ALLOWING ACCESS TO SUPERANNUATION FOR HOUSING

A Discussion Paper

May 1997

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Introduction

The aim of this discussion paper is to highlight the issues relating to the accessing of superannuation for the purpose of home ownership. In assessing the impact of a superannuation for housing scheme on national savings, retirement incomes and the Government's fiscal position, the paper draws on modelling undertaken by the Retirement Income Modelling Taskforce (RIM). This modelling is based on the proposed scheme, with some adjustments, outlined by the Real Estate Institute of Australia (REIA) in '*Building Superannuation Without Demolishing Home Ownership*'.

Submissions and comments are invited from all interested parties. Written submissions will be accepted up until 30 June 1997 and should be forwarded to:

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Executive Summary

- Proposals to allow people to access superannuation savings to assist in purchasing a home have been made on a number of occasions since the introduction of compulsory superannuation. During the election campaign the Government made an undertaking to examine the full implications of implementing such a scheme, including those for national savings. The Government also undertook to consult extensively with the superannuation, welfare and housing sectors on this issue. This discussion paper and the invitation for submissions on this issue will be the means of consultation.

- The Government's specific retirement income policy objectives are: to encourage people who are able to save for their retirement to do so, particularly through superannuation; to ensure the provision of an adequate public safety net in the form of an Age Pension for Australians who are unable to support themselves in their retirement years; to ensure the system is predictable, but facilitates choice and is equitable; and to ensure the system is fiscally sustainable and delivers an increase in national saving.

- If superannuation moneys are withdrawn to finance housing, those individuals making a withdrawal will receive lower retirement benefits from superannuation than would otherwise be the case. This detrimental effect is likely to be more significant for lower than higher income earners. However, if those individuals who make a withdrawal achieve home ownership in retirement when they otherwise would not have done, they will face significantly lower housing costs in retirement.

- The main effect that increasing home ownership can have on retirement income policy is through a reduction in the need for Governments to provide rent assistance and subsidised housing to retirees and pensioners.

- However, it is unclear that allowing people access to their superannuation for housing will significantly increase the numbers of people who ultimately achieve home ownership, though it can be expected to have a small positive impact. Whatever targeting arrangements are adopted, any such scheme is likely to be accessed by a significant number of individuals who would have achieved home ownership prior to retirement in any event, with the result that they will be able to either purchase a more expensive home or reduce their non-superannuation saving for housing. It is also possible that some individuals may not remain home owners until retirement despite accessing their superannuation for this purpose. In this case, they will be left with a lower retirement benefit while still being exposed to the costs of renting in retirement.

- Housing affordability has increased in recent years due to increased real disposable income (notwithstanding the introduction of the Superannuation Guarantee), lower inflation and increased competition in the housing finance market which has played a significant part in lowering interest rates. This competition has, at least in part, been due to the use of superannuation fund money to finance home loan mortgage originators.

- If a superannuation for housing scheme were to proceed, there are a number of design issues which would need to be considered. These include how the scheme would be targeted, whether the money accessed would be treated as a loan or an early benefit and how the money withdrawn would be taxed.

- Allowing access to superannuation savings to assist in purchasing a home would have the potential to significantly reduce national savings and increase future Budget outlays for pension payments.

Background

Proposals to allow people to access superannuation savings to assist in purchasing a home have been made on a number of occasions since the introduction of compulsory superannuation. In particular, a number of options have been put forward by the housing sector. The Real Estate Institute of Australia (REIA) commissioned a detailed study, '*Building Superannuation Without Demolishing Home Ownership*' which investigated the impact of allowing superannuation to be used for housing, and is outlined in more detail in Attachment A. The Housing Industry Association (HIA) has also released a paper '*Using Superannuation to Achieve Home Ownership*' which outlined two proposals which would permit access to superannuation for home purchase. The first, a withdrawal of a lump sum as a partial deposit, was to be targeted at first home buyers while the second suggested the withdrawal of earnings over a five year period to assist in home loan repayments.

2. In its pre-election Housing Policy Statement, the Government undertook to examine the full implications of implementing a scheme to permit access to superannuation savings to assist in purchasing a home, including the implications for national savings. It also undertook to consult with the superannuation, welfare and housing sectors. The release of this paper and the invitation for submissions and comments will be the means of consultation.

Retirement Income Arrangements

3. The Government's specific retirement income policy objectives are: to encourage people who are able to save for their retirement to do so, particularly through superannuation; to ensure the provision of an adequate public safety net in the form of an Age Pension for Australians who are unable to support themselves in their retirement years; to ensure the system is predictable, but facilitates choice and is equitable; and to ensure the system is fiscally sustainable and delivers an increase in national saving. Retirement income arrangements currently consist of three tiers: compulsory superannuation savings through the Superannuation Guarantee (SG); voluntary superannuation contributions and other private saving; and the Age Pension and associated social security arrangements.

Concessional Taxation Treatment for Superannuation

4. The concessional taxation treatment given to superannuation encourages voluntary superannuation contributions and facilitates the build up of retirement savings. If concessionally taxed superannuation benefits were allowed to be

accessed early, such as in the case of superannuation for housing, superannuation could be seen as a concessionally taxed vehicle for life cycle savings, rather than a retirement savings vehicle. The implications of such a scheme for peoples' retirement income, national savings and the cost to Government of providing additional pensions are outlined below.

Superannuation, Preservation Standards and the Sole Purpose Test

5. To meet retirement income and national savings objectives, the taxation concessions available to superannuation are targeted to the provision of retirement benefits. To ensure this, superannuation funds must operate for genuine retirement income purposes (ie meet the 'Sole Purpose Test' and comply with other legislated superannuation standards) in order to obtain tax concessions. The superannuation standards include 'preservation' rules, which generally require that superannuation benefits be maintained in a superannuation or rollover fund until retirement on or after 'preservation age'. The preservation age is currently 55, but is to be gradually increased to age 60 between 2015 and 2025.

- Allowing early access to superannuation for home ownership would require the Sole Purpose Test to be modified.
- Early release of preserved benefits may be allowed in cases of financial hardship, and this may assist in meeting mortgage repayments in those circumstances.

6. Presently, only certain superannuation benefits are required to be preserved. However, the preservation rules will be amended from 1 July 1999 to ensure that all future superannuation contributions (including member contributions) and earnings will be preserved until preservation age, except in limited circumstances.

Role of Home Ownership and Superannuation

7. Both superannuation and housing play important roles in the well-being of the Australian population. Both can operate as mechanisms which permit households to redistribute income and costs across their life cycle. The best outcome for most households, in terms of financial security in retirement, is to achieve both home ownership and a secure and sufficient income stream in retirement. In most cases, following the introduction of the SG, both outcomes continue to be achievable. However, it may require households to increase their aggregate level of savings and hence reduce consumption, consistent with national savings objectives and the Government's retirement income policy.

8. Home ownership is one of the major aspirations of Australians living in the post-war era. In addition to the economic benefits flowing to households from home ownership, including long term lower housing costs and as a means of accumulating and bequeathing wealth, home ownership may be seen as contributing to the characteristic values of the Australian community. The Government's pre-election Housing Policy Statement described home ownership as 'not only providing a sense of individual security, success and achievement, but also as offering a channel for individual expression'. The desire to achieve home ownership provides a strong incentive for individual saving and a commitment to the workforce.

9. Proponents of superannuation for housing proposals have noted that some overseas superannuation/national savings schemes have such a facility. Some overseas schemes play a dual role with respect to savings for housing and other life cycle needs, on either a compulsory or voluntary basis. However, such schemes generally envisage a much higher contribution rate than is currently required in Australia, in some cases requiring up to 40 per cent of income to be contributed. Parallels are also difficult to draw because of differences in whether schemes can be considered as being directed at retirement income per se or at directing saving and investment in 'meritorious' ways. Some schemes also fulfill needs which are met through government expenditure, financed by taxation, in Australia.

10. Achieving home ownership is a means by which Australians have traditionally provided for their retirement. Home ownership reduces the living costs, and hence the income needs, of retired households. It is relevant that the lack of home ownership (or possibly the lack of an alternative income generating asset to cover rental costs) is a major cause of poverty in retirement. That said, rent assistance is available to pensioners and beneficiaries who qualify under the relevant income tests. However, even with rent assistance, the housing costs of private renters remain significantly above that of home owners. The 1993-94 Household Expenditure Survey reports that while the average housing cost for home owners in the lowest one-fifth of income distribution is $29 per week, for private renters it is $98 per week. A marked difference in costs remains even when account is taken of rent assistance payments.

11. However, one risk of proposals for superannuation to be accessed for housing with the aim of facilitating individuals owning their home in retirement is that, if the person ultimately fails for whatever reason to achieve home ownership (for example, due to family breakdown, subsequent periods of unemployment etc.), they may be left with a lower retirement benefit while still being exposed to the cost of renting in retirement.

Retirement Income Consequences of Accessing Superannuation for Housing

12. If superannuation moneys are used to finance housing, people will face lower income streams in retirement than would otherwise be the case. The effect of this reduction can be quite significant. This can be seen by analysing the proposal promoted by REIA in '*Building Superannuation Without Demolishing Home Ownership*' which investigated the impact of allowing superannuation to be used for housing. The proposal was to permit superannuation to be accessed with restrictions on eligibility. (Details of this proposal are outlined in Attachment A.)

13. The impact of the REIA proposal on retirement incomes for hypothetical individuals was modelled by the Retirement Income Modelling Taskforce (RIM). Some adjustments to the proposal were made by RIM for the purposes of modelling. These were that the amount withdrawn is taxed as an Eligible Termination Payment (ETP) and that each member of a couple is able to access $15,000, rather than REIAs proposal that the maximum amount that a couple can access is a joint total of $15,000. The rationale for these changes are outlined in Attachment A.

14. Attachment B presents the assumptions and the potential impact on retirement incomes for individuals, following draw downs from superannuation, obtained using the RIM hypothetical model INDMOD. This modelling is based on the assumption that retirement benefits will be taken as income streams rather than lump sums, since this is more consistent with maximising income throughout retirement.

15. The general results are as follows:

- for any given level of access to superannuation for non-retirement income purposes, the earlier a person obtains that access, the greater is the reduction in the real value of retirement benefits. This is because the earlier the draw down, the longer is the period over which the person's superannuation account is deprived of the accumulation of earnings (ie 'compound interest') on the amount drawn down;
- in all cases, allowing access to superannuation for housing results in an increase in the cost of the Age Pension to the Government. The impact occurs even in cases where the modelling assumes that allowing access to superannuation for housing results in a household achieving home ownership. This occurs despite less rent assistance being payable in these cases;
- the impact of the total cost to Government of allowing access to superannuation for housing depends upon the change in Age Pension costs to Government, the change in the value of taxes collected and the change in the value of the tax concessions. While the table in Attachment B shows that

the cost to Government of retirement income policy could decline for higher middle income earners because of reductions in the cost of tax concessions, this does not take into account the concessional tax treatment of housing investment (arising from not taxing imputed rents or capital gains from owner occupied housing). If these concessions are taken into account, the cost to Government of allowing access to superannuation for housing would rise in all cases. The model also does not take into account potential savings to the Government in terms of rent assistance or public housing assistance provided to families prior to retirement. (However, these are likely to be relatively small); and

- in almost all cases, allowing access to superannuation for housing reduces the standard of living, *excluding housing costs*, that a person can enjoy in retirement. However, if allowing superannuation for housing actually makes a difference as to whether the individual achieves home ownership or not, such access may make a person better off in retirement as they will not need to pay rent.

16. For several reasons, (which are not covered by the modelling in Attachment B), the detrimental effect on retirement income may be more significant for lower than higher income earners. First, higher income earners will receive greater SG contributions (in absolute terms) which will replace any withdrawn money at a quicker rate. Second, higher income earners have greater scope to make voluntary member contributions. Third, the flat dollar limits on draw downs (such as those proposed by REIA) provide greater proportional access to benefits for low income earners, with a greater proportional impact on final benefits. In addition, people with broken work patterns may suffer a larger reduction in end benefits than those in continual employment as they may take significantly longer to replace any superannuation drawn down.

Impact on National Savings

17. Current RIM projections indicate that, given the Government's existing superannuation policies, superannuation will lift national saving by $9.5 billion per annum (1.5 per cent of GDP) by 2000-2001 and by over $51.0 billion per annum (3.6 per cent of GDP) by 2019-2020. RIM has also projected the impact on national savings of allowing access to superannuation for housing. Modelling of the adjusted REIA proposal indicates an initial fall of $0.5 billion (0.09 per cent of GDP) in 1997-98 (assuming that the measure would take effect from 1 July 1997). By 2019-2020, national saving is projected to fall by around $2.6 billion per annum or 0.18 per cent of GDP. Further details of this modelling, including the underlying assumptions, are at Attachment C.

Cost to Government

18. The number of people receiving part or full pensions, and the level of these pensions, are also likely to rise due to the reduction in retirement incomes resulting from early withdrawals of superannuation savings. As such, Government expenditure would increase as a result of higher outlays on Age Pensions. This impact is initially negligible as people accessing the scheme would be expected to be a long way from Age Pension age. By 2039-2040, Age Pension payments would increase by around $181 million per annum. It is important to note that this applies to a highly targeted scheme. If the scheme was not limited to low income first home owners, the effects could be larger by a factor of 3-4 times. By 2039-2040, RIM estimates that the total Budgetary cost is likely to be nearly $1 billion. This figure takes into account the increased costs of pensions, lower tax receipts from the retired and lower fund earning taxes. Further details are provided at Attachment C.

Housing Industry Issues

Concessional Taxation and Social Security Treatment for Housing

19. The current taxation and social security treatment of owner-occupied housing is very concessional. These concessions include:

- owner-occupied housing is exempted from Capital Gains Tax (CGT);
- the imputed rent from owner-occupied housing (ie the return on a person's housing investment arising because home owners do not have to pay themselves rent) is not taxed. This is offset to a degree by the denial of tax deductions for interest on borrowings for owner-occupied housing and other home ownership expenses;
- substantial exemptions from stamp duty by states for first home buyers, exemption of most owner-occupiers from state government land tax, and some reductions in local government rates, especially for low income groups such as pensioners; and
- exemption of the value of a person's primary residence from the social security means test (although an allowance is made in the assets test thresholds) and the exclusion of imputed rent from the Age Pension income test.

20. With both owner-occupied housing and superannuation receiving tax concessions, it is questionable whether encouragement should be given for

concessionally taxed superannuation savings to be accessed to be invested in tax advantaged housing.

Superannuation and Housing Affordability

21. When the SG timetable is fully implemented in 2002-2003, employers will be placing nine per cent of employees' notional earnings bases into superannuation. Without the SG, employees may have received up to an additional nine per cent in salary. It has been argued that this growing proportion of household savings going into superannuation may put housing out of the reach of certain individuals. This has been the major argument by the groups calling for superannuation to be accessed for housing and as a counterfactual is likely to be correct at the margin. However, the gradual introduction of the SG should see the increase in superannuation being funded by a diversion of a part of future productivity gains rather than by a reduction in current levels of real disposable income. This has been the case to date.

22. Allowing access to superannuation for housing may make home ownership more feasible for households with lower incomes and hence permit some additional households to achieve home ownership. However, it is also likely to represent a 'windfall gain' to many households already in a position to achieve home ownership, allowing them to reduce their saving for a deposit or reduce the size of their mortgage repayments and thereby increase their consumption expenditure at the expense of saving for retirement. This is contrary to the Government's retirement income and national savings objectives. Alternately, it is possible that such a policy may allow people to purchase more expensive housing, or (depending on market conditions), push up housing prices through increased demand.

23. Australia has one of the highest rates of owner-occupied housing in the world (70 per cent of all households are owner-occupiers, rising to some 90 per cent for some groups such as aged couples). Data from the 1994 Australian Housing Survey suggests that aggregate levels of ownership have been maintained. However, some evidence is emerging that rates of home ownership are falling for certain groups. Factors which may have an impact include: requirements for increasing labour mobility; uncertainty generated by structural change; later workforce entry; more diverse household types; as well as the potential of a low inflation environment to reduce some of the benefits of home ownership.

24. Notwithstanding these possible long term trends, recent economic policies and outcomes have made home purchase highly affordable. In particular, while dwelling investment has experienced a downturn since late 1994, indices of housing affordability have shown marked improvements over the past 12 months, with the Commonwealth Bank/HIA index now at its highest level since 1984. This reflects increases in household disposable income (notwithstanding the

introduction of the SG) and lower interest rates offsetting growth in the median price of established dwellings.

25. Playing a significant part in the increase in housing affordability over the past few years has been the increase in competition in the housing finance market, influenced in particular by Mortgage Backed Securities (MBS). Advice from the securitisation industry is that superannuation funds have been a major source of finance for the new mortgage originators. Additionally, some industry funds have entered into an agreement whereby the funds invest in MBS and fund members are eligible to apply for such housing loans. The impact of increased competition on housing affordability can be significant. For example, a reduction in home mortgage interest rates from 8.5 per cent to 7.5 per cent will save approximately $46 per month on a $70,000, 25 year mortgage.

26. While superannuation savings are not being utilised for direct investment in housing, superannuation saving is clearly playing a role in both increasing the supply of housing finance and in reducing the cost of that finance. Allowing money to be withdrawn from the superannuation system for housing may slow this trend.

Design Issues

27. If the Government were to proceed with a policy to permit access to superannuation for housing, a number of significant design issues would need to be addressed. Some of these are discussed in this section.

Early Benefit or Loan?

28. Savings could be withdrawn from the fund permanently, or alternately be loaned by the fund to the member, with the member repaying the loan over a period on commercial terms. Both options would require the relaxation of the sole purpose test and, if it were decided that the preferred option is loaning the funds to the member, the provisions prohibiting loans to members would need to be changed.

29. Most of the proposals put forward have recommended a withdrawal of contributions to bridge the deposit gap and this is the type of proposal in the modelling referred to previously. The intention would be to allow such a withdrawal once in a lifetime. This option is less cumbersome to administer than the loan option, as the trustee only has to approve the benefit, ensuring that any criteria (ie any regulations that were put into place such as a restriction to first home buyers) are met. However, in practice funds may not be able to ensure members comply with the restrictions, without a mechanism of seeking approval

from a Government agency such as the Australian Taxation Office (ATO). Such administrative arrangements would introduce additional costs.

30. Cost problems would be compounded with a loan scheme, as in addition to the above, trustees would be required to keep track of the member's repayments. This means that superannuation funds would effectively be doing some 'banking business' and therefore would require accounting systems, bad debt controls, approval systems and so on. This would significantly raise administration costs for funds, further reducing final benefits, national savings and increasing Government outlays on pensions down the track.

31. The question of whether the withdrawal is treated as an early benefit or a loan would also have implications for the taxation arrangements which would apply. In addition, if the withdrawal is treated as an early benefit this may well reduce the member account balance to an amount below $1,000, increasing the overall cost of protecting small account balances for the superannuation fund.

32. While a loan may help to overcome the problem of saving for a deposit, it will not make housing any more affordable for the beneficiary. Therefore, it is hard to see the benefit to the recipient of a scheme designed this way.

Targeting

33. A decision would also be needed on how to target access to the scheme. Unlimited access would be inconsistent with the goals of superannuation as it would reduce the retirement incomes of (potentially) all Australians, therefore placing greater pressure on future pension outlays. The impact on national savings and the Government Budget is likely to be many times that modelled in this paper. In addition, such an approach would allow people to access their concessionally taxed superannuation savings even if this is not necessary for them to achieve home ownership.

34. One way to restrict the use of superannuation for housing would be to allow access to first home buyers only. First home buyers arguably need help to save for a deposit, as they may not be able to do this while paying rent, particularly if they were also required to contribute to superannuation. (The broadly based savings rebate, announced by the Government in the 1997-98 Budget in place of the previous Government's co-contribution proposals, will provide assistance to those saving for a home.) However, problems in achieving home ownership may also arise for people who are not first home buyers as such, but may no longer be home owners, due for example, to family break-up or unemployment. Compliance with such targeting would also create some administrative costs.

35. Targeting by age has also been suggested. Australian Bureau of Statistics (ABS) data indicates that approximately 70 per cent of first home buyers are under 35 years of age. However, this would mean that most withdrawals would go to people who could afford to buy their own home in any case. Limiting access to

those under 35 years of age may force people to access their superannuation savings earlier than they wish, which would have a larger impact on their end benefit (as shown in the modelling) than if they accessed their superannuation at their preferred age. An age limit could also effectively prevent low income earners from accessing the scheme, as they are the most likely to take a longer time to save a deposit. A more target efficient criterion might be to restrict access to people over a certain age (say 45) who do not already own their own home.

36. Means testing has also been suggested as a possible targeting method. Means testing could be combined with another test, for example being a first home buyer as REIA has proposed. The REIA proposal suggests an upper income limit of around Average Weekly Ordinary Time Earnings (AWOTE) (which is presently around $36,000 per annum). REIA considers that those most likely to benefit from the scheme are those earning between 70 and 100 per cent of AWOTE. Those with lower incomes are unlikely to be able to take advantage of the scheme as they would be unlikely to have superannuation balances which would make a substantial difference to their ability to obtain and service a loan.

37. However, data from the 1989-90 ABS Income and Housing Survey shows that, of people aged between 45 and 64 (ie those approaching retirement) and earning between 70 and 100 per cent of AWOTE, some 80 per cent either own their own homes outright or are in the process of paying them off and only 14 per cent are renting their homes (either from the government or private rental markets). This suggests that an income based means test would also not be an effective way of targeting those who are likely to reach retirement without owning their own home.

38. It would be difficult for funds to administer such a means test and some Government involvement would be necessary. Housing affordability also varies considerably by State and region and a more complex means test might be required to take account of this.

Possible Taxation Treatment of Superannuation for Housing Withdrawals

39. If the Government proceeds with this policy, options for taxing the withdrawn moneys include:

- the withdrawal being considered as income and taxed at the member's marginal tax rate;
  - this would be harsh compared to the normal taxation of ETPs (discussed at Attachment D) and could lead to a significantly smaller after tax payment than would otherwise occur;
  - along similar lines is the REIA proposal, where the employer provided benefit is taxed at the employee's marginal rate, less the tax already paid (ie 15 per cent). Employee contributions are not taxed, reflecting

the tax already paid. The REIA proposal was for the money accessed to be averaged over five years to reduce the likelihood that the recipient's taxable income would be pushed into the next marginal rate simply because they accessed their superannuation savings;

- the withdrawal being considered an ETP and the components taxed accordingly;
  - retaining ETP taxation on (housing related) lump sums has several benefits. It is consistent with the existing approach to the taxation of lump sums and would require minimal changes to existing administration and procedures. It would also protect existing equity between different types of lump sum withdrawals;
  - however, the taxation rate applicable on such withdrawals will vary considerably between different applicants. A zero rate of tax applies on that component of the withdrawn ETP that represents undeducted contributions, while, as most applicants for the housing lump sum would usually be below 55 years of age, they would be subject to either a 20 per cent (plus the Medicare levy) or 30 per cent (plus the Medicare levy) rate on any assessable component of their withdrawn ETP;
    - as applicants are able (with some restrictions) to nominate the component of their ETP that they wish to withdraw most would be encouraged to withdraw any undeducted contributions first and depending on the size of such contributions they would be subject to little or no tax. Additionally, this would impact more adversely on low income earners. As they would be unlikely to have large amounts of undeducted contributions they would receive less of a benefit from withdrawing funds from superannuation;
- the withdrawn benefit being exempt from tax;
  - this would represent very concessional taxation treatment. It would be difficult to justify the inequity created by taxing housing lump sums more leniently than other lump sums. The tax lost by exempting housing lump sums from tax could possibly be clawed back in higher taxation of the remaining ETP upon retirement;
- the 'deducted' proportion of the withdrawal being taxed at the member's average tax rate and the undeducted proportion being untaxed reflecting the tax already paid;
  - depending upon a person's level of taxable income and the existing components of the ETP this may or may not increase the overall tax paid compared to taxing the withdrawal as an ETP; and

- the problem of how to treat the withdrawal in conjunction with the Reasonable Benefit Limits (RBLs) could be dealt with by indexing the amount being withdrawn (to AWOTE) and adding it to the end benefit.

Effect of Allowing Withdrawals on Superannuation Funds

40. Allowing withdrawals for housing may adversely impact on the investment performance of superannuation funds. For example, to enable withdrawals to be made, superannuation funds may need to hold more liquid assets, or sell assets in an untimely way, possibly lowering the overall return that funds are capable of earning. The need to hold liquid assets may be greater for some funds than others. Funds with many low income members may be under greater pressure from their members to release funds to be used for housing, while funds with a larger proportion of members who are high income earners may not be as affected. This may cause low income earners to receive lower returns than would otherwise be the case, further reducing their retirement incomes.

41. Additionally, it is also not clear who would bear the costs of administering such a scheme. There could be substantial administrative costs to Government to ensure appropriate targeting of the scheme including, for example, in keeping records of superannuation draw downs by first home buyers. Trustees would also need to obtain evidence of home purchase from lenders. If administration is largely the responsibility of superannuation funds, the retirement income of all fund members would be lowered.

Compulsion or Choice?

42. If the Government were to introduce a superannuation for housing scheme, another issue which would need to be addressed is whether funds are required to offer the scheme to members or if it is left to the trustee(s)' discretion .

43. The most workable option may be to let funds decide if they would offer the scheme, as compulsion may force funds to offer the service, possibly lowering returns, in situations where the majority of members do not wish to access their superannuation for housing. However, allowing funds the choice may lead to the situation where a person who wishes to access their superannuation for housing cannot because they are a member of a fund which does not offer that service.

44. Introducing a 'voluntary' superannuation for housing scheme may require changes to Part 6 of the *Superannuation Industry (Supervision) Act* (SIS). Under this Act trustees are required to act in the best interest of all members. Trustees may conclude that such a scheme may not be in the best interest of all the fund's members as the need to maintain higher liquidity to fund withdrawals and greater administration costs would reduce members' returns.

Defined Benefit and Unfunded Funds

45. Problems would arise in allowing withdrawals from defined benefits schemes, as it is difficult to calculate the effect on the member's end benefit. Actuarial advice could be sought to attain the final impact on the member's end benefit. However, this would add further costs. An additional problem arises if the member wishes to access their superannuation for housing but the fund is unfunded. These problems are exacerbated if funds are required to offer such a scheme.

Invitation for Public Comments

46. This paper has canvassed a number of issues associated with allowing access to superannuation to facilitate home ownership.

47. Submissions and comments on this paper are invited from all interested parties. Written submissions will be accepted up until 30 June 1997 and should be forwarded to:

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The Treasury
Parkes Place
PARKES ACT 2600

Real Estate Institute of Australia Proposal

REIA commissioned a detailed study entitled '*Building Superannuation Without Demolishing Home Ownership*' which investigated the impact of allowing superannuation to be used for housing. The proposal was to permit superannuation to be accessed with the following restrictions:

- the scheme be restricted to first home buyers;
- the withdrawal be a one off benefit (of up to $15,000) which would not have to be paid back;
- the funds be used as a deposit or part deposit on a residential property;
- a person may take 100 per cent of their superannuation if it is not greater than $15,000;
- the maximum price payable for a house purchased by the beneficiary of the withdrawal would be capped at $150,000 (or $150,000 in NSW and $115,000 in the rest of Australia to allow for differences in housing prices). This amount would be indexed;
- the withdrawal be taxed as if it was employee-provided superannuation (ie the withdrawal of undeducted contributions would not be taxed and the tax payable on employer contributions would be the member's marginal tax rate less the 15 per cent tax already paid, with the marginal rate being adjusted to take into account the withdrawn amount, averaged over five years); and
- the benefit be income tested so that only people who had an income less than or equal to $25,000, net of tax and superannuation contributions, would be eligible.

Costing

2. There would be an initial increase in government revenue as tax is paid on the money withdrawn. RIM, in response to the REIA proposal outlined above, estimated the likely impact in the first year (assumed to be 1997-98) would be to increase revenue from ETP taxation by $90 million. This estimate does not take into account that Government outlays for publicly assisted housing may be reduced, although this gain would be unlikely to be significant.

3. Over the long term, these gains are more than offset by lower earnings taxes on the smaller balances in the superannuation funds, additional age and disability pension costs and lower income taxes from the retired. See Attachment C for more details.

RIM Analysis

4. RIM has made a number of adjustments to the underlying assumptions for the purposes of this analysis. These are that the amount withdrawn would be taxed as an ETP and that members of couples would be able to access up to $15,000 each, rather than REIAs proposed maximum of $15,000 per couple. The rationale for these changes is that:

- taxing the early benefit as an ETP ensures that the withdrawal for housing would be treated in the same manner as any other lump sum withdrawal. This would minimise the changes needed to administrative procedures of funds and would maintain equity between existing lump sum withdrawals (the discussion paper canvasses other possible taxation options); and

- it would be extremely difficult, if not impossible, for funds to know the marital status of an applicant and whether the other member of the couple had accessed their superannuation for this purpose. Issues of equity of access between couples and singles would also arise.

5. RIM used the ABS First Home Owners survey to provide data on the income and age groupings of first home buyers, then used the income groupings within its RIMGROUP model (ten income groups for each gender and each age) to determine eligibility for making housing withdrawals. This process is intended to align with the targeting proposed by REIA but the alignment cannot be made precise.

6. The analysis has most people buying their first home when they are aged between 25-40 years old. Where both members of a couple have superannuation coverage it is assumed they will both take advantage of this policy. A further assumption is that 80 per cent of those eligible to make housing withdrawals would do so, with the other 20 per cent choosing not to because of the required payment of ETP tax or having sufficient savings not to need the withdrawal.

Some Results

7. RIM estimates that withdrawals from superannuation funds in 1997-98 as a result of the proposal being implemented would be about $524 million. This would involve some 39,000 individuals, some making the housing purchase as singles and some as couples, with the average amount withdrawn being about $13,400. The number of individuals affected is estimated to remain for many years at around the 40,000 level, with the average sum withdrawn rising over time in line with the indexed limit and the rising average balances in superannuation funds. Additional results of the projected impact on the fiscal balance, assets of superannuation funds and national savings are at Attachment C.

Modelling of the Impact of Allowing Access to Superannuation for Housing on Hypothetical Individual Households

The impact of allowing access to superannuation savings for housing has been modelled using the individual hypothetical model INDMOD (a model developed by RIM). The modelling provides estimates of the impact of allowing people to access superannuation for housing on gross superannuation benefits at retirement, Age Pension outlays, the cost to Government of the superannuation tax concessions, the offsets provided from taxes payable both on draw downs for housing and from taxes payable in retirement and the value of retirement incomes received by households in retirement. INDMOD is primarily a model of retirement income policy which models the accumulation of superannuation assets over a person's working life and their run down in retirement, along with the associated tax and social security flows. INDMOD does not model the acquisition of housing assets, but rather takes account of a person's home ownership status in retirement in calculating a person's Age Pension entitlements.

2. The model does not take account of factors such as the potential savings in rent assistance to families prior to retirement, the cost of the tax expenditures on home ownership (through non-taxation of imputed rent and exemptions from CGT) and behavioral aspects of home ownership as well as wealth accumulation and inter-generational transfers. INDMOD provides an estimate of the level of total expenditure an individual household can sustain in retirement as an indicator of the household's standard of living in retirement. Where the household owns the home, this standard will be higher than indicated in the modelling because the household will not need to pay rent.

Key Assumptions and Modelling Approach

3. The key assumptions used in the analysis were:

- CPI growth of 2 ½ per cent in the projection period, actual CPI growth is used in historical analysis;
- 3½ per cent growth in salaries and AWOTE in the projection period, actual values for AWOTE are used in historical analysis;
- a 10 year bond rate declining to 6 per cent by 2000-2001 in projection periods, actual 10 year bond rates, calculated by averaging monthly values, are used

in historical analysis. The analysis assumes superannuation fund earnings are a constant 1 per cent higher than the 10 year bond rate;

- superannuation funds are subject to a nominal tax rate of 15 per cent on fund earnings—this is assumed to give an effective rate of 7 per cent after taking account of the investment portfolios of funds;

- in calculating the cost of the superannuation tax concessions, the modelling assumes that if superannuation were paid as salary, individuals would save 50 per cent of the resulting increase in disposable income. The cost of the tax concessions each year equals:

  – the difference between the tax actually payable on employer superannuation contributions and the tax which would be payable if those contributions were paid as salary **plus** the cost of rebates for member contributions; **plus**

  – the difference in the tax actually payable on superannuation fund earnings and the tax which would be payable on the earnings in the counterfactual superannuation accumulation. The counterfactual superannuation accumulation is the amount that would accumulate if superannuation were paid as salary and individuals saved 50 per cent of the resulting increase in disposable income;

- the model accumulates these annual tax expenditures, indexed by the 10 year bond rate, to derive the cumulative cost of the tax concessions a person receives up until the time they retire. In the cases where people are allowed to draw down superannuation for housing, the modelling does not take account of the tax concessions for housing. Consequently, the modelling will under estimate the cost to Government in these cases;

- both partners in the married couple join the fund at age 20 in July 1992 and retire at age 65, receiving SG minimum employer superannuation contributions. In examples 1 to 6, the individuals modelled only receive employer SG contributions while in examples 7 to 12 they also make personal superannuation contributions of 3 per cent of salary throughout the accumulation period. The female partner earns 75 per cent of the earnings of the male partner, is not employed from age 25 to 29 and works part time for 50 per cent of normal hours from age 30 to 34;

  – households take all their superannuation at retirement in the form of an indexed lifetime annuity, unlike the REIA modelling where superannuation is taken in a lump sum. (The former approach is more consistent with maximising income throughout retirement);

  – households are assumed to be either home owners or non-home owners in retirement. Non-home owners are eligible for means tested rent assistance, in addition to the Age Pension; and

- INDMOD models the accumulation of superannuation assets over a person's working life and their run down in retirement, along with the associated tax and social security flows. It does not model the acquisition of housing assets, but takes account of a person's home ownership status in retirement in calculating a person's Age Pension entitlements. It does not model rent assistance to families prior to retirement or the cost of the tax expenditures on home ownership (through non-taxation of imputed rent and exemptions from capital gains tax).

4. A draw down of superannuation for housing of up to $15, 000 per person in 1996-97 values, indexed to movements in AWOTE, was used in the modelling. Where the balance of the individual's account is less than the maximum allowed, the person draws down the full account balance. Draw downs are subject to tax as ETPs at the time they are made. In order to allow time for superannuation benefits to accumulate in funds, the modelling assumes that the households modelled access their superannuation for housing to the maximum extent permissible either in July 2004 (examples 1 to 3 and 7 to 9) or July 2014 (examples 4 to 6 and 10 to 12).

5. The modelling examines three households, where the male partner earns 55 per cent of AWOTE and the female partner earns 41 per cent of AWOTE, where the male partner earns 75 per cent of AWOTE and the female partner earns 56 per cent of AWOTE and where the male partner earns 100 per cent of AWOTE and the female partner earns 75 per cent of AWOTE. In the case where the male partner earns 55 per cent of AWOTE, this earning rate is around the minimum award rate of pay, while the earning rate of the female partner (41 per cent of AWOTE) assumes her to be employed on no more than a part-time basis for the whole modelling period. The 100 per cent of AWOTE case corresponds roughly with the maximum income level for access to superannuation under the REIA proposal. In each case the modelling examines four scenarios:

(i) Where the household does not access superannuation for housing and the people concerned **are not** home owners in retirement;

(ii) Where the household does not access superannuation for housing and the people concerned **are** home owners in retirement;

(iii) Where the household accesses superannuation for housing and the people concerned **are not** home owners in retirement; and

(iv) Where the household accesses superannuation for housing and the people concerned **are** home owners in retirement.

6. From a retirement income policy standpoint, allowing access to superannuation for housing could only be considered successful if it resulted in people who would have been non-home owners in retirement becoming home owners (ie if it moves a person from scenario *(i)* to scenario *(iv)* in the modelling). A risk is that the policy could simply allow access to superannuation for housing by people who would have been home owners in retirement anyway (ie moves a

household from scenario *(ii)* to scenario *(iv)*) or if people who access superannuation for housing are not home owners in retirement for whatever reasons (ie moves a household from scenario *(i)* or *(ii)* to scenario *(iii)*).

Modelling Results

7. Allowing people to access superannuation for housing reduces the amount a person can accumulate for retirement. In this regard, a number of points can be made:

- for any given level of access to superannuation for non-retirement income purposes, the **earlier** a person obtains that access, the greater the reduction in the real value of **retirement** benefits. This is because the earlier the draw down, the longer the period that the person's superannuation account is deprived of the accumulation of earnings on the amount drawn down;
  - this is not clear from examples 1 to 6 because with SG only employer superannuation, the superannuation draw down for housing in examples 1 to 3 (occurring in June 2004) occurs before the individuals (particularly the female partner) have had time to accrue a benefit equal to the full draw down limit;
  - this can be seen by comparing the level of gross benefits in examples 9 and 12 of Table 1. Despite the draw down in example 12 being slightly greater in real terms (because the draw down limit is assumed to be indexed to AWOTE rather than CPI) the couple receive $29,374 (in real terms) more in end benefits;
- in all cases modelled, allowing access to superannuation for housing results in an **increase** in the cost of the Age Pension to the Government;
  - the increase in Age Pension outlays occurs even where the modelling assumes that allowing access to superannuation for housing moves a household from being non-home owners to being home owners (ie comparing scenario *(i)* with scenario *(iv)*). This occurs despite less rent allowance being payable once a household owns a home;
  - where allowing access to superannuation for housing is not successful (ie where people would have been home owners in retirement anyway or are non-home owners despite having had access to superannuation for housing), the policy results in a much greater increase in Age Pension costs (ie comparing scenario *(i)* with *(iii)* or scenario *(ii)* with *(iii)* or *(iv)*);
- for lower income earners, allowing access to superannuation for housing **increases** the cost of retirement income policy for the Government. This is particularly pronounced if such access does not make a household home owners in retirement;

- this mainly comes about because of higher Age Pension payments and lower taxes payable in retirement, offset to some extent by earlier receipt of ETP tax on the housing draw down and fewer tax concessions for superannuation because there is less accruing in superannuation funds;

■ for higher income earners and households with higher contribution rates, the offsets become greater relative to the cost of increased Age Pension payments and reduced taxes in retirement, with the result that allowing access to superannuation could reduce the cost of retirement income policy to the Government;

  - this ignores the cost of the increase in tax concessions for housing. If superannuation is accessed for owner-occupied housing, superannuation savings are diverted into an investment where there is no taxation of the economic return from the investment. This means that an increase in the overall cost to Government is likely in all cases and not just for low income earners;

  - for **very** low income earners, who would be eligible for full rate Age Pensions regardless of whether they access superannuation for housing (ie those with very broken work patterns), allowing access to superannuation for housing will have only a relatively small impact on the cost to Government of retirement income policy. However, other factors tend to preclude such people becoming home owners, such as their ability to service a home loan even after having access to superannuation for a housing deposit; and

■ in almost all cases, allowing access to superannuation for housing reduces the standard of living, **excluding housing costs,** that a person can enjoy in retirement. However, if allowing superannuation for housing makes the difference between being a home owner in retirement and being a non-home owner, it is possible that allowing access to superannuation for housing could make a person better off in retirement. By contrast, where allowing access to superannuation for housing does not make such a difference, the modelling clearly shows a reduction in living standards in retirement.

8. The modelling suggests that, from an overall cost to Government perspective, allowing access to superannuation for housing will increase the cost of the Government's retirement income policy. Such increases will be most pronounced for those households whose retirement incomes place them within the Age Pension means testing range during their retirement, with the effect more pronounced the longer they are subject to those tests. This suggests that the greatest cost to Government of allowing access to superannuation for housing will come from lower middle income earners, with lesser costs associated with access by very low income households and higher income earners. The costs will be aggravated if the scheme is utilised by people who would have been home owners in retirement anyway (as would most higher income earners). This hypothetical

modelling does not take account of the concessional taxation treatment given investments in owner occupied housing, which would add to the cost of allowing access to superannuation for housing. These conclusions are borne out by the RIM aggregate modelling presented at Attachment C.

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 Prices)

				NPV of Costs to Government						
	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 1: Low income couple, 55%/41% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs in July 2004. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$268,858	$328,904	95.3%	-$23,498	$0	$23,450	$328,857	$574,263
(ii) With full preservation, home owner in retirement	$0	$0	$268,858	$310,001	92.1%	-$20,868	$0	$23,450	$312,584	$557,990
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$21,458	$4,667	$193,211	$343,349	99.5%	-$14,420	-$14,043	$33,242	$348,128	$522,139
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$21,458	$4,667	$193,211	$335,060	99.5%	-$14,420	-$14,043	$33,242	$339,839	$513,850
Example 2: Low/middle income couple, 75%/56% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2004. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$374,543	$289,141	83.8%	-$31,816	$0	$53,901	$311,227	$631,868
(ii) With full preservation, home owner in retirement	$0	$0	$374,543	$255,413	75.9%	-$26,052	$0	$53,901	$283,263	$603,904
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$23,825	$5,199	$290,553	$323,383	93.7%	-$25,614	-$15,643	$58,287	$340,415	$588,323
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$23,825	$5,199	$290,553	$300,464	89.2%	-$21,877	-$15,643	$58,287	$321,232	$569,141

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 Prices)

				NPV of Costs to Government						
	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 3: Average income couple, 100%/75% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2004. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$506,650	$221,226	64.1%	-$37,628	$0	$105,174	$288,773	$690,248
(ii) With full preservation, home owner in retirement	$0	$0	$506,650	$178,497	53.0%	-$31,300	$0	$105,174	$252,372	$653,847
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$26,703	$5,855	$412,512	$270,438	78.4%	-$34,059	-$17,616	$105,561	$324,325	$648,891
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$26,703	$5,855	$412,512	$233,630	69.4%	-$27,966	-$17,616	$105,561	$293,610	$618,176
Example 4: Low income couple, 55%/41% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$268,858	$328,904	95.3%	-$23,498	$0	$23,450	$328,857	$574,263
(ii) With full preservation, home owner in retirement	$0	$0	$268,858	$310,001	92.1%	-$20,868	$0	$23,450	$312,584	$557,990
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$7,740	$184,338	$343,514	99.6%	-$15,836	-$16,679	$20,622	$331,621	$512,015
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$7,740	$184,338	$335,225	99.6%	-$15,836	-$16,679	$20,622	$323,332	$503,726

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 prices)

				NPV of Costs to Government						
	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 5: Low/middle income couple, 75%/56% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$374,543	$289,141	83.8%	-$31,816	$0	$53,901	$311,227	$631,868
(ii) With full preservation, home owner in retirement	$0	$0	$374,543	$255,413	75.9%	-$26,052	$0	$53,901	$283,263	$603,904
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$7,863	$290,023	$319,452	92.6%	-$26,613	-$16,944	$39,893	$315,789	$582,862
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$7,863	$290,023	$298,035	88.5%	-$23,435	-$16,944	$39,893	$297,550	$564,624
Example 6: Average income couple, 100%/75% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation only.										
(i) With full preservation , non-home owner in retirement	$0	$0	$506,650	$221,226	64.1%	-$37,628	$0	$105,174	$288,773	$690,248
(ii) With full preservation, home owner in retirement	$0	$0	$506,650	$178,497	53.0%	-$31,300	$0	$105,174	$252,372	$653,847
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$7,863	$422,131	$265,518	77.0%	-$36,389	-$16,944	$84,099	$296,285	$651,260
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$7,863	$422,131	$228,127	67.7%	-$29,929	-$16,944	$84,099	$265,353	$620,328

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 prices)

				NPV of Costs to Government						
	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 7: Low income couple, 55%/41% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2004. Each has SG employer superannuation + 3% member contributions.										
(i) With full preservation , non-home owner in retirement	$0	$0	$397,098	$285,366	82.7%	-$31,024	$0	$34,968	$289,310	$651,439
(ii) With full preservation, home owner in retirement	$0	$0	$397,098	$247,637	73.5%	-$25,189	$0	$34,968	$257,417	$619,546
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$25,417	$4,224	$307,495	$322,208	93.4%	-$24,645	-$12,710	$35,743	$320,597	$605,058
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$25,417	$4,224	$307,495	$294,980	87.6%	-$20,473	-$12,710	$35,743	$297,541	$582,002
Example 8: Low/middle income couple, 75%/56% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2004. Each has SG employer superannuation + 3% member contributions										
(i) With full preservation , non-home owner in retirement	$0	$0	$549,416	$206,414	59.8%	-$36,754	$0	$73,578	$243,239	$719,076
(ii) With full preservation, home owner in retirement	$0	$0	$549,416	$162,465	48.2%	-$30,758	$0	$73,578	$205,286	$681,123
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$29,136	$4,902	$446,702	$262,240	76.0%	-$34,098	-$14,750	$63,964	$277,357	$674,843
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$29,136	$4,902	$446,702	$220,313	65.4%	-$27,874	-$14,750	$63,964	$241,653	$639,140

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 prices)

				NPV of Costs to Government						
	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 9: Average income couple, 100%/75% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2004. Each has SG employer superannuation + 3% member contributions										
(i) With full preservation, non-home owner in retirement	$0	$0	$739,814	$114,844	33.3%	-$45,283	$0	$136,298	$205,859	$809,375
(ii) With full preservation, home owner in retirement	$0	$0	$739,814	$88,907	26.4%	-$41,576	$0	$136,298	$183,629	$787,145
(iii) With maximum permissable housing drawdown occurring at July 2004 but non home owner in retirement	$32,307	$5,493	$625,921	$167,035	48.4%	-$41,885	-$16,529	$115,274	$223,895	$751,071
(iv) With maximum permissable housing drawdown occurring at July 2004, home owner in retirement	$32,307	$5,493	$625,921	$130,423	38.7%	-$35,691	-$16,529	$115,274	$193,476	$720,653
Example 10: Low income couple, 55%/41% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation + 3% member contributions										
(i) With full preservation, non-home owner in retirement	$0	$0	$397,098	$285,366	82.7%	-$31,024	$0	$34,968	$289,310	$651,439
(ii) With full preservation, home owner in retirement	$0	$0	$397,098	$247,637	73.5%	-$25,189	$0	$34,968	$257,417	$619,546
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$6,418	$312,578	$317,536	92.0%	-$26,357	-$13,830	$20,804	$298,154	$603,757
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$6,418	$312,578	$290,468	86.3%	-$22,127	-$13,830	$20,804	$275,315	$580,919

Table 1: Impact of Allowing Housing Draw Downs on Superannuation Accruals, Costs to Government and Retirement Incomes (Average 1996-97 prices)

	Housing drawdown	Tax on amount drawn down	Gross benefit at retirement	NPV of Costs to Government: Age pension payable in retirement	Age pension as a percentage of the full rate age pension	Taxes payable in retirement	ETP tax on housing draw down	Tax expenditures pre retirement	Net cost to Govt	Value of retirement benefits and age pension *less* taxes in retirement
Example 11: Low/middle income couple, 75%/56% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation + 3% member contributions.										
(i) With full preservation , non-home owner in retirement	$0	$0	$549,416	$206,414	59.8%	-$36,754	$0	$73,578	$243,239	$719,076
(ii) With full preservation, home owner in retirement	$0	$0	$549,416	$162,465	48.2%	-$30,758	$0	$73,578	$205,286	$681,123
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$6,565	$464,897	$252,478	73.2%	-$35,477	-$14,147	$51,619	$254,473	$681,897
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$6,565	$464,897	$209,654	62.3%	-$29,148	-$14,147	$51,619	$217,977	$645,402
Example 12: Average income couple, 100%/75% of AWOTE. Each partner commences in July 1992 at age 20, age 65 retirement. Housing draw down occurs at July 2014. Each has SG employer superannuation + 3% member contributions.										
(i) With full preservation , non-home owner in retirement	$0	$0	$739,814	$114,844	33.3%	-$45,283	$0	$136,298	$205,859	$809,375
(ii) With full preservation, home owner in retirement	$0	$0	$739,814	$88,907	26.4%	-$41,576	$0	$136,298	$183,629	$787,145
(iii) With maximum permissable housing drawdown occurring at July 2014 but non home owner in retirement	$35,122	$6,581	$655,295	$152,143	44.1%	-$42,307	-$14,182	$108,134	$203,789	$765,131
(iv) With maximum permissable housing drawdown occurring at July 2014, home owner in retirement	$35,122	$6,581	$655,295	$118,684	35.2%	-$37,006	-$14,182	$108,134	$175,630	$736,972

RIM Projections of the Fiscal and National Savings Impacts

Introduction

The projections of cost and components of national saving presented in this Attachment are from RIMGROUP, the new aggregate projection model of RIM.

These projections incorporate the following assumptions:

- there is no increase in savings later in life to make up for the reduction in superannuation;
- there is a small increase in the level of home ownership in retirement in the target population;
- each withdrawal is the smaller of $15,000 or 100 per cent of an individual's superannuation savings. The $15,000 limit is indexed by AWOTE;
- the withdrawals are only available to first home buyers on a targeted basis along the lines of the REIA proposal; and
- withdrawals are taxed as ETPs.

2. The projections compare the policy proposal of allowing withdrawals for housing for new home buyers (on a targeted basis along the lines suggested by REIA) with a base policy in which no housing withdrawals are permitted. The base (and the new policies) also reflect the superannuation policies announced in the 1996-97 and 1997-98 Budgets, namely:

- opting out;
- provision for use of Retirement Savings Accounts (RSAs);
- spouse contributions and the spouse contribution rebate;
- the superannuation surcharge in respect of high income earners;
- the replacement of the previous Government's co-contribution proposals with the savings rebate; and
- improved preservation measures.

Estimated Broad Impact

3. RIM estimates that withdrawals from superannuation funds in 1997-98 as a result of the proposal being implemented would be about $524 million.

- This would involve some 39,000 individuals, with the average individual amount withdrawn being about $13,400; 18,000 couples and 3,000 singles are estimated as making first home purchases using the withdrawals. This is based on the assumption that 80 per cent of those eligible under the means tests would access the scheme.

- The number of individuals affected is estimated to remain for many years at around the 40,000 level, with the average sum withdrawn rising over time in line with the indexed limit and the rising average balances in superannuation funds. Additional results of the projected impact on the fiscal balance, assets of superannuation funds and national saving are shown below.

- These figures compare with the Department of Social Security estimate of around 280,000 households which are not home owners and which have significant superannuation equity

  – This estimate of the **stock** of such households is broadly consistent with the RIM estimates of the annual **flow** of households that would choose to access their superannuation for housing.

National Saving Methodology

4. National saving projections measure the change in flows into public and private saving **in a given year** as the difference in flows in the new policy less the base policy. National saving is not about stocks.

5. The new RIMGROUP public debt methodology assumes that some proportion of the change in the fiscal balance increases or decreases Commonwealth debt and results in changes in public debt interest outlays which are assessed as a component of public saving.

6. For this analysis the model has been run for a period of over 40 years as it clearly takes a long time for withdrawals from superannuation by first home buyers to be reflected in increased pension costs.

Results: Fiscal Balance and Components of National Saving

7. Table 1 below sets out changes in the fiscal balance, public debt interest, the aggregate balances of superannuation funds and components of national saving associated with the possible policy change. The term 'fiscal balance' as used here refers to the **difference** between modelled tax **revenue** changes (personal taxes

including superannuation fund taxes) and modelled changes in **outlays** (social security payments). The fiscal balance does not include changes in public debt interest outlays; these are shown separately in the table and included in the calculation of national saving.

Table 1: Components of National Saving

Financial Year	Change in Fiscal Balance	Public Debt Interest	Change in Super Funds	Change in Private Saving	Change in Public Saving	Change in National Saving	Change in National Saving
			$m in nominal dollars				% of GDP
1997-98	90	1	-524	-524	46	-478	-0.09
1998-99	95	4	-1,107	-582	52	-530	-0.09
1999-00	99	8	-1,751	-643	57	-585	-0.10
2009-10	117	56	-12,178	-1,445	114	-1,330	-0.14
2019-20	59	141	-33,040	-2,674	171	-2,503	-0.18
2029-30	-371	221	-66,356	-3,629	35	-3,594	-0.17
2039-40	-982	142	-105,593	-4,402	-348	-4,750	-0.15

8. The initial gain in the fiscal balance arises from the additional ETP tax on the withdrawals made for housing purposes. Over the long term, this gain is more than offset by lower earnings taxes on the smaller balances in superannuation funds, additional age and disability pension costs and lower income taxes from the retired.

9. The accumulated total balance of superannuation funds is projected to fall by $1.8 billion by June 2000, $12.2 billion by 2010, $33 billion by 2020 and $106 billion by 2040, all expressed in the dollars of the time.

10. National saving is expected to fall as set out in Table 1, initially by $0.5 billion increasing to a fall of $4.75 billion in 2040. Expressed as a percentage of GDP this ranges from 0.09 per cent to a peak of 0.18 per cent, not dramatic changes, but not negligible.

11. Table 2 below shows the projected age and disability pension increases over time for selected years, together with the reductions in income tax liability of the retired.

Table 2:

Financial Year	Increase in Age Pension	Increase in Disability Pension	Change in Income Tax of Retired
		$m in nominal dollars	
2009-10	1	0	0
2019-20	33	4	-6
2029-30	152	4	-103
2039-40	181	5	-488

12. It is important to note that all these figures apply to a highly targeted scheme and if restrictions to first home owners and income levels did not apply the effects would be much larger by a factor of about 3-4 times.

Taxation of Eligible Termination Payments

Eligible termination payments (ETPs) are lump sums usually paid on retirement, or resignation from a job and include 'golden handshakes'. ETPs are taxed differently from other income. They are broken down into several components (although not all ETPs have every component). Each is taxed in a different manner and subject to various rebates, as shown in the table on the following page.

2. **Reasonable Benefit Limits (RBLs).** The amount of concessionally taxed superannuation benefits a person is allowed to receive over his or her lifetime is limited by RBLs. The table below shows the lump sum and pension RBLs for 1996-97. The pension RBL is available provided at least 50 per cent of the total benefits received by a person are taken in the form of a pension or annuity which satisfies the pension and annuity standards.

Lump sum	**$434,720**
Pension	**$869,440**

3. **Bona fide redundancy payments.** From 1 July 1994 a limit (current for 1996-97) of **$4,348** plus **$2,174** for each year of completed service has been placed on redundancy and early retirement payments. Amounts within the limit are exempt from tax.

4. **Death benefits.** Generally, death benefit payments which are made directly to the dependants of a deceased member are exempt from tax. However, all death benefits made on or after 1 July 1994 are subject to pension RBLs. When paid to a person other than a dependant, death benefit payments become ETPs and are taxed as such.

5. **Pension and annuity rebate.** Where a person receives an ETP annuity or pension from a taxed superannuation fund and the person is 55 or more years of age, the person is entitled to a tax rebate, at 15 per cent, on the assessable part of the annuity or pension payment.

Note: Dollar amounts in bold type are indexed annually by Average Weekly Ordinary Time Earnings (AWOTE)

ETP Component	Maximum Tax Rate (add Medicare levy)
Post June 1983 component—refers to superannuation benefits accrued with respect to employment after 30 June 1983, reduced by the total amount of all the other ETP components. These benefits are taxed according to whether the fund earnings were taxable and the age of the benefit recipient, as follows.	
Person less than age 55:	
• **Taxed element**: a post-June 1983 component is a taxed element if the paying authority is subject to 15% tax on investment earnings of the superannuation fund (ie most superannuation funds).	20%
• **Untaxed element**: a post-June 1983 component is an untaxed element if the paying authority is not subject to 15 % tax on investment earnings (eg. some government superannuation funds and golden handshakes for employees).	30%
Person 55 years or over:	
• **Taxed element:**	
– from $0 to **$86,495**	Exempt
– balance	15%
• **Untaxed element:**	
– from $0 to **$86,495**	15%
– balance	30%
Pre July 1983 component — the amount of an ETP that relates to superannuation benefits accrued with respect to employment before 1 July 1983.	5% of amount is taxed at marginal tax rates
Undeducted contributions — contributions (since 1 July 1983) not subject to a tax deduction.	Exempt
Concessional component — until 1 July 1994, this included any approved early retirement scheme payment, bona fide redundancy payment or invalidity payment. From 1 July 1994, ETPs no longer have a concessional component, except where an ETP with a concessional component was rolled over (transferred to) a complying superannuation fund before 1 July 1994, and subsequently paid out by the fund.	5% of amount is taxed at marginal tax rates
Post June 1994 invalidity payments — the recipient's disability must be verified.	Exempt
Non-qualifying component — that part of an ETP that represents investment income accruing between the time of purchasing an annuity (other than by a rollover) and the time of payment.	Full amount taxed at marginal tax rates
Excessive component — the amount of an ETP in excess of a person's RBL.	47%

Note: Dollar amounts in bold type are indexed annually by Average Weekly Ordinary Time Earnings (AWOTE)