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Benefits of allowing access to super for housing

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This research report explores the potential benefits and challenges of allowing Australians to access their superannuation to purchase a home. The proposal aims to increase homeownership, provide more flexibility in retirement savings, and address housing affordability issues. However, it also raises concerns about reduced retirement incomes and potential increases in housing prices. The report evaluates these issues and proposes solutions to mitigate the downsides.

Rationale for using super to help buy housing

Superannuation and home equity are both ways to save for retirement. Allowing individuals to use super for housing gives them more choice in how they prepare for retirement.

Using super for housing could be a more efficient and equitable way to promote homeownership than existing policies like First Home Owners Grants.

Many first-home buyers face deposit constraints. Accessing super could help overcome these barriers, reducing the need for costly financial intermediation (e.g., simultaneously saving and borrowing).

Benefits of using super for housing

The median first-home buyer could increase their deposit by 92% if allowed to access their super. This could either enable them to buy a home sooner or purchase a more suitable property.

Allowing super for housing could bring forward home purchases by an average of 2.8 years, potentially increasing homeownership rates by 4 percentage points (from 66% to 70%).

Replacing First Home Owners Grants with super for housing could provide more assistance to buyers at a lower fiscal cost, while reducing distortions in the housing market.

Concerns and mitigations

Withdrawing super for housing could reduce retirement savings. For example, a typical borrower who withdraws $62,500 and repays it after 10 years could have $53,600 less in their retirement account at age 65. This could be avoided by using super as collateral for home loans instead of withdrawing funds.

Increased demand for housing could drive up prices, exacerbating affordability issues. To address this, the policy should be coupled with measures to increase housing supply, such as relaxing planning restrictions.

Homeownership is already heavily subsidised, favouring wealthier individuals. Super for housing could exacerbate this inequity unless it replaces less equitable subsidies like First Home Owners Grants.

Quantitative estimates

The median deposit paid by first-home buyers in the three years up to 2019-20 was $68,200 while the median super balance of first-home buyers was $62,500. This suggests that accessing super could allow first-home buyers to increase their deposit by 92% or reduce the cash they had to save for a deposit by 92%.

Allowing super for housing could enable 392,000 households to buy a home earlier, increasing the home-ownership rate by 4 percentage points.

Evidence from New Zealand's KiwiSaver scheme suggests that 84% of first-home buyers would likely access their super for housing if given the opportunity.

Alternative policy approaches

Borrowers could withdraw super funds and repay them later, including a share of capital gains. This approach reduces retirement savings but increases home equity.

Super could be used as security for home loans, reducing the need for large deposits without depleting retirement savings. This approach avoids reducing super balances unless a foreclosure occurs, which is rare.

Super for housing could replace less efficient subsidies like First Home Owners Grants, providing more assistance to buyers at a lower fiscal cost.

Secondary effects

Buyers might use super to purchase larger or better-located homes, buy earlier, or reduce their mortgage. The policy change could also encourage some renters to become homeowners.

Many first-home buyers receive financial help from parents. Super for housing could complement or reduce the need for such assistance.

Recommendations

To avoid reducing retirement savings, super should be used as security for home loans rather than allowing withdrawals.

To prevent housing price inflation, super for housing should be paired with policies to increase housing supply, such as relaxing zoning restrictions.

Super for housing should replace less effective policies like First Home Owners Grants, which are costly and inequitable.

Policymakers should closely monitor how buyers use super for housing to ensure the policy achieves its goals without unintended consequences.

Conclusion

Allowing Australians to access their super for housing could significantly increase homeownership rates and provide more flexibility in retirement planning. However, careful design is needed to avoid reducing retirement incomes and exacerbating housing affordability issues. By using super as collateral and coupling the policy with measures to increase housing supply, the government can promote homeownership while safeguarding retirement savings.

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