SUPER MEMBERS COUNCIL

28 June 2024

Senate Standing Committee on Economics
PO Box 1600
Parliament House
CANBERRA ACT 2600

Via online submission

Dear Committee Secretary

Re: Inquiry into improving consumer experiences, choice, and outcomes in Australia's retirement system

About the Super Members Council

We are a strong voice advocating for more than 11 million Australians who have over $1.5 trillion in retirement savings managed by profit-to-member superannuation funds. Our purpose is to protect and advance their interests throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament.

Executive summary

– A strong evidence base supports the preservation of retirement savings and confirms the negative effects of breaking the seal on super.

– **The negative effects of breaking that seal would be felt by millions of everyday Australians with retirement savings in super – including the current generation of retirees.**

– New SMC analysis shows keeping super preserved and purchasing a home two years later delivers people better lifetime wealth than proposals to allow early access to super to bring forward that house purchase.

– Analysis by SMC shows **a couple who withdraws $55,000[1] at age 30 and achieves homeownership 2-years earlier would have $165,400 less in lifetime disposable income, driven by higher housing costs.**

– An increase in housing costs leads **to lower *working-life* disposable income after housing costs of $57,800**.

– It would also lead to **a lower superannuation balance at retirement of $149,000**. This would mean **lower superannuation earnings and benefits of $164,300 during retirement**, **and lower disposable income of $107,600 in retirement** (the Age Pension buffers to some degree the lower superannuation benefits), **and higher Age Pension entitlements of $87,600**.

1 The median withdrawal for couples aged 30-34 from our microsimulation model under the capped scheme.

- A comprehensive independent policy roadmap for improving national housing affordability recently released by the National Housing Supply and Affordability Council, did not include early access to superannuation in any part of its policy roadmap. Rather, the central thrust of its recommendations to resolve affordability to was to address the urgent issues of housing supply.

- Other proposals for using superannuation to help purchase a home have been raised, including **proposals to use super in a mortgage offset or using super as collateral for a loan**. Analysis by Lateral Economics shows that **these proposals would have system-wide costs including reducing the returns of super funds** due to liquidity requirements, **and would cost customers more than they would save them**, rendering them impractical.

Introduction

Super Members Council (SMC) thanks the Senate Standing Committee on Economics (the Committee) for the opportunity to make a submission in this inquiry.

This submission is made in addition to SMC's original submission and associated attachments.

The Committee's interim report discusses a range of options and proposals to allow early access to superannuation to first home buyers for the purchase of a house or a contribution to a house deposit.

Our original submission to this inquiry outlined the strong evidence base supporting the preservation of retirement savings, and the negative effects of breaking this seal, including:

– the Retirement Income Review, which showed that preserved savings, combined with compulsion, allow people to enjoy a higher income and living standard in retirement;[2]

– that compound earnings make up around three quarters of an individual's super balance at retirement, which means the financial loss of early withdrawals is exacerbated over time;

– that because policies allowing early access to superannuation significantly impact on the retirement benefits for individuals, raising the Age Pension burden on taxpayers in the future.

This submission:

– publishes new evidence showing preserved super in combination with home ownership delivers better lifetime wealth (superannuation and housing assets) than proposals to allow early access to super for a house;

– looks at a recently released report recommending the criticality of addressing housing supply to improve affordability;

– provides more evidence on the effects a super for a house policy would have on taxpayers;

– examines the use of super as collateral and for a mortgage offset, which are other ideas for using super to help home buyers that have also been raised;

– discusses how the First Home Super Saver Scheme could be improved to responsibly harness the power of super to assist first home buyers without breaking preservation or unleashing steep rises in house prices; and

– provides commentary on other relevant issues and considerations raised by the interim report.

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2 The Treasury, Retirement Income Review – Final Report, November 2020, page 18

Lifetime wealth impacts of using super for housing versus not using super

There are indisputable benefits which accrue from home ownership, both financial and non-financial. Financial benefits include the possibility to enjoy lower housing costs over time by avoiding rent, thereby freeing up money to support higher non-housing consumption. Housing also builds wealth through the ownership of an appreciating asset. Non-financial benefits include security of tenure and a feeling of control and financial freedom often associated with a range of health and wellbeing benefits[3]

It is important to analyse with evidence whether proposed policy interventions would leave people better or worse off financially – and whether those policy proposals would actually advance or set back the shared goal of making housing more affordable for more Australians.

The Committee's interim report relied heavily on evidence from Michael Rice AO FIAA and Jonathan Ng (submission 40) about using super for homeownership rather than keeping it preserved for retirement.

In their submission, Rice and Ng model the outcomes of three individuals who withdraw $160,000 from their superannuation account at age 35 as a deposit for a first home and compare this to a situation in which they never achieve homeownership. This would seem to be an unlikely scenario for reasons which we discuss further below.

Using 'super for a house' is unlikely to be the difference between home ownership or not – and is therefore unlikely to lead to a material increase in homeownership rates for individuals as measured at retirement. Rather it will simply bring-forward ownership for some but not all households (due to consequential increase in house prices). This is because households still need to be able to service the loan repayments. The policy proposal does not increase eligibility for a loan, but rather just brings forward the timing of the eligibility.[4] In addition, households that reach retirement age having never owned a home are unlikely to have had sufficient superannuation savings assets in the 30s or even their mid-40s to make a meaningful contribution to a deposit for a home.

We use the HILDA survey to analyse the income and asset characteristics of a cohort of individuals who have never owned a home and are currently aged in their 60s over the preceding 20 years, that is, from their 40s to their 60s. We find that:

- of current renters in their 60s who have never owned a home, around 60 per cent do not have any superannuation. Of those that do, the median balance is $18,000, with a quarter having less than $10,000 in superannuation. Looking back 20 years to when these individuals were in their 40s, again more than half had no superannuation at all. Only 10 per cent of the current cohort of renters examined had more than $40,000 in superannuation when in their 40s.

- for this cohort of renters:
  - On average, 57 per cent spent no time in paid work in a given year during their 40s and 50s, with more than 60 per cent receiving some form of income support.
  - The average proportion of the year spent in paid employment for this cohort during their 40s and 50s was 40 per cent.
  - During their 40s and 50s they had average earned income of just over $20,000 in today's dollars.

- homeowners in their 60s who have paid off their home loan were:
  - more than twice as likely to have superannuation in their 40s, 50s and 60s than the cohort in

[3] Australian Housing and Urban Research Institute (AHURI) Report 154 https://www.ahuri.edu.au/research/final-reports/154

[4] For example, Benetton et al. (2018) examine mortgage lending rates and delinquency rates of UK homebuyers utilising the Equity Loan (EL) component of the UK Help to Buy Scheme. They find that EL borrowers with a 5% down payment and 20% EL top-up are twice as likely to miss mortgage payments than non-EL borrowers. Kelly (2008) examine mortgage default rates for US homebuyers and finds that that borrowers who provide even modest downpayments from their own resources have substantially lower default rates than do borrowers whose downpayments come from other sources such as government agencies, non-profits or relatives.

- their 60s who had never owned a home,
- were almost 5 times more likely to have been in paid work for some part of the year during their 40s and 50s,
- had more than double the disposable income and almost 4 times the earned income during their 40s and 50s.

To put the withdrawals assumed in the Rice and Ng modelling into context, the median superannuation balance of renters aged 35 was $40,000 in 2019-20. Only 4 per cent of renter individuals, and 17 per cent of renter couples had superannuation balances exceeding $160,000.[5]

The cameo also does not consider the higher rental costs that would flow from the inflationary impacts on the housing market, and it assumes an equal rate of return from super and house price growth despite acknowledging a higher historic rate of return from superannuation.[6]

SMC cameo results

SMC has modelled the lifetime income and wealth impacts on a hypothetical couple from age 22 until death at 93 based on the current proposal to allow the withdrawal of the lower of $50,000 or 40 per cent of the account balance.

Importantly, this cameo looks at the *lifetime* income and wealth impacts – not just at the point of retirement.[7] This is important because the impact on a person's circumstances at retirement only tells half the story. The impacts will flow through to their financial circumstances during retirement – disposable income, Age Pension drawdowns, and asset values.

We use the ABS Survey of Income and Housing to develop a micro-econometric model of first home buyer decisions.

We factor in the estimated house price increase[8] and median bring-forward in house-purchase decisions of around 2 years - although we estimate that almost a fifth of households won't have any change in the timing of when they enter the housing market and a further one-quarter of households will experience a delay in house purchases as a result of the estimated price rises. Only 3 per cent of households would achieve a bring-forward of 6 years of more.[9]

The model factors in income, income taxes, social security benefits (both Family Tax Benefits A and B and Age Pension entitlements), and housing costs (rent, stamp duty, mortgage repayments, council rates, home maintenance and insurance).

It also factors in the higher rental prices that would flow prior to homeownership from the inflationary impact on house prices,[10] higher council rates during homeownership,[11] and higher stamp duty at purchase.

SMC intends to release the full results in a forthcoming research note. A summary of the base case results follows.

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5 ABS Survey of Income and Housing, 2019-20.

6 ABS Cat. 6432 shows 5-capital cities annualized return (established properties) over 10, 15, and 20 years of about 5.2 per cent. Superannuation fund return before-fees and after-taxes of 7.5 per cent in the accumulation phase and 6.5 per cent in the pension phase, (less 0.58 per cent asset-based fees applicable to both phases) – based on analysis of industry fund and profit-to-member fund returns from SuperRatings Fund Crediting Rate Survey (FCRS) and APRA Superannuation Statistics over 15, 20 and 25-year periods.

7 Although it excludes the effect of higher personal income taxes during working life to fund higher age pension expenditures caused by the policy – a conservative assumption.

8 See SMC briefing note: Price impacts of withdrawing super for housing.

9 The modelled results are for a capped scheme.

10 Analysis of rental yields since 2010 by SQM Research shows that rental yields are relatively flat and anchored to asset prices. Furthermore, long-term rent inflation from the Consumer Price Index broadly matches long-term growth in median house prices from ABS Cat.6432.0. Both findings imply that increases in property prices will flow through to increases in rents.

11 Council rates are generally a percentage of the unimproved value of land, which would typically be increased in line with increases in local house prices

The results (in today's dollars) show **a couple who withdraws $55,000**[12] **at age 30 and achieves homeownership 2-years earlier would have**:

- **$165,400 less in lifetime disposable income, driven by higher housing costs**
  - an increase in housing costs leads to **lower *working-life* disposable income after housing costs of $57,800**

- **a lower superannuation balance at retirement of $149,000**. This would lead to:
  - **lower superannuation earnings and benefits of $164,300 during retirement**, and
  - **lower disposable income of $107,600 in retirement** (the Age Pension buffers to some degree the lower superannuation benefits)
  - **higher Age Pension entitlements of $87,600**

The model is sensitive to the house price impacts, interest rates, and bring-forward decisions, so we have conducted extensive sensitivity analysis to see how the results change in response to:

- A lower than anticipated house price response
- Lower interest rates
- Higher initial savings (ie a lower loan-to-value ratio)
- Catch up super contributions to return the real value of money withdrawn
- A larger bring-forward of the house purchase decision
- And entering the housing market earlier by buying a cheaper property and then upgrading

In all but the most extreme cases (e.g. very large bring-forward decisions that would apply to a small proportion of households or no house price impacts), lifetime disposable income is lower under the early release for housing scenario.

[12] The median withdrawal for couples aged 30-34 from our microsimulation model under the capped scheme.

Recently released research relevant to the inquiry

Since the first round of submissions, new research has entered the public domain which is worth considering:

– a comprehensive independent policy roadmap for improving national housing affordability released by the National Housing Supply and Affordability Council, which did not include early access to superannuation in any part of its policy roadmap; and

– new research from Deloitte, that shows proposals to allow early access to super for a house deposit would cost taxpayers between $300 billion and $1 trillion over the long-term.

These research reports are covered in more detail in this next section.

State of the Housing System 2024

The National Housing Supply and Affordability Council (NHSAC) is an independent statutory body delivering evidence-based advice on matters affecting Australia's housing supply and affordability.

On 3 May 2024, the NHSAC released the *State of the Housing System 2024* report (the Report)[13], to inform and guide policy decisions to improve Australia's housing system.

In preparing the report, the NHSAC consulted widely, and drew on various resources to support the evidence for its recommendations.

The report shows Australia's housing challenges are multifaceted, with insufficient housing supply being the primary driver leading to worsening affordability.[i] The report delivers a roadmap to address Australia's housing challenges, recommending a focus on the following 10 areas to improve supply:

1. Investing in social housing
2. Reducing homelessness
3. Improving rental market outcomes for tenants
4. Improving efficiency in the land use and planning systems
5. Boosting capacity in the construction sector
6. Improving data availability
7. Addressing regional-specific housing challenges
8. Enhancing First Nations housing outcomes
9. Reviewing the suitability of the national housing target
10. Ensuring Australia's taxation system supports supply and affordability.

The report presents the most robust contemporary evidence base on direct solutions to Australia's housing challenges. After it examined a complete range of policy responses to improve affordability and ownership rates, the report does not recommend allowing Australians to withdraw their retirement savings early for house deposits.

SMC acknowledges the critical situation of Australia's housing supply and urges decision-makers to focus their efforts on implementing the report's proposals.

The NHSAC proposals constitute a broad-based policy response that would meaningfully improve housing affordability in Australia and reset our broken housing system so it works in the interests of all Australians.

The long-term impact of super-for-a-house schemes on taxpayers

In its first submission to this inquiry, SMC explored the long-term fiscal impact of early super withdrawals for the COVID early release scheme. Schemes that allow early access of super for a house deposit would also result in higher government spending on, primarily, the Age Pension. These

[13] National Housing Supply and Affordability Council. (2024). *State of the Housing System 2024 report.* Retrieved from https://nhsac.gov.au/sites/nhsac.gov.au/files/2024-05/state-of-the-housing-system-2024.pdf

costs accumulate exponentially over the long-term when working people today begin to retire. Therefore, an assessment of the proposal over the long-term gives the most complete picture of the policy impacts today's taxpayers can expect.

Deloitte, commissioned by SMC, modelled the estimated extent of the fiscal impact of withdrawing super early to purchase a house, using the SPROUT model – a longitudinal population-based model with the capability to measure the fiscal impact of variations in superannuation policy over 80 years.

Two scenarios were modelled:

– **Scenario 1:** allowing early release of superannuation to buy a house capped at the lower of $50,000 or 40 per cent of the member's balance.

– **Scenario 2:** As above with no withdrawal cap.

The results showed under scenario one, the total cumulative fiscal impact over the 80-year projection period is estimated at $303 billion (in today's dollars). Under scenario two, the total cumulative fiscal impact is projected to be around $1 trillion over 80 years (in today's dollars).

The full document containing fiscal impact modelling and relevant demand assumptions is attached (Attachment A).

Another way to illustrate these impacts is to decompose this figure to the individual taxpayer level. SMC analysis of scenario one shows that someone born today would pay an extra $8,600 in taxes over their lifetime to plug this fiscal hole.

It is also worth considering this impact given Australia is the only country among the OECD group whose cost of the age pension on the public purse is expected to fall – in other words, this policy proposal would turn a budget problem being resolved, into a budget problem in need of a solution.

The feasibility of using super as a mortgage offset or as collateral for a loan

Some public officials have proposed using super as a mortgage offset or as collateral for a home loan, would help first homebuyers. Given there is little detail on proposals in the public domain to assess these ideas, SMC commissioned Lateral Economics to examine the proposals. The detail of this analysis will be provided in a report prepared for SMC, due to be finalised and released soon.

Using super as a mortgage offset

Necessarily, the idea would involve a member taking their money out of superannuation and putting it into their mortgage offset account in their bank – the benefit being to reduce the interest owing on their mortgage and pay down the principal of the loan sooner.

Lenders (e.g. banks) offer mortgage offset products for commercial reasons. First, the deposits sitting on the bank's balance sheet increases their lending capacity. Higher customer deposits improve lenders' capital adequacy requirements and allow them to lend more to borrowers at a higher interest rate than the deposits attract (and the interest they offset), generating a profit margin from that deposit. Second, to compete for market share by attracting and retaining customers – if their competitors offer a mortgage offset, they need to also. About 40 per cent of mortgages in Australia have offset accounts.[14]

Money kept in a mortgage offset account generally attracts a very low or negligible rate of interest.

Allowing super to be used as a mortgage offset would force significant system changes, and therefore detailed consideration of the system costs that members would incur should be undertaken.

Financial impact of this proposal on members (offset)

The primary question is whether the financial case for members stacks up - would there be a positive financial impact for an individual in terms of the interest saved on their home loan versus the foregone returns on their superannuation?

There are also system-level costs to consider. These are explored in a section further below.

Lateral Economics looked at the financial benefits and opportunity costs of using superannuation as a mortgage offset. Based on using $37,500 of superannuation, they found that under the most optimistic scenario in which there is no commercial margin applied, a person could save a nominal $44,600 in interest on a $637,500 loan.

If that $37,500 was invested in super and attracted an annualised rate of return of 7.5 per cent over 30 years, it would grow to a nominal $328,311 (SMC analysis).

The Lateral Economics report also considers the potential liquidity impacts on funds' investment portfolios resulting in lower member returns. These would affect the returns across the membership, not just for individuals who use the scheme. Reducing rates of return by 10 to 20 basis points could lower a person's balance at retirement by tens of thousands of dollars.

This shows a mortgage offset capacity within the super system would be inefficient and costly at an individual and system level. It would result in a worse financial outcome for most members, and therefore result in a low take up but high system and individual costs for no net benefit.

Other system costs

The accumulation phase of the superannuation system was developed with preservation principles intact. Redesigning front and back-end systems to accommodate fluid high-frequency transactability would come with added costs and run counter to current policy objectives to keep costs as low as possible.

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[14] G Tunny, N Gruen. (2024). *The feasibility of using superannuation as a collateral or offset.*

The enabling system changes to facilitate frequent transactability between funds and third parties would attract higher administrative, IT and compliance costs. Important issues around system-level costs were not considered in the interim report.

Any additional administrative costs and associated flow-on effects to fees caused by the scheme would need to be funded by members. For example, at a member level, administration fees in retirement are generally higher than those in the accumulation phase because of the facilitation of more frequent transactions, personalisation, and service costs. At a system level, increased costs would be spread across all members (this would be in addition to any associated scheme fee levied on members who use the scheme) and would work against net returns accruing to members' retirement savings.

Using super as collateral

The idea behind using super as collateral for a home loan seems to be to help members avoid the cost of lenders mortgage insurance (LMI), reduce the deposit size required, and increase a buyer's borrowing capacity. But there are some important considerations, some the interim report looked at and others which it did not.

First, it would appear such a proposal duplicates existing initiatives by the Commonwealth[15] Government that provides a guarantee worth between 15-18% of the property value to facilitate a first home purchase with a deposit as little as 2%.

Second, the proposal would cut across the current availability to use superannuation in financial hardship. If the bank has a claim over the mortgage holder's super (all or part), that super would not be available to make mortgage repayments under the current hardship provisions. Under the current hardship provisions, a member in financial distress can access their super to make mortgage repayments, up to $10,000 per year. In addition, under compassionate grounds a member can access their super to prevent foreclosure of a home loan. Removing the member's ability to use their super for these purposes - because their super is tied up as collateral - increases their risk of foreclosure and losing both their super and their house to the bank.

Third, the interim report did not deal with some other key issues:

- if super funds were required to hold the assets in the members account being used as collateral in more liquid form, it could impact on a) long-term investments in high-performing assets, and b) overall fund liquidity and therefore net returns - any associated impact on investment returns would need to be carefully considered as it could apply to all fund members, not just those using the scheme;
- there would be significant transaction costs as it complicates the transfer of funds from one super fund to another (i.e, it would involve a lien on a person's super account which would need to be transferred). What occurs in the event of a relationship breakdown would also need to be considered;
- it would attract significant system costs, as discussed in the section above on mortgage offset.

In terms of individual financial benefits, Lateral Economics found that any cost saving (e.g. the avoidance of LMI) would likely be outweighed by additional interest or commercial margin built into the product to make it viable – meaning the individual could actually pay more in interest over the life of the loan under a super collateral option.

[15] For example, see the First Home Guarantee (FHBG), Regional First Home Buyer Guarantee (RFHBG) and Family Home Guarantee (FHG) administered by Housing Australia. https://www.housingaustralia.gov.au/support-buy-home/guarantee-comparison-table

Shared equity

Shared equity schemes can assist first homebuyers to purchase a home by sharing the up- front capital cost of ownership with another party thereby reducing the mortgage (and repayments) needed to complete the purchase. The shared equity partner generally agrees to provide capital on the basis of receiving the capital gains which accrue on their share of the property over time – typically recovered when the property is sold as well as the initial equity provided.

The interim report recommended changes to facilitate a superannuation shared equity scheme for a house, where - like the first home Guarantee offered by the Commonwealth Government - shared equity schemes are offered or in the process of being offered by every State and Territory as well as the Commonwealth. The Commonwealth scheme will provide up to 30% of the purchase price for and existing dwelling and 40% for a new dwelling.[16]

It is unclear what the benefit would be of duplicating these schemes as any proposal for a similar scheme using superannuation would be impacted in the same way as other measures including:

- prohibitive administrative costs due to individual investments occurring at such small scale with similar transaction costs to much larger deals including legal and due diligence checks;
- increased liquidity to facilitate the withdrawal of member assets to complete a purchase altering the asset allocation of investment portfolios;
- poor diversification for members with the prospect much of their super savings is invested in a single asset class.

[16] https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/delivering-more-help-australian-home-buyers

The First Home Super Saver Scheme

The First Home Super Saver Scheme (FHSSS) allows first-home buyers to withdraw some or all of the extra voluntary contributions they have made to their super to help to save for a first home deposit.

Crucially, this scheme does not break into the 'safe deposit box' of people's Super Guarantee contributions – which remain safeguarded to generate compound returns across the decades of people's working life.

This approach leverages the power of super to assemble a deposit over time without weakening people's retirement savings – averting the downside of 'early release' proposals that release people's safeguarded super savings early and leave them significantly worse off financially overall.

Subject to their contribution caps, individuals can contribute up to $15,000 to FHSSS per financial year in extra voluntary contributions and withdraw up to $50,000 plus associated (deemed) earnings.

In the 5 years between 2018-2023, $563.9 million has been paid out to 38,300 individuals. Most scheme users are aged 26-35 with income in the $45,000- $120,000 tax bracket[17]. Australians are typically around 36 years old when buying their first home and the average first home deposit is $126,872[18].

The primary benefit of FHSSS over the proposed First Home Super Buyer Scheme is that it relies on genuine savings but leverages the tax and return advantages of the super system. Compulsory employer contributions remain preserved, allowing first home buyers to leverage super to save for a house deposit and retain a more adequate pool of retirement savings that will continue to compound over the long-term.

Scheme benefits:

- allows people to access the tax and return benefits of saving in the super system without losing the benefits of compound returns on their SG contributions
  - More than one individual can access the scheme for the same deposit
  - A demonstrated pattern of saving behaviour can contribute to creditworthiness when applying for a mortgage
  - Withdrawal amounts are from genuine savings so are not inflationary when withdrawn
  - Employer SG contributions remain preserved for retirement
  - Younger people are incentivised to engage with their superannuation sooner

Since its introduction in 2017, governments have recognised that in its current form the FHSSS has significant administrative issues that have acted as a barrier to its use, estimating that around 4,000 Australians were prevented from using it for their first home purchase. Technical amendments have been legislated to take effect from 15 September 2024 to address pain points and improve the flexibility of the scheme.

The opportunity remains to leverage the existing policy architecture by making further improvements to the FHSSS, including further raising awareness of the scheme among future first home buyers who are typically younger and less engaged with their super, and strengthening incentives to boost the scheme's attractiveness and lift its uptake without forcing first home buyers to plunder their retirement pool.

The average amount withdrawn under the scheme is less than half the allowable amount. For the years where the total withdrawal was capped at $30,000, the average withdrawal was $13,662. Since the cap was raised to $50,000 in 2022/23, the average withdrawal has risen to $17,103. Individuals can contribute up to $15,000 a year that will be eligible for withdrawal.

Options to attract more people to use the scheme and make it more effective could include:

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17 https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/super-statistics/early-release/first-home-super-saver-scheme-data

18 https://www.finder.com.au/home-loans/average-first-home-deposit-amount

– **Encouraging savings through the FHSSS**
  » a separate provision could be built into the FHSSS specifically to incentivise saving for a first home. This could involve introducing a new type of co-contribution, which would match a member's contribution up to a dollar threshold.

– **Allow existing co-contribution for low- and middle-income earners to be accessed as part of FHSSS**
  » The existing co-contribution helps low- and middle-income earners save for retirement by providing a government contribution that matches a portion of their voluntary contributions to their super accounts. Currently, eligible individuals can receive up to $500 per year from the government. These co-contribution payments are not eligible for release under the FHSSS scheme. Allowing them to be eligible for release could further incentivise low- and middle-income earners to save.

– **Adjust the tax settings for first home buyers to permit more savings sooner**
  » As the interim report notes, the scheme is poorly understood by many people who would otherwise benefit from using it, which remains a significant barrier to entry. Reducing the complexity of its tax settings, providing greater transparency, and lifting education about how to make the most of concessional taxation could lead to greater uptake.

International super saver schemes – an important point about making comparisons with Australia

The interim report describes the Canadian and Singaporean home buyer schemes as similar to the idea of using super guarantee funds from an Australian superannuation account to support a home purchase, but there are important differences that make such comparisons misguided.

Canadian Home Buyers' Plan (HBP)

The HBP in Canada allows first home buyers to withdraw up to $60,000 from a registered retirement savings plan (RRSP) towards the purchase of a home. The amount withdrawn must be repaid to the RRSP within 15 years, from the second year after the purchase.

The interim report describes the RRSP as being the equivalent of an Australian superannuation account - it is not. There are some fundamental differences:

– RRSPs are voluntary schemes entered into by individuals or employers, and are funded through additional voluntary and/or employer payments.
– RRSPs operate separately from the Canada Pension Plan (CPP) which requires all workers to contribute a portion of their income. First home buyers cannot withdraw funds from the CPP.

Therefore, HBP is more similar to the existing FHSSS in Australia, in that it only allows withdrawals from voluntary retirement savings, and does not allow withdrawals from mandated contributions to the CPP. Additionally, as HBP requires repayment of the funds to the RRSP, meaning there are greater conditions attached to accessing tax advantaged voluntary savings than in the FHSSS (which doesn't require re-contributing).

Singaporean Central Provident Fund (CPF)

Similarly, there are important differences in comparisons with the Singaporean system.

The CPF requires workers to contribute up to 37 per cent of their wages to three different accounts – one preserved for retirement, another for medical expenses, and a third for ordinary savings. A minimum of 14 percent of wages are allocated for retirement and medical accounts for under 35s - gradually increasing as a worker approaches retirement age[19].

[19] https://www.cpf.gov.sg/content/dam/web/employer/employer-obligations/documents/CPFAllocationRatesfrom_1_January_2024.pdf

First home buyers are able to access the ordinary savings account for the purchase of a home. They are not able to access the funds in their *retirement* account – the retirement account, which attracts a contribution rate (14 per cent) that is higher than the Australian SG rate (currently 11.5 per cent), is more similar to an Australian superannuation account.

Singapore requires workers to preserve a greater proportion of their income for retirement than Australia as well as requiring additional contributions for medical expenses, and only allows first home buyers to access savings in addition to their mandatory retirement savings. This is achieved only though very high mandatory contribution rates.