions Survey for 2018-2019[i], suggests that more than one third of retirees who withdrew a lump sum from their superannuation used the money to pay down housing debt or to spend on their home.

Given this, the interaction between superannuation assets and the family home, as pillars of the retirement income system, cannot be ignored.

3.4. *Home equity release as a means of maintaining home ownership*

For homeowners with significant debt who have ceased employment but do not have sufficient superannuation to repay their debt, there may appear to be no choice but to sell the home and commence retirement as a renter. As housing affordability worsens, the risk of this increases.

Homeowners who are willing and able to access a home equity release solution, may be able to avoid selling their home.

For example using Homesafe Wealth Release, a payment can be advanced to a senior homeowner in return for a share of the future sales proceeds when the home is eventually sold, either by the homeowner or their estate. The homeowner retains the right to live in the home for life. Alternatively there are products that involve borrowing against the home and continuing to live in it for life, with no repayments required until the home is sold. Under any of these arrangements, the funds received can be used to extinguish housing debt and the homeowner can continue living in the home for life.

In fact, for Homesafe's customers, the most common reason for releasing home equity in recent years has been to extinguish debt. This appears to be an industry trend with a recent RMIT study of Heartland Seniors Finance reverse mortgage customers[ii] identifying that "in more recent years debt retirement has superseded home improvement as the most common loan purpose".

Therefore it is important that senior homeowners with outstanding housing debt are aware that home equity release may provide a means of maintaining home ownership into and throughout retirement.

With increasing awareness of home equity release to extinguish debt, retirees may choose to retain a superannuation balance and use this as a source of retirement income, rather than taking out all of their superannuation as a lump sum to extinguish debt.

4. Guidance in relation to home equity release

4.1. Home equity release as a means of maintaining home ownership

Superannuation funds could play an important role in educating members about the range of ways by which home ownership might be maintained. Given increasing levels of debt at retirement, it will be important for people to know that they have options available to them other than having to sell their homes. Some might elect to use a superannuation lump sum to extinguish debt. Others will prefer to retain a superannuation balance to provide income in retirement and to release some home equity to extinguish debt.

It is unlikely to be efficient for every super fund to develop their own guidance around the role of home equity release in maintaining home ownership. There could be a role for Government or industry groups to play here.

4.2. Home equity release as a means of supplementing retirement income

For the majority of retirees who own their own homes, housing wealth has the potential to enhance retirement incomes for a large number of retirees. As well as providing an income stream to supplement other income, housing wealth can be a useful way of funding "lumpy" costs such as medical expenses, housing repairs or modification, replacing a car etc. Ongoing costs such as in-home care requirements beyond those that are funded by Government could also be paid for using housing wealth.

Superannuation funds could play an important role both in explaining to members that housing wealth could be used in these ways to allow a more comfortable retirement, but also in providing guidance in how this could be done. Again, it is unlikely to be efficient for every superannuation fund to develop their own guidance in this area and government or industry groups could play a role.

Eligibility for the Federal Government's home equity release offering, the Pension Loans Scheme, was extended very significantly in mid-2019. Further changes were announced in the 2021 Federal Budget, including a commitment to raise awareness of the scheme through improved promotion and branding. Although the Pension Loan Scheme is linked with the age pension both in name and operationally, it is effectively a debt-based home equity release offering which could assist many more senior Australians to live a more comfortable retirement, if they knew about it.

With plans to increase awareness of the Pension Loan Scheme already in place, Government could link this with its retirement income covenant initiatives as a means to improve guidance on home equity release as a source of retirement income.

5. Further Comments

5.1. Better products

It is noted that the government has removed barriers to the development of innovative retirement income products. This applies in the superannuation space. A similar focus in the home equity release space could be pursued by government, if there was a genuine public policy push to enable senior Australians to more easily access their housing wealth as a source of retirement funding.

Barriers to both demand and supply could be investigated.

Government focus in this area currently has a strong consumer protection and regulatory focus. These are both important but settings could be reviewed if it was determined that they make it too difficult and costly to develop home equity release solutions, and/or inefficient from a capital perspective. No "household name" financial institution offers a home equity release mechanism. Why is this?

Of the five groups of reverse mortgage lending brands assessed in the 2018 ASIC review of reverse mortgage lending[iii], which included major banks, only one is writing new loans today. That "options for borrowers were limited due to a lack of competition" was a finding by ASIC in 2018[iv]: the lack of competition has worsened since then. The reasons for a lack of supply of home equity release mechanisms, particularly by "known and trusted" brands, warrant investigation.

5.2. Appropriate guidance

The comments above on guidance around home equity release offerings are made in the context of general advice on accessing housing wealth, aimed at assisting members to develop an awareness of the role that housing wealth could play.

Guidance could go further in terms of assisting members to access specific products, either from private providers or Government.

Advice around home equity release offerings is complicated. Many retirees who own their homes but do not have much other wealth may not be in a position to pay for financial advice, so there will be a role for Government. The possible range of home equity release structures adds a challenge. Beyond the Pension Loan Scheme, reverse mortgages are credit products, Homesafe Wealth Release involves a property contract, and offerings can take other forms.

Therefore the notion of directing members to material offered by third party providers or Government is a good one. In a home equity release context, directing to just one particular third party provider might be problematic as this has parallels to an "approved product" and would not consider if a different form of home equity release might be more suitable. Given that there is no longer an industry body for home equity release providers, Government is a natural source of guidance and ASIC's Moneysmart website may be a starting point. Alternatively there could be a role for a superannuation industry group to jointly develop material for members of many superannuation funds.

5.3. Members

An individual will generally either own their home outright, own their home with debt or be renting at retirement. This may be as part of a couple. If trustees are able to obtain this information, it could be useful in targeting guidance.

Such data would not be static, as people buy/ sell homes and draw-down/ repay debt. A member who ticked a "renting" box on a form when they joined a fund may be a homeowner at retirement.

5.4. Maximising retirement income

For a trustee to meet the objective of supporting members to maximise their retirement income, housing wealth has to be considered given that it is often a member's largest source of wealth.

For example, consider a member with a $50,000 superannuation balance and a $1m home versus a member with a $50,000 superannuation balance and no other assets. Their situations are very different.

5.5. *Longevity and investment risks*

As well as being important for superannuation, we note that longevity and investment risks are important in considering different types of home equity release.

For example, Homesafe Wealth Release involves a senior homeowner transferring property and longevity risk to Homesafe. Regardless of the future value of the property and how many years later the house is sold, the homeowner or their estate will always retain an agreed percentage of the equity.

A loan-based offering would be preferred by a homeowner who is willing to take on the property, longevity and interest rates risk such that the homeowner or their estate will retain the residual property value once the debt is repaid.

The outcome for the homeowner or their estate can differ markedly depending on longevity and how property appreciation and interest rates move over a long time period. Guidance on home equity release should outline these risks.

5.6. *Flexible access*

From our experience working with senior Australians, we support the focus on providing flexible access to savings during retirement. Transactions with Homesafe are sometimes driven by the need to finance one-off or "lumpy" costs that might otherwise be problematic to fund. In considering this objective in the context of total savings, the role of the trustee might be to promote awareness of the options available to the member, such as releasing home equity.

5.7. *Balancing the objectives*

The reference to a bucketing investment strategy is interesting. One view of a retiree's financial position would be to view home equity as a bucket in this strategy. Some have zero in this bucket, others have most of their wealth in this bucket. The means of accessing it are very different to other buckets, and guidance on doing so may be of assistance.

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[i] 6238.0 Retirement and Retirement Intentions, Australia, 2018-19, Released 8 May 2020, Table 8.1 Superannuation and lump sum details of retirees

[ii] "Reverse Mortgage: Financing Ageing in Place" by Stuart Thomas, Sarah Sinclair, Ashton de Silva and Aviel Leong

[iii] https://download.asic.gov.au/media/4851420/rep-586-published-28-august-2018.pdf

[iv] Finding 4, outlined on page 14 of the report