



# Securing Australia's super-powered future

Briefing note / July 2024



**The strength and success of Australia's world-leading super system is built on three policy foundation stones – universality, compulsion and preservation.**

Over the three decades since super was legislated, both major parties of Government have contributed to building this system based on these key policy principles.

Yet as the super system powers towards \$3.9 trillion in savings, there has been a growing temptation in recent years by policymakers to float ideas that breach the principle of preservation by proposing early withdrawals of super to fund other policy challenges. One of those ideas is a proposal to allow early withdrawals of super for house deposits.

Breaching the key policy principle of preservation would be a dangerous slippery slope. It would undermine the success of Australia's super system and its purpose: to deliver income to support a dignified retirement for millions of Australians.

**New research by the Super Members Council shows how unpicking preservation by allowing early withdrawals of super for house deposits risks:**

- 1** an inflationary impact on house prices, raising the median prices in capital cities by about 9%, as well as an increase in median rents by around \$3,000 per year (or \$57 more a week) in today's dollars – not just for first homebuyers accessing the scheme but for renters.
- 2** a couple who withdrew a combined \$55,000<sup>1</sup> at age 30 would have \$165,400 less in lifetime disposable income after housing costs, even if they purchased a home two years earlier than without withdrawing super early.
- 3** super funds being forced to hold more liquid assets, lowering super investment returns for everyone – including today's retirees who rely on their income from super to meet acute cost-of-living challenges.
- 4** reducing the investment capital that funds can invest in Australian businesses and infrastructure – limiting the ability of profit-to-member super funds to inject a forecasted \$180 billion into the Australian economy in the next five years.

## Lifetime impact of using super for housing

The Super Members Council has modelled the lifetime financial impacts on a hypothetical couple from age 22 until their deaths at 93, based on the proposal to allow each of them to withdraw the lower of \$50,000 or 40% of their super.

Importantly, this cameo looks at the *lifetime* impacts for the couple – not just at the point of retirement.<sup>2</sup> This is because the impact on people’s circumstances at retirement only tells half the story. The impacts flow through to their financial circumstances during retirement – affecting disposable income, Age Pension drawdowns, and asset values.

We estimate such a policy will have an inflationary impact on house prices and will raise the median prices in capital cities by around 9%.<sup>3</sup> This would further raise the cost of servicing a mortgage for younger Australians aspiring to become first home buyers.

These property price rises would also, over time, lead to an increase in rental prices across the country – adding to cost-of-living pressures for renters as well as those faced by home buyers. While the degree and speed to which these price rises flow through to rents will depend on the range of factors that affect supply and demand in the rental market, in a supply constrained market with lower vacancy rates, we might expect price effects to flow through more quickly (see Appendix B).

**But using super for a house is unlikely to be the difference between home ownership or not**, and therefore is unlikely to lead to a material increase in homeownership rates for individuals as measured at retirement. 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 for some people – but further delays it for others. In addition, households that reach retirement age having never owned a home are unlikely to have had sufficient superannuation savings by their 30s or even their mid-40s for the early withdrawal of super to make a meaningful contribution to a deposit for a home. <sup>4</sup>

Our modelling factors in a median bring-forward in the purchase of a house of around two years <sup>5</sup> – although we estimate that almost half won’t have any change in the timing of when they enter the housing market or will face a delay in house purchases as a result of the estimated price rises. <sup>6</sup>

Our cameo model factors in income, income taxes, social security benefits (both Family Tax Benefits A and B and Age Pension entitlements). It also factors in the higher rental prices that would flow prior to homeownership from the inflationary impact on house prices,<sup>7</sup> higher council rates during homeownership,<sup>8</sup> and higher stamp duty at purchase.

Median rents are estimated to increase by around \$3,000 a year in today’s dollars – not just for first homebuyers accessing the scheme - but for private market renters.

## A summary of the base case

The results (in today's dollars) show a couple who withdraws a combined \$55,000<sup>9</sup> at age 30 and buys a home two years earlier would have \$165,400 less in lifetime disposable income after housing costs.

This comprises:

- a \$57,800 net increase in housing costs during their working life even after allowing for the withdrawn super benefits, due to the inflationary impact on house prices flowing through to higher rent, mortgage repayments, stamp duty and council rates; and
- a lower superannuation balance at retirement resulting in lower superannuation earnings and benefits, offset by an increase in age pension leading to a lower disposable income of \$107,600 in retirement

The model is sensitive to the house price impacts, interest rates, and house purchase 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)
- Additional catch-up super contributions to return the real value of money withdrawn
- A larger bring-forward in the timing of the house purchase decision
- And entering the housing market earlier via 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.

The full results of the sensitivity analysis are contained in Appendix A.

## Preservation is also key to how super funds invest

We know from experience that countries with more relaxed preservation rules have lower investment returns – which means less for everyone at retirement, regardless of if you take super out. Any policy which allows early withdrawals could force super funds to hold more liquid assets, lowering the long-term performance and strength of returns from super – which would affect the retirement balances and income of millions of Australians.

New Zealand (NZ) allows early withdraws from its KiwiSaver scheme for home deposits, with around 80%-90% of New Zealand first homebuyers dipping into their KiwiSaver accounts for a house deposit.

KiwiSaver balanced options have delivered returns around 1.14% per year less than Australian balanced MySuper products over 10 years. And they hold around **16.7% less in growth assets than Australian counterparts** (see Table 2).

Looking at all options, KiwiSaver returns were 0.79% per year lower than Australian MySuper options over the past 10 years (see Table 3).

**Table 2: Investment returns for Australian MySuper and NZ KiwiSaver balanced options**

Years	MySuper	KiwiSaver	Difference
3	6.72%	3.37%	-3.35%
5	7.32%	5.72%	-1.61%
10	7.90%	6.77%	-1.14%
<b>Growth Asset %</b>	71.48%	54.74%	-16.74%

**Notes:** Returns are asset weighted.

**Source:** SuperRatings Fund Crediting Rate Survey March 2024, Morningstar KiwiSaver Survey March 2024.

**Table 3: Investment returns for Australian MySuper and NZ KiwiSaver all options, asset-weighted**

Years	MySuper	KiwiSaver	Difference
3	6.67%	3.86%	-2.81%
5	7.27%	6.08%	-1.19%
10	7.85%	7.05%	-0.79%
<b>Growth Asset %</b>	72.46%	57.74%	-14.72%

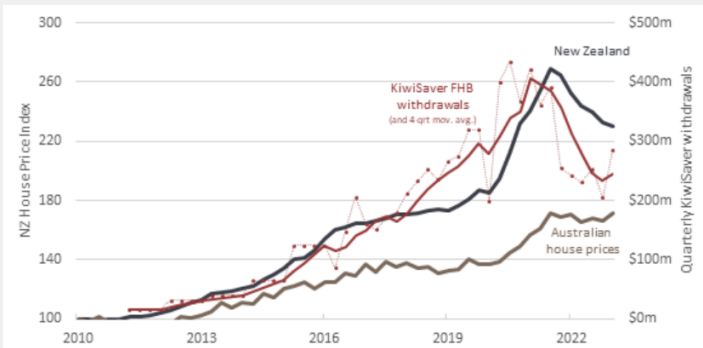
**Notes:** Returns are asset weighted.

**Source:** SuperRatings Fund Crediting Rate Survey March 2024, Morningstar KiwiSaver Survey March 2024.

While the drivers of house prices are complicated and varied, Figure 1 shows that **since the KiwiSaver withdrawal scheme commenced in New Zealand, house prices have increased at a rate nearly double that of Australia.** By 2023, the median house price in NZ had increased by 130% on 2010 prices. In Australia, the median house price rose by 71% over the same period.

As you would expect, there is a strong relationship between NZ house prices and the amounts that first home buyers withdrew from KiwiSaver – with withdrawals appearing to be a leading indicator of house price changes. Though there are likely to be many underlying drivers of this cross-ditch difference in affordability, the strength of the relationship combined with the magnitude of worsening affordability in New Zealand relative to Australia, suggests the NZ scheme has had a material inflationary effect.

**Figure 1: Australian and New Zealand house prices and KiwiSaver first home buyer withdrawals**



Source: Statistics New Zealand, Housing (M10) December Quarter 2023. Inland Revenue KiwiSaver statistics, March 2024. ABS Cat.6432.0, September 2023.

### Super's benefits to business

Profit to member super funds exist to protect and grow the savings of the 11 million everyday Australians who entrust their super to them. A by-product of this savings achievement is a deep well of investment capital that super funds can invest in Australian businesses and infrastructure.

In the 2022-23 financial year, profit-to-member super funds received about \$80 billion worth of super contributions. These inflows mean super can provide a steady supply of capital unaffected by volatile economic cycles.

Table 4 shows that over the next 5 years, profit-to-member funds will invest a further \$180 billion into the Australian economy. This is projected to include an additional \$30 billion in infrastructure investments and over \$120 billion in Australian based companies. But these figures are predicated on policy settings remaining stable.

Adverse policy changes, such as withdrawing super early for housing, would reduce investment in the local economy, because super funds could have to carry more cash to meet withdrawals.

**Table 4: Projected superannuation funds investment pipeline, 5 and 10 years from FY24**

<b>\$ (Billion)</b>	Profit-to-Member		All APRA-Regulated	
	5- years	10- years	5- years	10-years
<b>Equity</b>	279.4	662.8	318.6	731.7
<i>of which Australian</i>	117.4	278.6	137.6	314.1
<b>Property</b>	47.2	112.4	51.8	120.4
<i>of which Australian</i>	31.2	75.1	34.2	80.3
<b>Infrastructure</b>	50.6	117.3	52.4	120.5
<i>of which Australian</i>	30.7	71.2	31.4	72.4
<b>Total</b>	377.3	892.5	422.8	972.5
<i>of which Australian</i>	179.4	424.9	203.2	466.7

**Notes:** 5-year spans financial years 2024 to 2028. 10-year spans financial years 2024 to 2033. 'Total' does not include noninvestment asset classes such as fixed interest and cash. Profit-to-Member is defined as industry, corporate, and public sector funds.

**Source:** SMC Analysis, APRA Quarterly Superannuation Statistics (March 2024), APRA Quarterly Superannuation Industry Publication (March 2024), APRA Annual Bulletin (June 2023).

# Appendix A: Cameo Modelling

In this appendix, we detail the modelling approach to estimating the impact on lifetime income and wealth from opening up preservation rules to allow early super withdrawals by first home buyers.

## Impact of super for a house on homeownership rates

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 at retirement. Rather, it will simply bring forward ownership for some people – but delay it for others (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 brings forward the timing of the eligibility for some people while delaying it for others (due to higher house prices). In addition, households that reach retirement age having never owned a home are unlikely to have had sufficient superannuation savings assets in their 30s or mid-40s to make a material difference to obtaining 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% 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% 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% spent no time in paid work in a given year during their 40s and 50s, with more than 60% 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%.
  - 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 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.



## **Bring forward of first home buyer purchases**

We first develop a microsimulation model of first home buyer decisions using the 2019-20 ABS Survey of Income and Housing (SIH). The SIH contains detailed information on income, wealth, personal characteristics, and housing status of individuals, income units and households, including whether households are first home buyers.

We then assess the impact on house prices of allowing first home buyers to access up to 40% of their superannuation, capped at \$50,000 per person. We estimate such a policy could result in median property prices in the five biggest capital cities rising by between 4% to 13%, with a median increase of 9% (see [Briefing note: Price impacts of withdrawing super for a house](#) for further details).

Next, we re-examine the impact on house purchase decisions of allowing access to superannuation and factoring in the estimated price increases. As outlined above, using super for a house is unlikely to be the difference between home ownership or not, but rather, will simply lead to a small bring-forward of homeownership for households that were going to achieve homeownership anyway. We estimate the proposed scheme will result in a median bring-forward of 2 years, although about 20 per cent of households will be unable to bring-forward their purchase and a quarter of households will experience a delay in house purchases as a result of the estimated price increases. We use these results, and analysis of the current median age of first home buyers, as the basis for our cameo modelling.

## **Cameo analysis**

We estimate the impact on lifetime disposable income after housing costs of a hypothetical couple from age 22 until their deaths at 93. The couple earn the age-based median wage for their gender while working, with wage profiles estimated from the ATO 2% tax file and benchmarked to the Retirement Income Review cameos.<sup>10</sup>

Cameo models of this type typically overestimate superannuation accumulations at retirement due to periods outside of the labour force and due to income sources that do not attract superannuation guarantee contributions (for example, business and consultancy income). To address this, we assume the female takes time out of the labour force to care for children, working part-time between the ages of 29 and 43,<sup>11</sup> and the male earns some business income from age of 45 to 66 based on the age-based probability of having business income from the 2021 Census. In total, the female has 37 years of full-time equivalent wage income, and the male has 41.1 years of full-time equivalent wage income (but 44 years of earned income).

For the median wage earner, we assume no additional salary sacrifice or member contributions, again, to not overpredict superannuation balances.<sup>12</sup> Both members of the couple are assumed to retire at age 67. We assume a starting superannuation balance of \$4,000 for the male and \$2,500 for the female based on the median superannuation balance for 22 year olds from the Survey of Income and Housing, and impute non superannuation assets at retirement as per factors from the Retirement Income Review.

In retirement, we assume superannuation assets are converted to an account-based pension and non superannuation assets are held in a term-deposit, with both being drawn down at a rate of 10% per year. The superannuation fund earns a return before-fees and after-taxes of 7.5% per year in the accumulation phase and 6.5% per year in the pension phase, and has a fixed admin fee and asset-based fee of 58 basis points.

We model the accumulation and decumulation of assets during working-life and in retirement and calculate income, income taxes, social security benefits (both Family Tax Benefits A and B and Age Pension entitlements), housing costs and disposable income. To model the impact of a super for a house on lifetime disposable income, we assume in the base case the couple purchases a median-priced house at age 32 based on analysis of the 2019-20 Survey of Income and Housing, and rents a house from age 22 up to this point.

We then model the withdrawal of \$55,000 of super (the median combined withdrawal for couples aged in the 30s from our microsimulation model) and a 2-year bring forward of homeownership (again, the median outcome from our microsimulation model). We assume property prices increase by 9% on average as a result of the scheme as outlined above.<sup>13</sup> This flows through to higher rents prior to homeownership, higher stamp-duty at purchase, and higher council rates during homeownership. In the base case, we assume an LVR of 92.5%, a mortgage term of 30 years, and higher mortgage lending rates with LVRs above 60%, but also model a starting LVR of 82.5%. Assumptions underpinning the modelling are set out in the table below.

**Figure 1: Australian and New Zealand house prices and KiwiSaver first home buyer withdrawals**

Assumption	Value	Justification
Inflation	2.5% p.a.	Middle of the RBA target band.
Wages growth	4% p.a.	As per <a href="#">ASIC Regulatory Guide 276</a> , <a href="#">Superannuation forecasts: Calculators and retirement estimates</a>
Property prices	Units: \$678,908 Houses: \$1,026,164	<a href="#">CoreLogic</a> , May 2024

Assumption	Value	Justification												
Property price inflation	Units: 3.8% Houses: 5.2%	20-year average annual growth rate, ABS Cat.6432.0.												
Property price response	9%	See <a href="#">Briefing note: Price impacts of withdrawing super for a house</a>												
Stamp duty	Base Units: FHBs \$6,670 Existing \$23,554 Houses: FHBs \$41,573 Existing \$41,573 Simulation Units: FHBs \$14,190 Existing \$26,143 Houses: FHBs \$45,864 Existing \$45,864	<p>Given different rates and thresholds and different base property prices across the 5 major capital cities, we calculate stamp duty for each capital city under current property prices and assuming a 9% increase in property prices under the housing scenario, and then take an average to derive a national figure.</p> <p>We index these figures by the property price inflation assumption as per above. This implicitly assumes thresholds increase with property prices – a conservative assumption.</p>												
Loan-to-Value Ratio	Base: 92.5% Alternative: 82.5%	See chart 2 from RBA research paper, <a href="#">Are First Home Buyer Loans More Risky?</a>												
Interest rates	<table border="0"> <thead> <tr> <th data-bbox="262 1066 401 1090">LVR</th> <th data-bbox="401 1066 479 1090">RATE</th> </tr> </thead> <tbody> <tr> <td data-bbox="262 1090 401 1118">0%-60%</td> <td data-bbox="401 1090 479 1118">6.57%</td> </tr> <tr> <td data-bbox="262 1118 401 1147">60%-70%</td> <td data-bbox="401 1118 479 1147">6.64%</td> </tr> <tr> <td data-bbox="262 1147 401 1176">70% - 80%</td> <td data-bbox="401 1147 479 1176">6.72%</td> </tr> <tr> <td data-bbox="262 1176 401 1204">80%-90%</td> <td data-bbox="401 1176 479 1204">7.19%</td> </tr> <tr> <td data-bbox="262 1204 401 1233">90%+</td> <td data-bbox="401 1204 479 1233">7.74%</td> </tr> </tbody> </table>	LVR	RATE	0%-60%	6.57%	60%-70%	6.64%	70% - 80%	6.72%	80%-90%	7.19%	90%+	7.74%	<p>Average of Commonwealth Bank and ANZ rates, extracted on 31 May 2024.</p> <p>Further, movements in variable mortgage rates offered by banks closely follow that of the official RBA Cash rate target. The current cash rate of 4.35% is close its 30-year average of</p> <p>Average of Commonwealth Bank and ANZ rates, extracted on 31 May 2024.</p> <p>Further, movements in variable mortgage rates offered by banks closely follow that of the official RBA Cash rate target. The current cash rate of 4.35% is close its 30-year average of around 4.0%, and as such, it is reasonable to use the current mortgage rates for the projection period.</p>
LVR	RATE													
0%-60%	6.57%													
60%-70%	6.64%													
70% - 80%	6.72%													
80%-90%	7.19%													
90%+	7.74%													

<b>Assumption</b>	<b>Value</b>	<b>Justification</b>
Council rates	0.6% of property value	Analysis of council rates for the 5 major capital cities based on median house prices.
Home ownership costs	Maintenance: \$5,000 p.a. Insurance: \$1,900 p.a.	Maintenance costs are based on analysis from the HILDA survey. Insurance costs are derived from <u>Institute of Actuaries of Australia</u> . Values are indexed by wages.
Rent expense	Units: \$620 per week Houses: \$630 per week	Capital city weekly rental data is sourced from <u>CoreLogic</u> , May 2024 and combined into a national figure using weekly rental listings weights sourced from SQM Research.
Rent inflation	Units: 3.8% Houses: 5.2%	Analysis of rental yields since 2010 by <u>SQM Research</u> shows that rental yields are relatively flat. Furthermore, comparison of median rents and median property prices (units and houses) by capital city move in the same direction and similar quantum. Both findings imply that rents should broadly move in line with property prices.
Rent price response	9%	As above.
Superannuation crediting rates	7.5% after tax, before fees 0.58% asset-based fee	2-year median of 20-year geometric average annual asset-weighted return of industry super funds from SuperRatings Fund Crediting Rate Survey and APRA Quarterly performance statistics.  Fees based on analysis of asset-weighted industry funds for MySuper options.

### **Sensitivity analysis**

We conduct extensive sensitivity analysis of key model parameters and assumptions to test the robustness of the central findings. We know that the results will be sensitive to the magnitude of the property price response following the introduction of the scheme and the degree to which households can bring forward their purchase decisions. Before varying these assumptions, we first assess the impact of our choices around interest rates, starting loan-to-value ratio, and re-contribution strategy to limit the number of model permutations and enable us to focus on the key assumptions.

## 1. Model Parameters:

1. Interest rates: The base interest rate assumption is derived from an average of Commonwealth Bank and ANZ rates. The Commonwealth Bank and ANZ were chosen because it is common for borrowers with a higher loan-to-value to pay a higher interest rate and both the Commonwealth Bank and ANZ had the same LVR thresholds, thereby allowing easy averaging. Here we adopt an alternative interest rate of 6.21% for new principal-and-interest loans from the RBA's Lenders' Rates Table for May 2024.

2. Loan-to-value ratio: Analysis by the RBA found that around 29% of first home buyers had a LVR of above 90%, followed closely by 28% of first home buyers with an LVR of 80%-85%. We choose an LVR of 92.5% as the central case since the policy is aimed at credit-constrained households. Here, we adopt a lower LVR of 82.5%.

3. Recontribution strategy: The central case assumes that the couple do not make additional catchup contributions once their mortgage is repaid. Here, we allow the couple to recontribute the real value (in wage-adjusted terms) of the initial withdrawal once the mortgage has been repaid.

**Table A1: Alternative model parameters with a 2-year bring-forward**

	Lifetime disposable income (after housing costs)				Retirement income	
	whole of life	working life	retirement	housing costs	superannuation	age pensions
Central case	\$ 165,400	-\$ 57,900	-\$ 107,600	\$ 142,200	-\$ 164,300	\$ 87,600
1. RBA interest rates	-\$ 159,900	-\$ 52,300	-\$ 107,600	\$ 136,700	-\$ 164,300	\$ 87,600
2. 82.5% LVR	-\$ 157,600	-\$ 50,000	-\$ 107,600	\$ 134,400	-\$ 164,300	\$ 87,600
3. Catch-up contributions	-\$ 181,800	-\$ 98,200	-\$ 83,600	\$ 142,200	-\$ 109,900	\$ 56,700

Adopting different interest rate and LVR assumptions only has a minor impact on the results, with lifetime disposable income after housing costs around \$5,500-\$8,000 higher under the alternative assumptions. Allowing the couple to make additional catch-up contributions leads to a material deterioration in their lifetime disposable income because of the lower working-life income when the contributions are made and insufficient compounding of returns.

The central case of assuming no additional contribution is a conservative assumption, and the chosen interest rate and LVR assumptions do not materially impact the results. We therefore adopt the central assumptions from this point forward.

## 2. Different property price responses

As noted previously, we estimate the scheme will increase median property prices by 9%. Here we consider a more muted price response of half this (that is, a 4.5% increase) and a higher than expected price increase of 13.5%. We also consider the case where there is no property price respond, although we do not believe this is a plausible scenario. These assumptions affect both the purchase price of the property and the rents prior to purchase.

**Table A2: Alternative property price responses with a 2-year bring-forward**

	Lifetime disposable income (after housing costs)				Retirement income	
	whole of life	working life	retirement	housing costs	superannuation	age pensions
Central case	-\$165,400	-\$57,800	-\$107,600	\$142,200	-\$164,300	\$87,600
1. Higher increase (13.5%)	-\$278,300	-\$156,000	-\$122,300	\$255,100	-\$164,300	\$87,600
2. Lower increase (4.5%)	-\$52,600	\$40,400	-\$92,900	\$29,300	-\$164,300	\$87,600
3. No price response	\$60,300	\$138,500	-\$78,200	-\$83,500	-\$164,300	\$87,600

The central conclusion that households are worse off under a super-for-housing scenario still holds with a more muted price response, unless we assume the extreme case of no price response. We do not consider this a likely scenario.

**3. Alternative bring-forward assumptions**

In this section we consider different bring-forward assumptions, considering both a 4-year and a 6-year bring forward. Our modelling suggests only 13% of households would have a 6-year bring-forward under an expected 9% increase in house prices. Importantly, we also estimate that almost half of households won't in fact be able to bring forward the purchase decision as the early release of super is used to offset higher house prices or face a delay in the purchase decision. We model these cases too.

**Table A3: Alternative bring-forward assumptions with a 9% price-response**

	Wealth	Lifetime disposable income (after housing costs)				Retirement income	
	superannuation	whole of life	working life	retirement	housing costs	superannuation	age pensions
Central case	-\$149,000	-\$165,400	-\$57,800	-\$107,600	\$142,200	-\$164,300	\$87,600
1. 2-year delay	-\$133,400	-\$324,300	-\$224,300	-\$100,600	\$308,700	-\$147,100	\$77,300
2. No change	-\$141,000	-\$244,300	-\$140,800	-\$103,500	\$225,200	-\$155,500	\$82,800
3. 4-year bring-forward	-\$153,200	-\$87,600	\$22,200	-\$109,800	\$62,200	-\$109,000	\$90,100
4. 6-year bring-forward	-\$145,000	-\$9,900	\$95,600	-\$105,500	-\$11,200	-\$109,900	\$85,200

The central conclusion that households are worse off under a super-for-housing scenario still holds with a larger bring-forward under the assumed 9% house-price response.

**4. Upsizing**

The above scenarios have been based on a first homeowner couple purchasing a median price home. ABS lending statistics indicate that many homeowners first enter the market at a lower price-point, and then use the equity in their first home to upgrade. Here we vary the base case by first allowing for the purchase of a unit (at age 28 in the base case and 26 in the simulation) before upgrading to a median priced house (at age 36 in the base case and 34 in the simulation). While the model does allow for additional house purchases, we limit the analysis to 2 house purchases during the couple's life to limit the number of model permutations. However, we note that subsequent house purchases will further reduce lifetime disposable income because of the additional stamp-duty arising from higher house prices as a result of the scheme.

**Table A4: Upsizing with 2-year bring-forward and a 9% price-response**

	Wealth		Lifetime disposable income (after housing costs)				Retirement income	
	superannuation	whole of life	working life	retirement	housing costs	superannuation	age pensions	
Central case	-\$ 149,000	-\$ 166,400	-\$ 57,000	-\$ 107,600	\$ 142,200	-\$ 164,300	\$ 87,600	
1. Unit (at 26) then house	-\$ 166,500	-\$ 186,800	-\$ 69,000	-\$ 136,000	\$ 154,200	-\$ 183,600	\$ 96,700	

Modelling an earlier entry into the housing market via a unit and then subsequently upgrading to a house exacerbates the reduction in lifetime disposable income after housing costs under the early release scenario by between \$15,000 to \$25,000 depending on the house-price response.

### Conclusions

Under the central case which represents our best estimate of the likely outcomes of allowing individuals to withdraw superannuation for a first home, an average couple who withdraws \$55,000 at age 30 could be expected to have lower lifetime disposable income after housing costs of around \$165,400 in today's dollars.

For households that are unable to bring-forward a house purchase, the impact on lifetime disposable income is much larger at around \$244,000 for those who continue to purchase a house at the median age, and in excess of \$300,000 for those facing a further delay.

We conducted extensive sensitivity analysis to identify how the findings may change in response to changes in model parameters and assumptions. In all but the most extreme unlikely cases, lifetime disposable income is lower under an early release scenario.

## Appendix B: Relationship between house prices and rents

In general, asset prices equal the present value of expected future cash flows from that asset. Housing differs from purely financial assets in that homeownership offers consumption benefits to owners including control over one's daily living environment. But for housing investors, in simplified terms, house prices ( $P^H$ ) can be viewed as a function of rents and the borrowing rate: <sup>14</sup>

$$P^H = \frac{R}{IR}$$

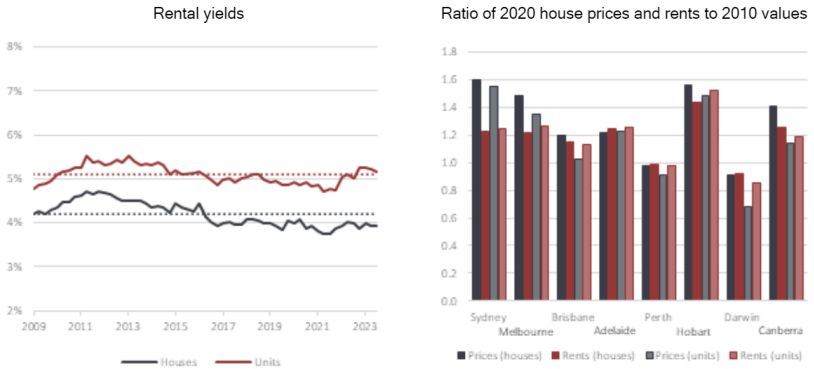
As has been well documented elsewhere, homeownership rates for younger Australians have been declining and the age at which people first enter the housing market has been increasing for a number of decades.<sup>15</sup> Our modelling suggests that the initial demand for the scheme will not significantly reverse this trend. That is, pent-up demand for owner-occupied housing fuelled by early access to superannuation, combined with net migration, will provide sustained support to already elevated house prices. It is also unlikely to displace housing investors who have more accumulated wealth than the typical first home buyer and often purchase investment properties for tax reasons.<sup>16</sup> For these marginal investors to recoup the same return on their investment, rents must increase.

This viewpoint is supported in the data. Analysis of rental yields since 2010 by [SQM Research](#) shows that rental yields are relatively flat and anchored to asset price, while CoreLogic data of median house and unit rents for most Australian capital cities broadly matches growth in median house and unit prices (see Figure 3). In addition, a number of academic studies have found longterm co-movement or cointegration between house prices and rents, while Galin finds that when house prices are high relative to rents, that is when the rent-price ratio is low, changes in real rents tend to be larger than usual and that the rent price ratio helps to predict changes in real rents and real prices over three year periods. <sup>17</sup>

While the degree and speed to which price rises flow through to rents will depend on the full range of factors that affect supply and demand in the rental market, in a market with relatively inelastic supply and low vacancy rates, we might expect price effects to flow through quicker.



**Figure 3: Relationship between house prices and rents**



**Source:** Left: SQM Research. Right: ABS Cat. 6432, and CoreLogic data, cited in Abelson and Joyeux (2023).

## Appendix C: Investment Pipeline Projections

The projected figures for investments into asset classes over the next 5 and 10-years are calculated by estimating APRA regulated sectors’ free cash flow available for deployment into assets in a similar fashion (proportion wise) as in the past 4-years to June 2023.

In this model, the projected free cash flow consists of (i) net cash flow from member contributions less payments, transfers and other flows, (ii) income from investments, and (iii) other expenses and changes. Each of these components contain projected financial flows that are growing based on historical trends, with the exception that contribution flows (employer and member) and benefit payment (lump sum and pension) trends are based on Deloitte modelling. Projected investment incomes (after tax) exclude realised and unrealised capital gains. The estimated free cash flows are then deployed into various asset classes in proportions that are similar on average to sector-level asset allocation proportions over the past 4-years. These asset classes are defined in APRA Quarterly Superannuation Performance statistics. However, only some of these asset categories (fixed income, listed equity and unlisted infrastructure) have a domestic component. To determine the domestic components of other categories (unlisted equity, listed property, unlisted property and listed infrastructure), a more granular asset allocation data from APRA Quarterly Superannuation Industry publication was used.

## Footnotes:

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

**2** 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.

**3** See SMC [briefing note: Price impacts of withdrawing super for housing](#)

**4** 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. Details of the analysis and the findings are available in Appendix A.

**5** The impact of the super for housing policy on house-purchase timing have been estimated using a microsimulation model. The model used the ABS Survey of Income and Housing to look at first home buyers' incomes, superannuation balances, and other factors influencing their capacity to save, to determine the probability of their bring-forward purchase decisions. Details on the methodology is in Appendix A.

**6** We develop a microsimulation model of first home buyer decisions based on the ABS Survey of Income and Housing. These results are based on a capped scheme of up to \$50,000 or 40% of a person's superannuation balance.

**7** Analysis of rental yields since 2010 by [SQM Research](#) show that rental yields are relatively flat and anchored to asset prices, implying that increases in property prices will flow through to increases in rents. The degree and speed to which this will occur will depend on the full range of factors affecting supply and demand in the rental market, but in a market with relatively inelastic supply and low vacancy rates, we might expect price effects to flow through quicker. For the purposes of the modelling, we have assumed full pass through. More detail on this is in Appendix B.

**8** 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

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

**10** [Retirement Income Review \(2020\)](#).

**11** It is acknowledged that traditional gender roles around childcaring responsibilities are changing and that female labour force participation is increasing. However analysis of the 2019-20 ABS Survey of Income and Housing and the most recent HILDA dataset suggests that women are still the primary carers of young children. For example, analysis of the 2019-20 SIH shows that of parents with a dependent child aged under 5, 84% of males are employed full-time compared to 30% of females, while only 8% of males are not in the labour force compared to 35% of females.

**12** See Industry Super Australia research paper, [Assessing the Retirement Income Review \(RIR\) Modelling](#).

**13** See [Price impacts of withdrawing super for a housing](#).

**14** See Abelson, P. and R. Joyeux, (2023), Housing prices and rents in Australia 1980-2023: Facts, explanations, and outcomes.

**15** See for example, [Retirement Income Review \(2020\)](#).

**16** See for example, [What is negative gearing and what is it doing to housing affordability?](#)

**17** See for example, Abelson, P. and R. Joyeux, (2023) , Housing prices and rents in Australia 1980-2023: Facts, explanations, and outcomes; and Galin (2004), The Long-Run Relationship between House Prices and Rents.