Blueprint Institute

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Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Blueprint Institute welcomes the opportunity to provide a submission to the Senate Standing Committees on Economics regarding improving consumer experiences, choice, and outcomes in Australia's retirement system.

Home ownership today remains out of reach for many Australians. This submission investigates the idea of enabling Australians to access mandatory superannuation contributions to buy their first property.

Our analysis indicates that permitting withdrawals of mandatory superannuation payments for the purposes of purchasing a home would substantially broaden access to the housing market for 25-44 year olds at different income levels, allowing several hundred thousand more people to be able to, in theory, afford their first home purchase. However the reality of insufficient dwelling stock severely constrains the actual number of people who could benefit from these changes. We estimate that demand for low-cost housing (priced around $300,00-$500,000) under the new scheme would outstrip supply four to one.

The scheme enables couples aged 25-44 on median incomes to purchase a first home under the scheme. Singles, however, are still constrained by income, even when granted access to mandatory superannuation contributions.

We recommend that, contingent on addressing supply side issues, first time home buyers should be permitted to access their mandatory superannuation contributions, which should be repaid to their superannuation prior to retirement. Implementing a repayment mechanism for withdrawals would preserve participant's superannuation savings in the long run whilst enabling home ownership earlier.

Independent of these recommendations, we also suggest that the existing First Home Super Saver Scheme annual and total withdrawal caps be abolished and that withdrawals under the scheme be simplified.

Yours sincerely,



Liana Downey
CEO Blueprint Institute

Executive Summary

Home ownership today remains out of reach for many Australians.

This paper investigates the idea of enabling Australians to access mandatory superannuation contributions to buy their first property. It includes insights and recommendations on the basis of research into the impact of comparable schemes overseas and an economic assessment of the potential impact of the proposed scheme on Australian home buyers. It also includes recommendations for strengthening the existing First Home Super Saver Scheme (FHSSS).

Key findings:

Our analysis indicates that permitting withdrawals of mandatory superannuation payments for the purposes of purchasing a home would substantially broaden access to the housing market for 25-44 year olds at different income levels. Although our estimates are that several hundred thousand more people would be able to, in theory, afford their first home purchase, the reality of insufficient dwelling stock severely constrains the actual number of people who could benefit from these changes.

Approximately 90,000 homes priced between $300,000 and $500,000 were available in 2023 purchase—many of these located away from the urban areas where demand for low-cost housing is most concentrated, which suggests demand under the new scheme would outstrip supply four to one.

Even if allowed to access mandatory superannuation contributions, single person households at this age and income level are still unable to afford a home on their own—a dual-income remains necessary to service a home loan.

The cost of housing presents a significant barrier to many first home buyers, as even with our recommendations, a couple on median incomes cannot afford to buy a median priced house. Accordingly, the largest constraint on increasing participation in the housing market is sufficient availability of lower cost homes.

Recommendations:

We recommend that more capital is made available to Australians by permitting mandatory superannuation contributions—which make up the majority of the average person's superannuation balance—to be released in addition to voluntary contributions, but only concurrently with supply approaches.

The supply of appropriate dwelling stock to meet current and forecasted demand is critical to housing affordability for first-time home-buyers. The opening up of increased capital to first-time home buyers will only permit short-term additional participation in the housing market if there is insufficient low cost dwelling stock to absorb additional demand created by policy as new participants in the housing market will be soon again priced out.

Therefore, a concerted effort should be made to construct additional lower-cost housing in high-demand urban areas before any recommendations set to further increase demand are implemented. Independent of these other recommendations, we recommend simplifying the existing FHSS scheme to reduce complexity and increase uptake. Specifically, we suggest that the annual and total withdrawal caps are abolished and that FHSSS withdrawals are made entirely tax-free.

Finally, we recommend that a repayment mechanism for withdrawals be introduced to the scheme in order to preserve participant's superannuation savings in the long run whilst enabling home ownership.

Context

For many young people in Australia, the dream of a white-picket fence and a home to call your own is fast becoming an impossible aspiration.

Although the total home ownership rate in Australia has remained relatively stable at around 67–70% since the 1970s, census data indicates an older demographic of homeowners when compared to that of previous decades. Since 1971, the proportion of 30–34 year olds who were homeowners has dropped from 64% to 50%. Similarly, the proportion of 25–29 year old homeowners decreased from 50% to 36% in this period.

Simply put, young people are finding it much more difficult to enter the housing market than their parents did. In the space of a generation, the ratio between incomes and dwelling prices has doubled, leaving the current generation severely impeded in saving enough to purchase a home.

In light of the increasing unaffordability of the housing market for young people, FHSSS was introduced in the 2017–2018 budget by the Turnbull Coalition government as a measure to assist first-time home buyers in saving for a home deposit.

Under the scheme, participants may request up to $15,000 of their voluntary superannuation contributions from any one year of contributions made after FY2017, capped at a maximum withdrawal amount of $30,000 across all contribution years. Requested contributions are inclusive of their associated earnings, which are calculated on the Shortfall Interest Charge (SIC) rate rather than the actual earnings accrued by the contributions.

Eligible voluntary superannuation contributions include salary sacrifice arrangements and post-tax contributions. Super Guarantee contributions (currently at a rate of 11.5% Ordinary Time Earnings for FY2024) and defined employer contributions (set by industrial agreements and awards) are not eligible for release under FHSSS.

To withdraw superannuation funds under FHSSS, applicants must be over eighteen years of age and cannot have previously made a FHSSS release request. You do not have to be an Australian citizen or an Australian resident for tax purposes to participate in the scheme. In most cases, the applicant cannot currently or have previously owned property in Australia.

However, applicants who have previously owned property in Australia but lost it due to financial hardship may still be eligible for FHSSS.

The scheme operates on an individual basis, meaning that each contributor towards a joint home deposit may request up to the maximum withdrawal amount from their personal superannuation account.

In addition to the maximum withdrawal caps, there are other restrictions which limit the amount received by FHSSS applicants. Before an applicant receives their FHSSS funds, the withdrawn superannuation is first put towards satisfying any outstanding debts the applicant may have with Commonwealth agencies (excluding study assistance loans such as HECS-HELP).

An applicant may withdraw up to 85% of their concessional superannuation contributions and 100% of their non-concessional contributions. The funds are withdrawn according to the First In First Out (FIFO) principle, excluding instances of simultaneous contributions, in which case the non-concessional contribution will be withdrawn first.

Concessional contributions are taxed at a reduced rate of 15% upon entry into the superannuation fund, but are limited to a yearly cap of $27,500. Once the annual concessional cap has been exceeded, individuals may make non-concessional contributions into their superannuation fund up to a yearly cap of $110,000, which are taxed at the individual's marginal tax rate. Additional contributions which exceed the non-concessional contribution cap are taxed at a rate of 47% plus medicare levy if the individual does not release these contributions from their superannuation fund.

Withdrawn FHSSS funds may only be used to purchase residential premises located in Australia. Under the scheme's mandate, FHSSS participants must move into their property as soon as is practically possible and live there for at least six of the first twelve months after purchase.

To participate in the FHSSS scheme, individuals must first submit an application to the Australian Taxation Office (ATO) for a determination, without which you cannot enter into a purchase contract for a home. You may sign a home purchase agreement up to 12 months before or 14 days after submitting a valid fund request. If these time constraints are exceeded, the FHSSS participant must return the funds or pay a tax of 20% on any FHSSS funds released to them.

Income tax is withheld on released FHSSS funds according to the individual's marginal tax rate and medicare levy less a 30% offset. This means that when FHSSS funds are released, the participant must claim the amount on their annual tax return and may be pushed into a higher income bracket as a result. This tax is payable in the income year in which the individual makes the withdrawal request.

There is no obligation to repay superannuation withdrawn under FHSSS upon the sale or otherwise disposal of property purchased under the scheme.

Since the inception of FHSSS in FY2018, minor adjustments have been made to bolster the scheme's utility to participants wanting to enter the housing market. From 1 July 2022, the maximum withdrawal amount permitted under FHSSS was increased to $50,000—$20,000 more than was previously allowed.

Three additional changes will be in place from 20 September 2024. First, the time frame for individuals to request a fund release after signing a purchase agreement was also extended from 14 to 90 days. Applicants will also be able to amend or withdraw their FHSSS application prior to receiving their requested FHSSS funds—applicants who have withdrawn their FHSSS request will be permitted to make another one in the future. Finally, the Commissioner of Taxation will have greater discretion to amend or revoke FHSSS requests.

Between FY2019 and FY2022, a total of 37,100 requests were made under the FHSSS scheme, with payments worth $415.1m having been made to 29,600 individuals. The average amount of funds released increased from $12,100 in FY2019 to $14,000 in FY2022—just under half of the maximum withdrawal amount permitted during this period.

Individuals aged 26 to 30 were the most likely to participate in the FHSSS scheme, with the proportion of participants aged 31 to 35 following close behind. The vast majority of FHSSS release requests in FY2022 were from individuals earning between $45,000 to $120,000, comprising approximately 65% of the total withdrawal requests for that period.

There are a number of federal and state schemes aside from FHSSS designed to encourage young people into the housing market by easing affordability concerns. These include shared equity schemes, and reduced deposit schemes. As these schemes have limited participation rates, we have not accounted for these policies in our modelling.

Economic analysis

Aim

- Understand how many more people, in what age and income categories would be able to purchase a house under the revised scheme, that is to afford a deposit, and to be able to service the mortgage comfortably;
- Understand the impact on the net value of their assets at retirement, to ensure they are not worse off as a result of participating in the revised scheme;
- Understand sensitivities so at which, if any, levels do key assumptions change whether people are worse or better off; and
- Identify potential recommendations on the basis of this analysis.

Methodology

- Variables
    - Age groups of 25-34 and 35-44 are considered as the target first time home buyers, as reflected in statistics of current FHSSS participants;
    - First quartile, median, and third quartile profiles of income earners and dwelling prices; and
    - The scheme was evaluated from a 2024 start date, with one to four years for potential participants to accrue a deposit.

- Economic analysis was conducted on the basis of a revised scheme with the following features:
    - Both mandatory and voluntary contributions (including superannuation balances) available for withdrawal;
    - Taxation on mandatory contributions as per current policy with contributions being taxed at 15%, and withdrawals taxed at the marginal tax rate;
    - Withdrawals to be repaid with interest; and
    - No cap on contributions.
- Other relevant policies
    - Gradual increase of SG rates to reach 12% by FY2026; and
    - Stage 3 income tax changes commencing FY2024.
- Assumptions
    - 30% mortgage servicing ratio considered a requirement for people to be able to afford to buy a property under the scheme;
    - First home buyers do not pay stamp duty (common in state/territory laws);
    - 3% income growth per year (based on WPI December FY2004-2023);
    - 6% house price growth per year (average of FY1993-2018);
    - Voluntary superannuation contributions range from 0-3% depending on age and income;
    - 0.5-4% of after tax income put towards personal savings, depending on age and income) put towards personal savings;
    - 8% superannuation fund performance (average of FY1993-2023);
    - Year of FHSSS request is same as year of withdrawal (marginal tax rate for withdrawn funds is calculated on year of request);
    - Home deposits are 20% of dwelling cost;
    - Loan servicing costs are 8% of mortgage;
    - Transaction costs are 1% of purchase price;
    - Ongoing housing costs are 1% of purchase price; and
    - Lower range property prices range from $300,000-500,000 (compared to a median of $760,000) depending on age and income levels. Note that this range comprises less than 20% of Australia's total dwelling stock and is more prevalent outside major urban areas.

Key findings

Mortgage serviceability

- Mortgage serviceability is the biggest constraint for singles, but housing supply is the biggest constraint more broadly.

The policy works for couples, but not for singles

- Even after allowing for access to mandatory superannuation balances and contributions over one to four years, those at the median income level aged 25-44 are not able to purchase a house on their own.
- However, the revised superannuation for housing scheme would allow a substantial number of couples to afford to buy a home.

Median properties still out of range

- 25-44 year old couples at the median income level are not able to afford a home at the median house price of $760,000—even with the help of the scheme—but can afford a property at lower price levels.

Allowing people access to mandatory superannuation increases access to homes

- By enabling people to access their mandatory superannuation contributions early in their life:
    - 25-34 year old couples with incomes above the median would now be able to afford a $500K house or unit (currently there are approximately 560,000 renters in this category, suggesting increased demand for about 280,000 homes);
    - 25-34 year old couples with incomes below the median can't afford a $300,000 home (they can afford the deposit, but not to comfortably service the mortgage); and
    - 35-44 year old couples on the first to second quartile of income can afford a $300,000 home (approximately 320,000 renters), and another 450,000 renters on median incomes and above could afford a $500,000 home.

However, demand would outstrip supply 4:1

- Housing supply remains a very real constraint tightly bounding what would actually be possible, especially over the next few years. The demand the scheme could create would outstrip supply by 4:1, however this estimate does not take into account price pressures resulting from the scheme which would reduce affordability and decrease the number of people who would be able to afford a first home purchase.
- If all current renters were to participate in FHSSS, there would be demand for 162,000 properties at the $300,000 mark (compared to about 35,000 sold at this price point in 2023), and for 500,000 properties at the $500,000 mark (with 50,000 sold at this price point in 2023).

Economic impact on individuals

- We modelled comparisons of life time asset accumulation for 25-44 year olds at the median income of those participating in the scheme, and those who did not
- Ignoring the real constraints of housing supply and assuming participation is feasible, those who participated in FHSSS fared better financially in the long run, even without a repayment mechanism.
- The use of a repayment mechanism for withdrawn superannuation funds would make FHSSS participants even better off financially in the long run as they are able to own a home for longer without compromising their superannuation savings.

Recommendations

Recommendation 1: Open up mandatory contributions

As it currently stands, only voluntary superannuation contributions are eligible for release under FHSSS. However, the reality for many lower income earners is that when their income is already being pruned by mandatory superannuation contributions, the remainder is not sufficient to meaningfully save alongside the rising cost of living.

For example, 25-34 on a median income earns approximately $62,717 annually. $6,899 of this will comprise their mandatory superannuation contributions at the current rate, rising to $7,526 by FY2026.

Our model assumes individuals will save around 0.5 to 4% of their post-tax income based on Australia's actual household savings rates—in this case totalling between $234 and $1,872 annually.

As these limited savings are the source of voluntary superannuation contributions, many superannuation accounts are largely made up of mandatory contributions, which are not currently available for withdrawal under FHSSS. The inaccessibility of mandatory contributions under FHSSS therefore erects a barrier to participation in the scheme for lower income earners, who are unlikely to be able to make substantial voluntary contributions to their superannuation.

Evidence has shown that individual spending needs decline after retirement age, a trend shown even in wealthier households with higher levels of disposable income. Many of the big-ticket financial commitments an individual will make will be early on in their lifetime, when their income is comparatively low to their spending needs.

Unfencing mandatory superannuation contributions will therefore enable younger people to make financial commitments such as purchasing a home by granting access to an amount of capital otherwise unattainable at their age.

Recommendation 2: Introduce a repayment mechanism

Under the First Home Super Saver Scheme, participants are not required to repay validly withdrawn funds back into their superannuation account.

An alternate model is employed in Canada, where participants of the Home Buyer's Plan (HBP) must repay any funds they withdraw from their Registered Retirement Savings Plan (RRSP) to purchase a house. HBP participants are permitted for up to 15 years to make interest-free repayments of the withdrawn amount, commencing 3 years after the withdrawal date.

A key point of difference between these two schemes is that funds withdrawn under the Canadian scheme are tax-free, while funds withdrawn (both principal and interest) under FHSSS are taxed at the participant's marginal rate minus a 30% tax offset. Funds paid into RRSPs are not taxed upon entry into the account—the marginal tax rate is instead levied on both the principal and proceeds upon their withdrawal at the account holder's retirement. By contrast, a concessional tax rate of 15% applies to amounts contributed to superannuation upon entry, but fund withdrawals at retirement age are tax-free.

In short, the Home Buyers Plan grants participants access to more funds in the short term, whilst protecting a retirement savings pool separate from the property purchased with the scheme. Although HBP participants pay more tax on their retirement savings in the long run,

this is likely offset by the benefits of having enhanced cash flow to make investments early on with potential to mature.

Our central aim in these recommendations is to increase home ownership rates amongst young Australians whilst preserving their superannuation savings to, at minimum, the same standard as of non-participation in FHSSS. The introduction of a repayment mechanism would enable FHSSS participants to have the best of both worlds when saving for their retirement with assets in home ownership and superannuation.

We recommend that participants be responsible for repaying both the actual amount withdrawn from their superannuation, as well as the interest which would have accrued if the withdrawn amount were to have remained in the fund. This measure will help neutralise the financial impact a FHSSS withdrawal would have on the participant's overall superannuation balance.

A diversification of investment streams will likely produce better outcomes for scheme participants in countering the risk to their retirement savings in the event of a downturn in the housing market or superannuation losses. However, further modelling will be required to fully assess the implications of introducing a repayment mechanism to FHSSS.

Recommendation 3: Abolish the $15,000 and $50,000 withdrawal caps

For FHSSS participants to derive the greatest benefit from the scheme, we recommend that annual $15,000 and overall $50,000 limits on superannuation withdrawals are abolished. If the aim of FHSSS is to increase participation in the housing market by incentivising saving, these upper limits arbitrarily minimise the tax benefits participants can gain from the scheme.

Although released FHSSS funds should not be the only source of capital participants put towards purchasing a home, the nature of this capital pool will undoubtedly comprise a significant portion of the deposit. Yet, FHSSS withdrawals at their current limit of $50,000 only goes a third of the way to affording the $152,000 deposit for a median priced house.

Although the annual cap is set relatively high with respect to the amount of voluntary contributions most people can afford to make, the $15,000 FHSSS limit penalises participants for saving too much with the scheme. This means that the top savers who are able to contribute more than $15,000 a year are artificially delayed in using these savings to purchase a home when participating in FHSSS.

As the main amount of tax levied on FHSSS withdrawals is at their point of entry into the superannuation fund, the government will not lose significant tax earnings from abolishing the FHSSS caps. Additionally, participants will be able to grow their superannuation balance for FHSSS purposes without fear of overcontribution.

Recommendation 4: Simplify the system

A readily apparent issue with FHSSS is the high standard of superannuation and tax knowledge participants require to use the scheme.

To work out their take-home withdrawal amount—necessary information when budgeting for a home deposit—FHSSS participants have to account for a 15% tax on contributions entering their fund and the compounding interest of those contributions when in the fund, and then subtract their marginal tax rate minus a 30% rebate from their requested withdrawal amount. Even for professionals, this calculation is not an easy feat.

One way to simplify the FHSSS process would be to remove the tax levied on funds withdrawn under the scheme. FHSSS withdrawals are currently taxed at the participant's marginal rate minus a 30% rebate.

This means that if the participant's taxable income (including the withdrawal amount) is $45,001 and $120,000, the FHSSS withdrawal will be taxed at a rate of 2.5%. After the stage 3 tax changes come into effect in July, FHSSS withdrawals will be tax-free for participants with a taxable income of less than $135,000. Please note that these rates do not account for the 2% Medicare levy.

Only 13% of FHSSS participants in FY2022 earned over $120,000, and the main uptake of FHSSS has been from earners below this income bracket. Therefore, the removal of the FHSSS tax will only impact the small minority FHSSS users earning above $135,000. Exploitation of this tax exemption by high-income earners could be prevented by implementing an earnings cap in the participant eligibility criteria of the scheme.

Another approach to tackling the usability challenge of the complex scheme would be to create free, online tools for FHSSS participants to calculate their expected tax payable and take-home withdrawal amounts. High quality, jargon free training should also be provided to professional financial planners so that potential participants have a broader resource pool to draw upon when understanding and choosing to use the scheme.

Recommendation 5: Address housing supply

The First Home Super Saver Scheme does not operate in a vacuum, therefore it is essential to consider this policy's relationship with the macroeconomic conditions influencing Australia's housing market. Since mid-2022, the national rental vacancy rate has hovered around a 30-year low of 1.1%, indicating significant demand pressures on Australia's current housing stock.

There are several key drivers responsible for pushing demand for housing upwards. First, the population of Australia is growing, meaning that a greater number of people are competing to purchase or rent existing housing stock. Population growth is in part under pressure from immigration rates, which have risen dramatically since Australian COVID border restrictions on international arrivals eased in 2021.

Another driver is pandemic-era 'work from home' policies increasing the demand for space per person in residential dwellings as home offices are valued at a premium. Consequently, Australia's housing stock now services fewer people than it would have previously.

A chronic undersupply of housing is already failing to keep up with demand from both private investors and government initiatives—amidst rising labour and material costs causing

building delays and construction companies to collapse, the net number of dwellings added to the market has consistently declined since 2019.

FHSSS is designed to drive demand for housing by enabling broader participation in the housing market—however, the capacity of the market to absorb this additional demand is highly dependent on commensurate expansions of housing supply.

If the dwelling stock were to remain at the current level as housing demand increases, the extra demand would only cause house prices to rise further. This effect is worsened by the inelastic supply of housing, meaning that an increase in price does not lead to much more supply. Demand-side interventions that continue to outpace stagnant supply will only exacerbate affordability problems.

Our analysis indicates that a pressure point in the housing market is the limited availability of low-cost dwelling stock. Only 23% of dwellings sold in the last 12 months were priced below $500,000—a price at which dual income first-time home buyer households already struggle to afford. We therefore strongly recommend that any proposed changes to superannuation are undertaken alongside a clear commitment to bolster supply of low-cost housing in urban areas to match demand.

There are no silver bullet solutions to fix Australia's housing affordability crisis. As such, these recommendations for FHSSS will only be lasting if a concerted effort is made to boost housing supply to be in line with current and forecasted demand. If Australia's available dwelling stock cannot keep pace with the demand for housing, lower-income groups will once again be priced out of the housing market as their released FHSSS funds cover less and less of a deposit.