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Housing and Retirement In Search of a Unified Approach

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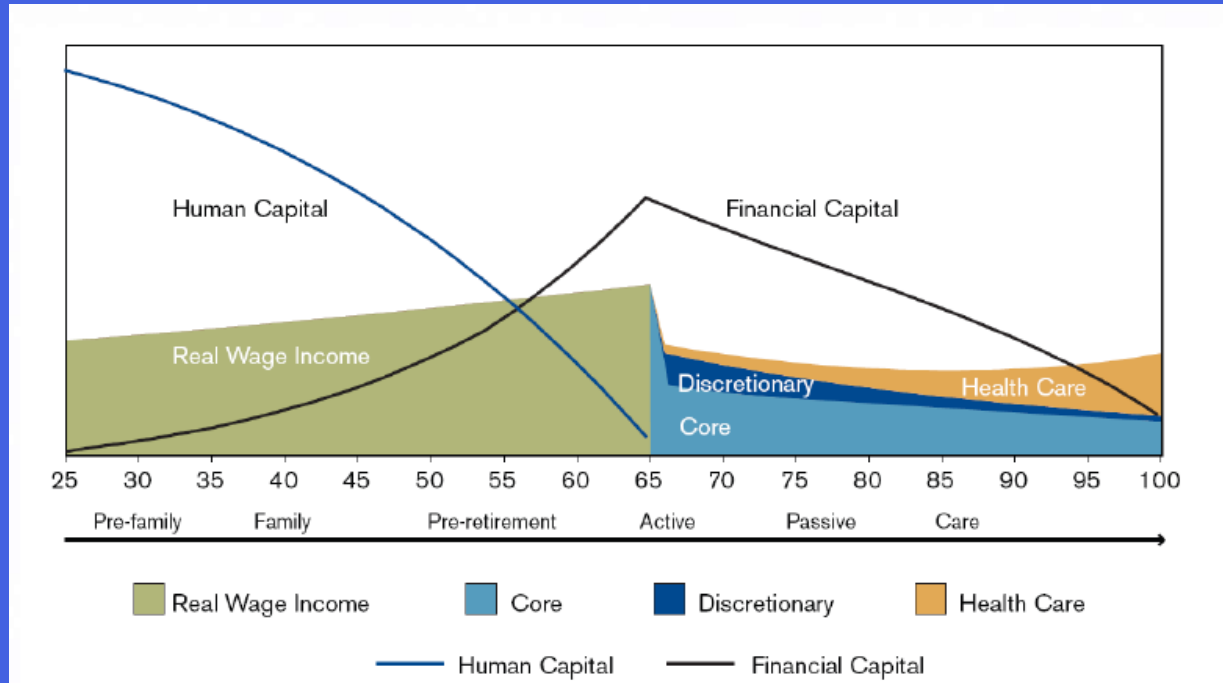
Super: a Tale of Two Sub-systems

	APRA-Regulated [#]	Self-Managed Superannuation Funds ^{##}
Number of Members	~17m (24m active accounts)	~1.1 million
Sub-system Balance	Circa \$2.7 trillion	Circa \$990 billion
Median Age	N/A	62
Median Member Balance (60 – 64)	\$212,000 (male) \$159,000 (female)	\$1,026,000* (male) \$873,000* (female)
Min pension (5%)	\$18,550 (couple combined)	\$94,950 (couple combined)
% in Partial or Full Pension Mode	~30%	~40%

Source: [#] APRA and ASFA; ^{##} Australian Taxation Office (ATO)

* Average balance per ATO SMSF statistical overview 2020-21

Retirement – A Lifecycle Theory Approach



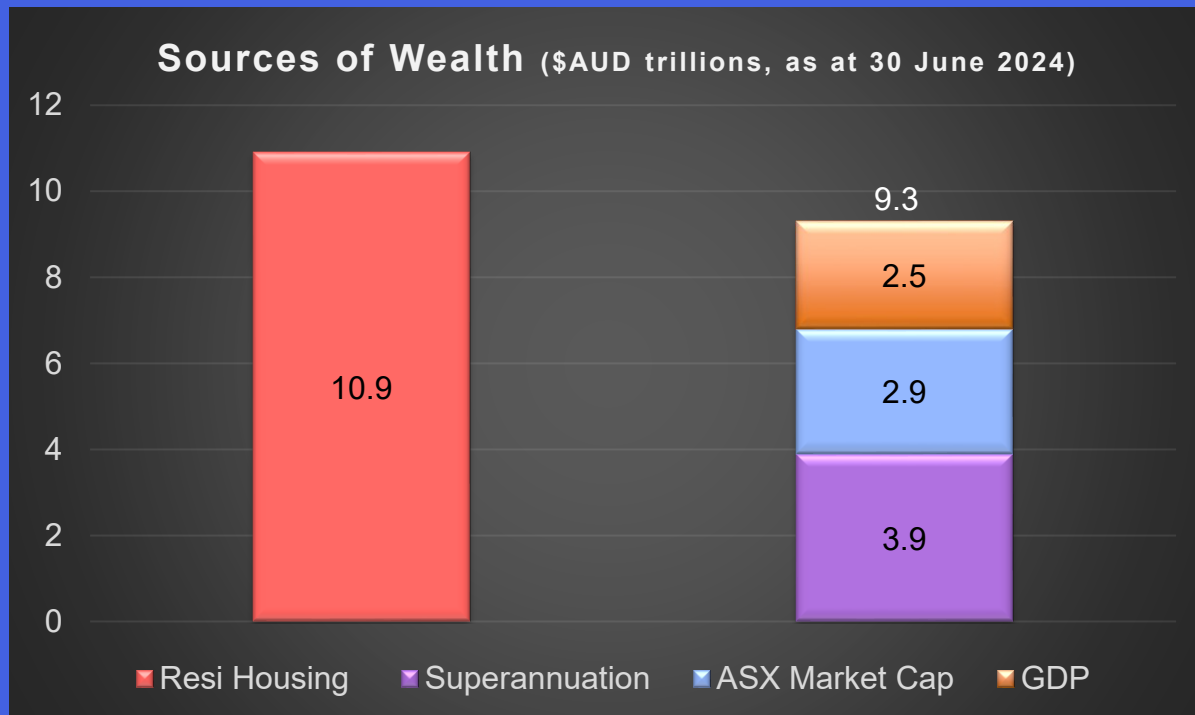
Source: Milliman

Creating a pool of wealth by converting part of one's *human capital* into *financial capital* during the working years allows for the *smoothing of lifetime consumption* and generates a higher lifetime standard of living.

The two largest stores of financial capital for the median retiree today are:

1. housing equity; and
2. superannuation

Australian Residential Housing Wealth in Context



Data sources:

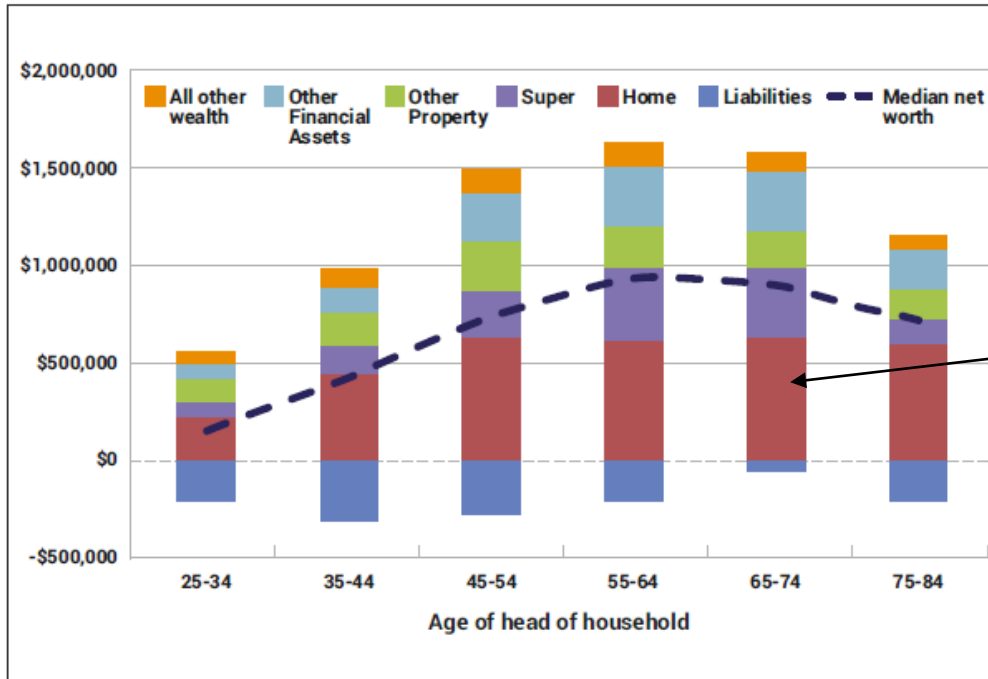
Housing: ABS Total Value of Dwellings, June Quarter 2024

Super: APRA Quarterly Superannuation Statistics, June 2024

ASX: End of Month Values, Market Cap, June 2024

GDP: ABS Australian National Accounts: National Income, Expenditure and Product, June 2024

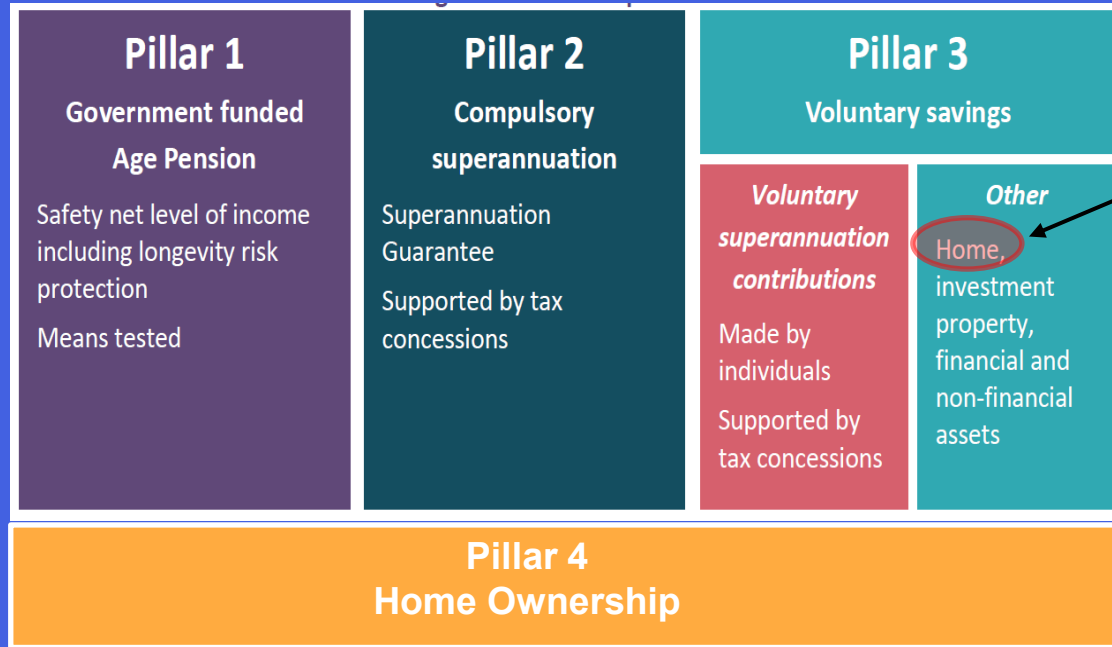
Composition of Household Wealth by Age Cohort



“Outright home ownership supports retirement income by reducing ongoing expenses and acts as a store of wealth that can be accessed in retirement.”

(Retirement Income Review, 2020)

The Pillars of Retirement Income Security

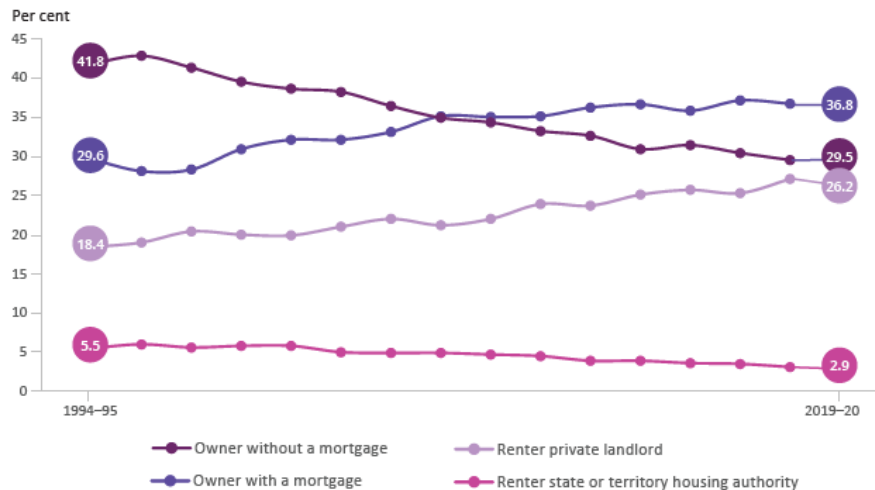


“Housing serves as a tradeable asset and as a means of accumulating wealth. Housing is the greatest store of intergenerational wealth for a majority of Australians and is considered by some as an unofficial fourth pillar of the retirement income system (alongside the age pension funded by the Australian Government, compulsory superannuation and voluntary savings)” (National Housing Supply and Affordability Council, 2024).



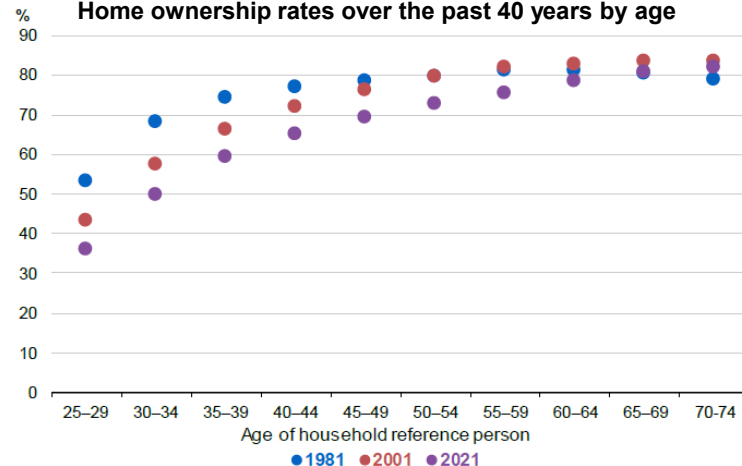
The Changing Nature of Home Ownership

Proportion of households by housing tenure type, 1994-95 to 2019-20



Source: Australian Institute of Health and Welfare (AIHW)

Home ownership rates over the past 40 years by age



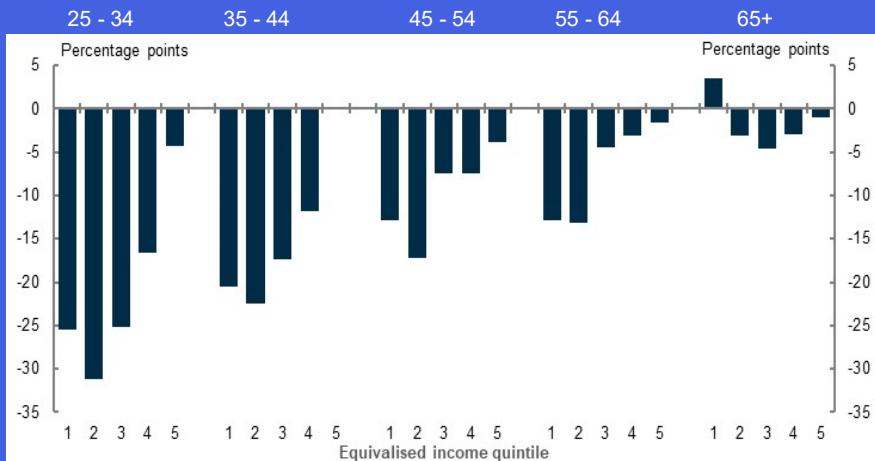
Note: Analysis was done at the household level. Analysis excludes Census responses where the answer was not stated. Data points show the home ownership rates in 1981, 2001 and 2021, with the gap indicating the percentage point difference.

Source: Treasury, AIHW analysis of customised ABS Census data (1981-2021).

Source: Treasury, Intergenerational Report 2023

Renting – No Longer Just a ‘Phase of Life’

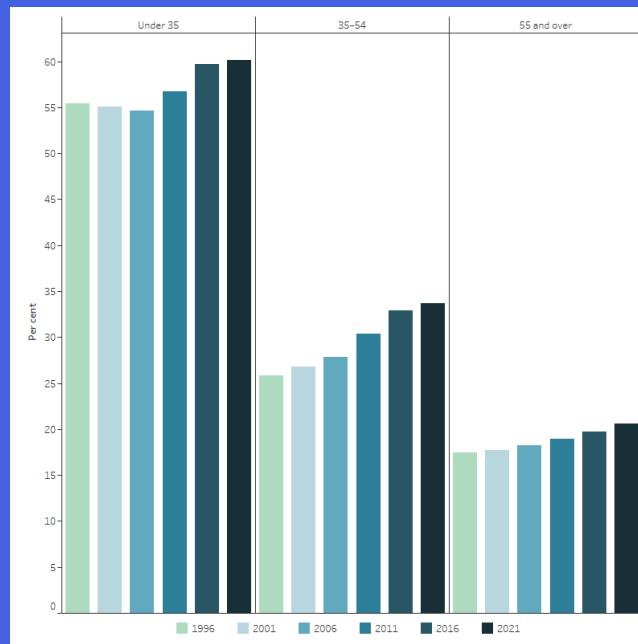
Change in home ownership rates from 1981 to 2016, by age* group and equivalised income quintiles



Source: Retirement Income Review, 2020

* age refers to age of the household reference person

Proportion of households renting, by age of household reference person, 1996 to 2021

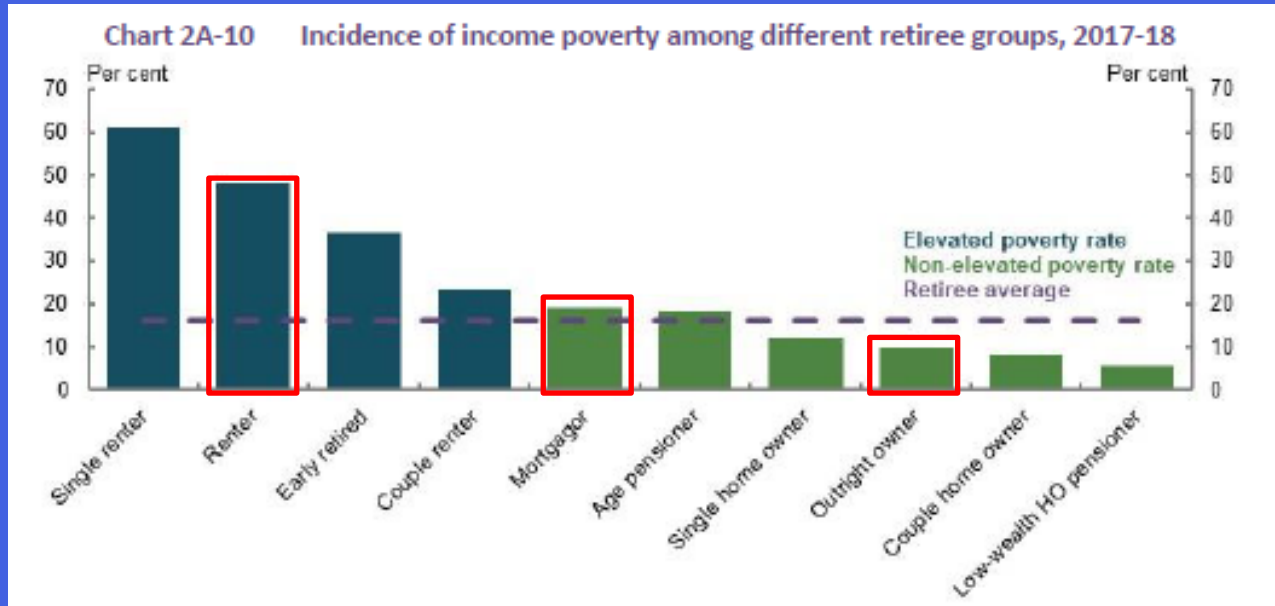


Source: Australian Institute of Health and Welfare (AIHW)

“Current trends in home ownership suggest lower income retiree households may be more likely to rent in the future.”

(Retirement Income Review, 2020)

Housing Security as a Predictor of Income Poverty



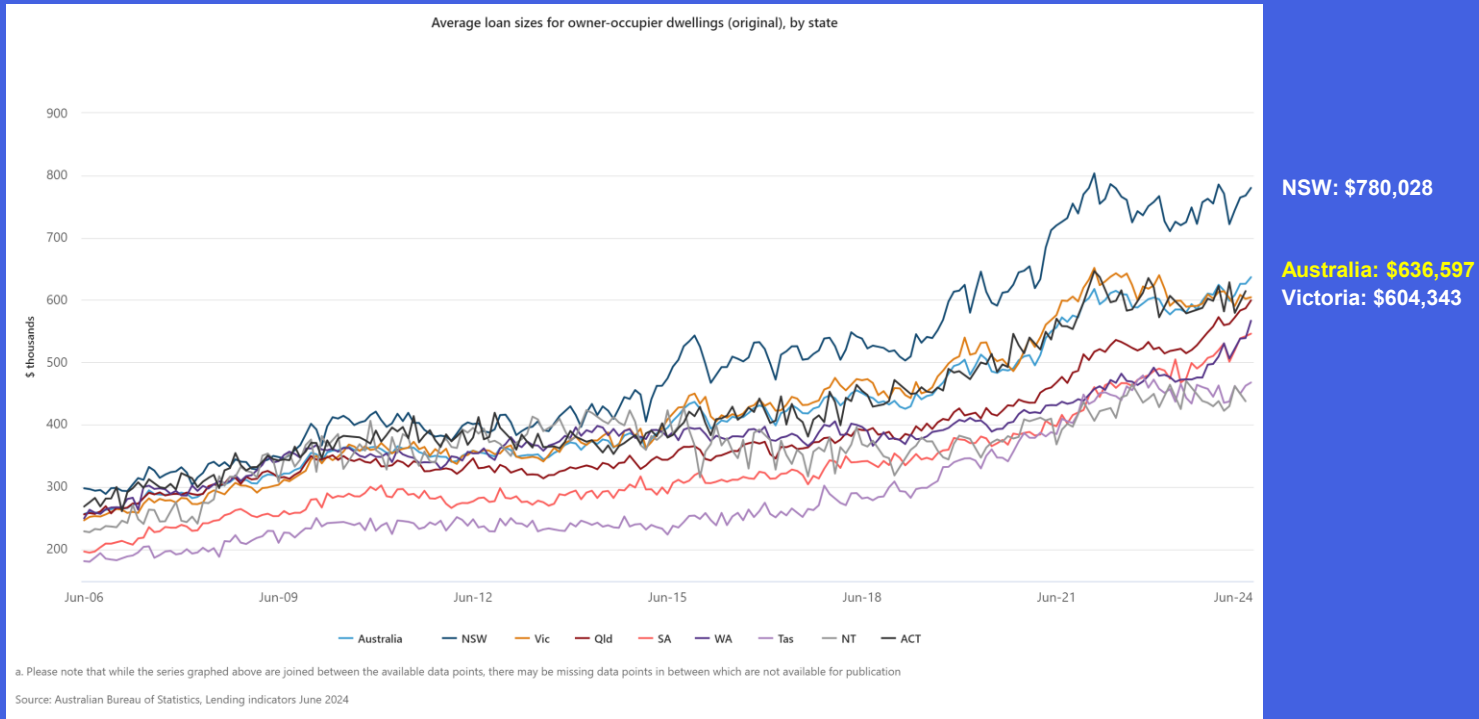
“Almost one-quarter of retirees who rent privately are in financial stress. High housing costs are likely to be the primary driver of the financial stress experienced by this group.

Renters face higher housing costs than owners in retirement: an additional \$6,900 per year for the median single, and \$12,200 per year for the median couple.”

(Retirement Income Review, 2020)

Source: Retirement Income Review, 2020

Average Mortgage Debt is Growing

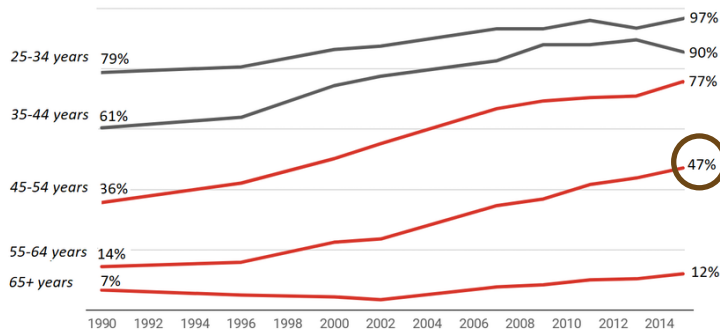


Source: ABS, Lending Indicators, June 2024

Rising Mortgage Burden Carried into Later Life

Proportion of home owners with outstanding mortgages

By age group, 1990 - 2015

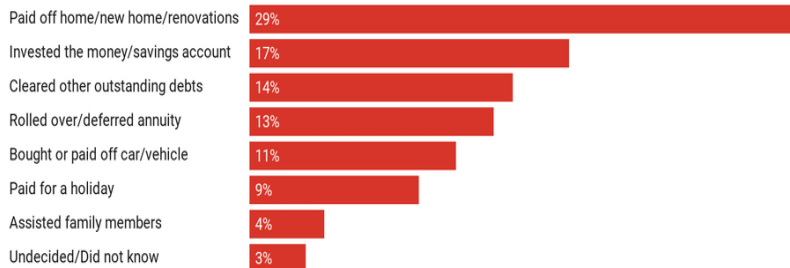


Current outstanding balances on loans: Q2 2024

	All	18-29	30-49	50-64	65+
Investment loan	\$326,247	\$80,876	\$344,041	\$513,738	\$268,293
Home loan	\$320,404	\$357,043	\$384,633	\$220,647	\$138,156
Personal loan	\$13,688	\$13,765	\$14,136	\$14,964	\$1,462
Loan from family & friends	\$6,384	\$4,668	\$8,846	\$8,402	\$4,639
Credit card	\$3,061	\$2,794	\$3,499	\$3,743	\$2,145
Payday loan	\$996	\$944	\$1,129	\$1,330	\$1,304
Buy now pay later (BNPL)	\$750	\$734	\$714	\$882	\$685

Source: NAB Australian Wellbeing Survey, Q2 2024

Main uses of super lump sum payments, 2016-17



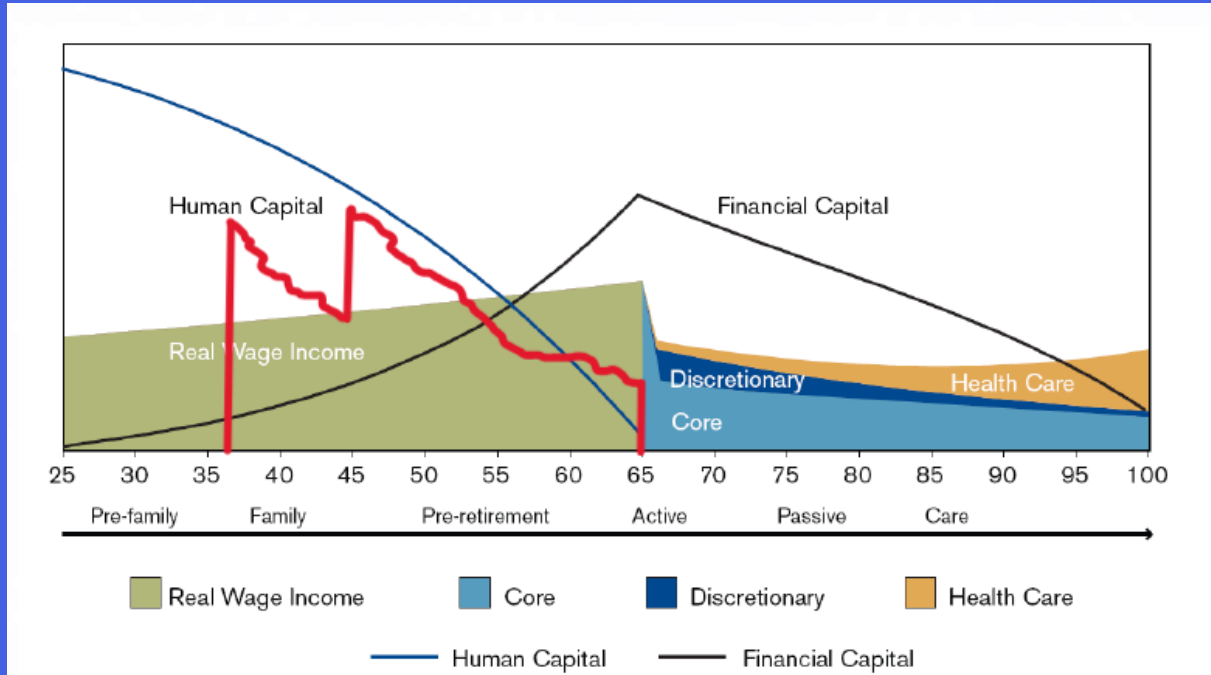
Source: Ong ViforJ, R & Wood, G, 2019
(using SIH 2016-17 data)

“Increasing mortgage commitments have coincided with more owner-occupier households holding a mortgage at older ages.

The median age for paying off a mortgage increased from 52 in 1981 to 62 in 2016.”

(Retirement Income Review, 2020)

The Lifecycle Theory Approach + Mortgage Debt



Source: Milliman

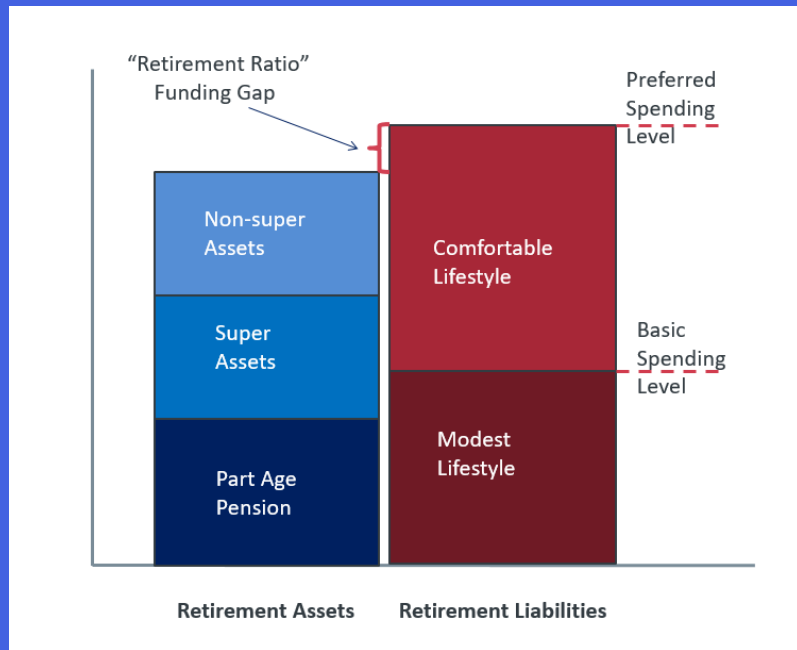
“In theory, theory and practice are the same.

In practice they are not.”

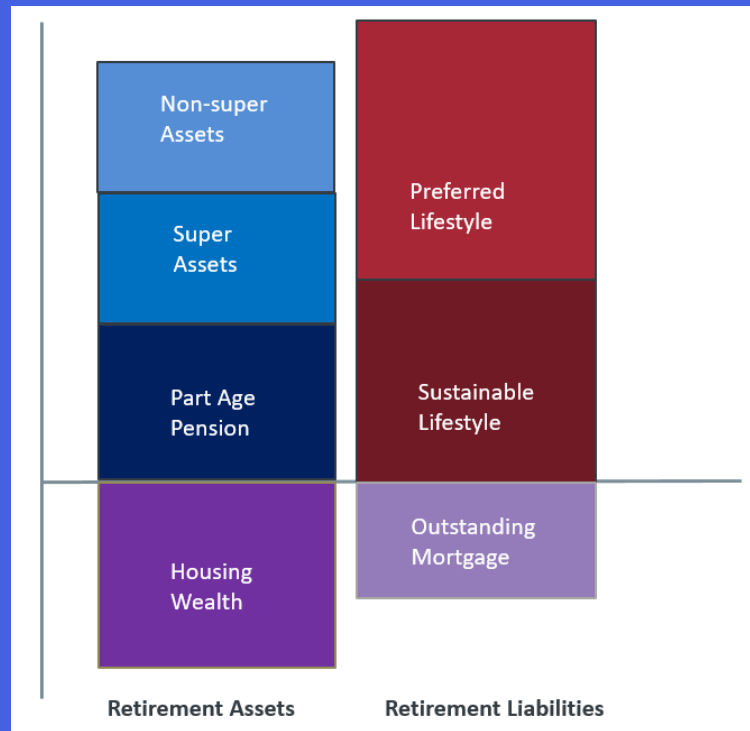
[Variously attributed to Albert Einstein, Richard Feynman and Yogi Berra]

An Evolving Retirement Income Framework

2014



2024



Retirement Income Covenant data gaps

Joint APRA & ASIC RIC Thematic Review, 2023

Data type	Examples of data gaps
Financial position	• Partner status • Partner's superannuation balance • Financial assets outside of the RSE • Home ownership
Income needs	• Employment status and occupation type pre-retirement • Pre-retirement income • Retirement goal such as retirement lifestyle preference and income target.
Other	• Retirement age (planned and actual) • Risk appetite • Financial literacy

“We recognise the difficulty for RSE licensees in addressing their data gaps; however, [they] need to think beyond this as to what is possible to form a sufficient understanding of their membership upon which to base their [retirement income] strategy.” (page 12)

“As part of meeting obligations relating to member outcomes assessments, trustees are required to conduct cohort analysis. Identifying sub-classes for the purposes of formulating a retirement income strategy is expected to involve similar analysis.

Examples of factors that trustees can use to determine sub-classes include :

- superannuation balance amount;
- expected eligibility for the Age Pension at retirement;
- partner status;
- *home ownership status, specifically whether the beneficiary's property is owned outright, with a mortgage, or if the beneficiary is likely to be or is renting in retirement*;
- gender which may take into account differences in expected retirement ages, mortality and morbidity;
- age that drawdowns from superannuation are expected to begin, and
- other demographic considerations, such as Aboriginal and/or Torres Strait Islander status.”

Retirement Income Covenant Explanatory Memorandum, at para 17.31

Mortgage Debt & the Retirement Income Covenant

- Mortgage debt approaching retirement not a concern for the top two income/wealth deciles.
- But for median near-retirees, material mortgage debt is increasingly the norm, not the exception.
- The **industry presumption** is that Australians retire as **unencumbered homeowners** (ASFA Budget Standards; super fund 'readiness' & 'retirement income' calculators (RG 276)).
- The probability of that being true for the median near-retiree today is **less than 50%**.
- The question for super funds therefore should be: *how much accrued super might a member roll-out at/prior to retirement if she/he is a mortgaged home-owner?*
- The balance is that member's **Net Pension Generating Super** (NPGS).
- That is the metric that counts (and increasingly will) in meeting the spirit of the RIC.

The RIC data dilemma – an example

- Michael is a 55-year-old member of ABC Super Fund. His partner, Eliza, is a 48-year-old member of XYZ Super Fund. Neither have any other superannuation interests.
- Michael and Eliza own a house valued at \$2.1 million. Against that they have an outstanding mortgage of \$580,000, which they pay at the scheduled monthly mortgage repayment. At that rate, the mortgage is set to extinguish when Michael turns 72.
- ABC Super Fund has allocated Michael to a sub-class of members, based on his income, occupation, partnered status and forecast super balance at the point of retirement, as part of its RIC program. The Fund does not collect information on, nor does it make any assumptions about, the mortgage debt of its members.
- Based on the modelling for this sub-class, ABC Fund forecasts Michael's accrued super to age 65. In accessing the fund's online super calculator, Michael learns that he should receive a stable and sustainable income of \$39,000 per year in retirement (based on a forecast super balance of \$650,000).
- Michael turns age 65 and decides to retire. He withdraws \$230,000 of his accrued \$650,000 in the ABC Super Fund to extinguish the mortgage. He then inquires of the fund as to the income its RIC sub-class retirement income product will generate for his retirement.
- He is informed that, given the lower starting balance, the best estimate of a stable and sustainable income is now \$25,200 per year. Michael feels let down by his fund, but \$420,000 was his true NPGS, not \$650,000.

Some Concluding Food for Thought

Assuming the goal is appropriate lifetime consumption smoothing:

- What does it mean to approach retirement with material outstanding mortgage debt?
- The borders of home-ownership are increasingly porous. What does it mean to approach retirement as a non-homeowner / lifetime renter? (Late-life health issues, separation)
- How should super funds respond to this increasing heterogeneity in housing outcomes?
- Do super funds need 'eyes in' on member home-ownership status / outstanding debt? What are the current barriers to doing so?
- Are current member self-serve calculators, tools & consumption budgets fit-for-purpose?
- Are safe spending 'guiderails' possible, given regulatory and technological hurdles?

Harry Chemay



Harry Chemay has more than 27 years of experience across both wealth management and institutional asset consulting. A Certified Financial Planner by his early 30s, Harry practised in the High Net Worth/SMSF space for a decade before switching to institutional investment consulting with Mercer. He was also a co-founder in Clover.com.au, one of Australia's earliest digital advice services (acquired by SuperEd) where he was a Responsible Manager and Key Person (advice) for the company's AFSL until December 2020.

Consulting within the wealth and superannuation space, Harry is also a regular contributor to investment websites in Australia and overseas, writing on pensions, retirement planning and financial advice.

He has also previously served as an Australian ambassador to the Transparency Task Force, a UK-led initiative to bring greater transparency and accountability to financial services.

Harry's qualifications include a Bachelor of Business (Banking & Finance major, Monash), a Grad. Dip in Applied Finance and Investments – Financial Services Institute of Australasia (former Fellow member) and a Grad Cert in Self-Managed Superannuation Funds (Adelaide Uni). He has previously held the Certified Financial Planner and Certified Investment Management Analyst (CIMA) designations.