REIA SUBMISSION TO THE PRODUCTIVITY COMMISSION STUDY INTO THE ECONOMIC IMPLICATIONS OF AN AGEING AUSTRALIA

PROPOSAL

1. The Real Estate Institute of Australia (REIA) proposes that:

   a. The Commonwealth Government proclaim home ownership as the fourth pillar of policy for superannuation and self-funded retirement.

   b. Commonwealth and State governments address the need for a coordinated housing policy, overseen by a Federal housing portfolio and minister. This policy should take into consideration the economic implications of an ageing Australia, and related issues including:

      (1) the deferral of home ownership;
      (2) declining first home affordability;
      (3) the changing patterns of home ownership in contemporary Australia;
      (4) changes in housing demand and supply as the population ages;
      (5) changing housing requirements and preferences of ageing Australians;
      (6) the varying capacity of older Australians to meet their housing needs, including the use of housing assets to pay for residential aged care; and
      (7) inefficient state property taxes which hinder home ownership.

BACKGROUND

2. The Productivity Commission has been asked to undertake a study examining the economic implications of an ageing Australia, and to furnish a report to the Treasurer.

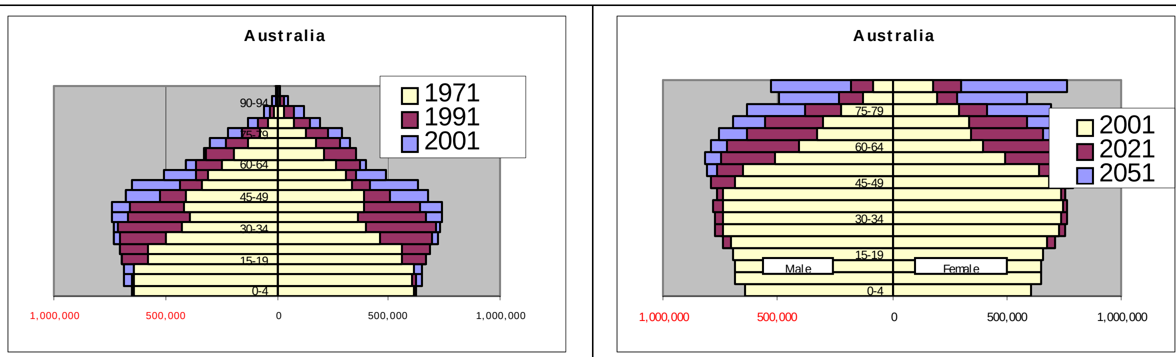
3. The REIA is the national professional association for the real estate industry in Australia. REIA has eight members, comprised of the State and Territory Real Estate Institutes, through which about 75 per cent of real estate firms and licensed agents are collectively represented.

ISSUES

The Ageing Population

4. In a report prepared on behalf of the REIA by Swinburne University of Technology (Pidgeon et.al., 2003), Figure 1 depicts the actual population of Australia by age and sex for 1971, 1991, and 2001.

Figure 1 – Age and Sex Structure, Australia



Source: Based ABS on Population Projections, Australia, TABLE 2A. Projections of Population By Age - Australia - Series II (a), Cat No. 3222.0

It also depicts the projected population (using ABS Series II assumptions) for 2021 and 2051. The number of males is recorded on the left side of the 'pyramid' and females on the right. The age cohorts start at 0-4 years at the bottom of the pyramid and rise to an open-ended age category at the top of the pyramid. The figure shows that the bottom end of the 1971 age/sex pyramid which has historically been identified as the 'baby-boomers' (those born in the twenty year period between 1945 and 1964) have a dominant impact on the population structure as they age. Their impact is magnified not only because this cohort is numerically large, but also because fertility rates have progressively decreased and there has been an overall decrease in mortality.

5. The Report concluded that the 65+ year cohort will increase by approximately 630,000 persons in the decade to 2011, 1,185,000 in the decade to 2021, 1,185,000 in the decade to 2031, 808,000 in the decade to 2041 and 415,000 in the decade to 2051. By 2051 this cohort will represent 26.1% of Australia's population, that is, over 6.6 million people.

Table 1 – Number and Percent of the Aged in Australia 2001-2051

Age	2001	2011	2021	2031	2041	2051
65-69	675,204	945,677	1,287,738	1,443,842	1,512,913	1,520,532
70-74	630,089	721,510	1,139,948	1,339,257	1,403,407	1,410,269
75-79	514,898	548,938	795,723	1,103,834	1,250,280	1,322,643
80-84	322,552	430,682	518,407	841,598	1,012,258	1,081,205
85+	260,344	389,164	478,609	676,560	1,034,384	1,293,748
Total (Australia)	19,421,345	21,288,783	22,926,424	24,254,439	25,033,639	25,408,516
65-69	3.5%	4.4%	5.6%	6.0%	6.0%	6.0%
70-74	3.2%	3.4%	5.0%	5.5%	5.6%	5.6%
75-79	2.7%	2.6%	3.5%	4.6%	5.0%	5.2%
80-84	1.7%	2.0%	2.3%	3.5%	4.0%	4.3%
85+	1.3%	1.8%	2.1%	2.8%	4.1%	5.1%
Total (% of Australia)	12.4%	14.3%	18.4%	22.3%	24.8%	26.1%

Source: Based on ABS Population Projections, Australia, TABLE 2A. Projections of Population By Age - Australia - Series II (a), Cat No. 3222.0

The distribution and impact of ageing will not be uniform across Australia.

6. The expected change in the proportion of aged for each State and Territory is quantified in Table 2. It shows that both South Australia and Tasmania will, on current projections, have 31.1% and 29.4% of their population aged 65 years or more – higher than any of the other states or territories. New South Wales and Victoria are expected to be closer to the national average, not surprising given their large share of the national population. The population structure of the Northern Territory differs from the other States insofar as it is characterized by low numbers of persons in their late teens reflecting a dominance of young families in the population.

Table 2 Percentage of Population Aged 65 Years or More Region by Selected Years

Region	2001	2011	2021	2031	2041	2051
New South Wales	12.9%	14.7%	18.6%	22.5%	25.0%	26.3%
Victoria	12.9%	14.9%	19.0%	22.9%	25.5%	26.4%
Queensland	11.4%	13.4%	17.6%	21.6%	24.2%	25.5%
Western Australia	10.7%	12.6%	16.9%	20.6%	23.0%	24.3%
South Australia	14.6%	16.9%	22.1%	26.9%	29.7%	31.1%
Tasmania	13.7%	16.1%	21.2%	25.8%	28.1%	29.4%
Australian Capital Territory	8.4%	11.4%	16.2%	19.8%	22.0%	23.3%
Northern Territory	3.4%	4.6%	6.9%	8.5%	9.5%	10.0%
Australia	**12.4%**	**14.3%**	**18.4%**	**22.3%**	**24.8%**	**26.1%**

Source: Based on ABS Population Projections, Australia, TABLE 2A. Projections of Population By Age - Australia - Series II (a), Cat No. 3222.0

7. While the shifts in the proportion of aged in the population are important to monitor, it is the numerical size of these groups that are more important in terms of policy development. Table 3 shows the projected additional persons that join the 65+ age cohort during each of the five decades to 2051. While the additions to this cohort continue to rise over the whole period, with the exception for South Australia and Tasmania in the decade 2041-2051, the peak additions are projected to occur in two decades from 2011- 2031.

Table 3 - Projected Increase of Persons Aged 65 Yeas or More Region by Decade

Region	2001-2011	2011-2021	2021-2031	2031-2041	2041-2051
New South Wales	198,543	370,336	378,177	252,370	123,158
Victoria	147,581	264,071	251,010	158,572	45,390
Queensland	133,230	253,209	262,810	192,967	114,131
Western Australia	72,214	138,998	141,192	107,539	73,855
South Australia	42,130	83,396	72,388	26,812	-5,245
Tasmania	13,106	25,613	20,799	6,104	-1,767
Australian Capital Territory	12,038	19,136	15,198	9,309	4,318
Northern Territory	3,074	5,721	4,897	3,500	2,341
Australia	**632,884**	**1,184,454**	**1,184,666**	**808,151**	**415,155**

Source: Based on ABS Population Projections, Australia, TABLE 2A. Projections of Population By Age - Australia - Series II (a), Cat No. 3222.0

8. The change in the age structure also has a significant impact on the ability of the working population to support the so-called dependents in the community. A crude measure of the extent of dependency is the number of 0-14 year olds plus the number of persons 65 years or more in the population relative to the number in the working age category of 15-64 years. In June 2001 there were 48.31 dependents per 100 persons of working age. At this time the young dependents (those 0-14 years) represented 20.2% of the Australian population while the aged dependents (those 65 years or more) represented 11.6% of the population. On current projections, both the dependency ratio and the relative levels of young and aged dependents will change considerably. By 2051 it is projected that there will be 67.89 dependents for each 100 persons of working age but more importantly the young (0-14 years) will represent only 14.4% of the population while the aged (65 years or more) will represent 24.9% of the population.

9. It is well recognized that the aged have much higher dependency costs on average compared to the young. This fact underlies the recent Federal budget papers concerns for the development of policies to ensure greater labour force participation for those aged 15-64 years and also for those aged 65 years or more to continue to participate in the labour market.

Social Impact of Home Ownership Declining

10. Housing is a major factor in the quality of life of all Australians, with safe and secure housing a particularly important requirement for older people. High rates of lifetime home ownership are regarded as an essential underpinning of the Australian social security system. Any trend away from this will have significant economic and fiscal implications. Further, the social impact of home ownership on an ageing population should not be underestimated. For example, McDonald notes ‘the high rate of poverty found among aged pensioners who do not fully own the dwelling in which they live compared to the rate for those who do own their own housing.’ (2003 p 6).

11. The REIA supports the Productivity Commission’s recent findings that home ownership “… enhances both economic performance and social capital”, and home ownership in Australia is high compared to some other developed countries in the world, eg about 15% higher than France and 30% higher than Germany. The consequent social order and comparative security of living in Australia is the envy of many countries.

12. The socio-economic benefits of home ownership are indisputable. However, a report from the Committee for Economic Development of Australia (CEDA) in December 2001 entitled “Future Directions in Australian Social Policy” has indicated … “concerns about the widening divisions and inequalities in Australian society, an increasing burden on individuals to cope with new uncertainties and risks, and a questioning of the balance between reliance on the market as a distributive mechanism and a role for government in risk prevention and mitigation, social investment and social protection.” Indicatively, the report stipulated that the home purchase rate among the generation cohort of 25 to 34 year olds has dropped by 10% in the period 1981 to 1996. Similarly, the 2001 Census shows that overall home ownership rate amongst all Australians has dropped from 69% in 1986 to 67% in 2001.

13. The Council of Australian Postgraduate Associations stated that "there had been little research on the social or economic impact of student debt so far", but there is a strong likelihood that this would affect home ownership. Noting that the majority of first home buyers are aged in their twenties and thirties, the Commission might consider that further inquiry is warranted on the social and economic impact of student debt.

14. The percentage of homes being purchased is falling as a result of declining home affordability, and private renters have increased in the last 20 years. See Table 4.

Table 4 – Home Ownership

Tenure	**Census Year Households Per Cent**				
	1981	**1986**	**1991**	**1996**	**2001**
Owned	33.2	38.2	40.3	41.4	40.2
Being Purchased	33.0	30.9	27.0	25.5	26.5
Total Owners	**66.2**	**69.1**	**67.3**	**66.9**	**66.7**
Renters: State Housing	4.9	5.4	5.7	5.1	4.5
Renters: Private Landlord	20.0	20.4	20.9	23.6	23.1
Total Renters	**24.9**	**25.8**	**26.6**	**28.7**	**27.6**
Other Tenure	8.8	5.1	6.1	4.4	5.8
Total Occupied Dwellings ('000)	**4,669**	**5,187**	**5,765**	**6,496**	**7,072**
Total Unoccupied Dwellings ('000)	469	543	597	679	718
Total Dwellings ('000)	**5,138**	**5,730**	**6,362**	**7,175**	**7,790**

Source: ABS Census data, various years.
Percentages calculated as percent of total occupied dwellings

15. The period starting at 1980 with high affordability resulted in the highest home ownership over a 30-year period. This culminated in 1986 when affordability clearly diminished. The improvement over the two-year period 1992-1994 was not enough to sustain an increase in overall home ownership. Whilst the Productivity Commission recent report on Housing Affordability notes the cyclical nature of housing demand and prices, the trend of low affordability cannot be rationalised as simply a short-term phenomenon. Therefore, are many future young Australians to be denied home ownership and all the socio-economic benefits that they would carry into an ageing population?

16. The rate of home ownership among older Australians is currently high – around three-quarters of those aged over 60 are home owners. Table 5 shows the levels of homeownership by age of the household reference person.

Table 5 Household tenure by age, 2000-01

Age of household reference person	Owner without mortgage	Owner with mortgage	***Owner/Buyer***	Renter	Other
15-24	1.6	14.2	***15.9***	78.6	5.6
25-34	7.2	43.6	***50.8***	46.9	2.3
35-44	17.1	51.9	***69.1***	29.4	1.5
45-54	38.9	40.4	***79.2***	19.0	1.7
55-64	64.0	19.7	***83.6***	14.6	1.7
65-74	80.3	4.2	***84.5***	11.8	3.7
75+	80.5	3.4	***83.8***	13.3	2.9
Australia	38.2	32.2	***70.4***	27.4	2.3

Source: ABS 2000-01 Survey of Income and Housing Costs, unit record data. The age of the reference person is used to represent the age of the owner(s) of the dwelling. In the Census, the reference person is used to establish the relationships of the residents in a dwelling. In nearly all households the reference person is a partner in a couple family, a lone parent or a lone person. The reference person will usually, but not always, be the owner or part owner of the dwelling.

The table clearly shows that homeownership rises with age until age 65. Owners and buyers account for less than 16 per cent of 15-24 year old households but it accounts for more than 80 per cent of households aged 55 and older. The proportion of households that are an owner and do not have a mortgage is dramatically higher above age 65. The *owners without mortgages* jumps from 64 per cent to 80 per cent as the traditional age of retirement milestone is passed and correspondingly *owners with a mortgage* drop from 20 per cent to 4 per cent. The high levels of ownership and the low proportion of owners with mortgages suggest that older Australians believe economic wellbeing in retirement involves home ownership but without the financial strain of mortgage repayments.

17. Housing is therefore a significant personal, social and financial resource for older Australians. The Australian Institute of Health and Welfare notes, ‘Long term residence in their own homes provides a sense of security and continuity, and a base for daily activities and social interaction in a familiar context’ (2003). Benefits particularly in old age include lower housing costs, security of tenure and an asset that may be realised for other consumption purposes. One possible occasion when this equity could be useful is to meet the financial obligations with an accommodation bond on entry into some types of residential aged care facilities.

18. Ensuring that older people have access to suitable housing will be an increasingly important issue for all levels of government. Government costs will be reduced when aged persons are able to stay in their own homes and to the extent practicable, their families are able to care for them. Therefore housing choices and location preferences will be important components of the decision making of the aged and will need to be monitored by government as it formulates housing policy in order to ensure care for an ageing population which is affordable and appropriate.

Home Ownership as a Factor in Labour Market Participation

19. The deferral of home ownership amongst those born between 1961 and 1976 is a matter of concern. In 1999, approximately 18% of 35 to 39 year olds had paid off their full mortgage and become outright home owners. Comparatively, in 1989, 25% of 35 – 39 year olds had achieved outright home ownership (*1988-89 and 1998-99 ABS Household Expenditure Survey unit record files*). This delay in entering the housing market may result in fewer people achieving full home ownership by retirement, thus placing an onus on people to:

a. continue working beyond the age of 65 in order to service home loans, or

b. pay off their mortgage at retirement with part of their superannuation entitlement.

20. The situation is likely to be more acute for women. A report by NATSEM commissioned by the REIA (August 2004) found that the 'average woman approaching retirement has less than half the accumulated superannuation of her male counterpart.' NATSEM attribute this to the increasing prevalence of marriage breakdowns, changing gender roles, interrupted labour force careers as a result of child-bearing and child-raising, and a greater likelihood of being in part time and low paying position. NATSEM notes that 'while labour force participation for women has increased in the last decade, the future still looks bleak and women's financial situation in retirement only improves marginally'. Thus, it will be particularly important for women to have outright ownership of their homes at retirement, to minimise the likelihood of housing stress.

Government Expenditure on Housing for the Aged

21. Centrelink figures show 16% of Rent Assistance recipients in 2002 were on the age pension (151,120 people). 83% of age pension recipients who are also Rent Assistance recipients live alone. 11.6% of those experiencing housing stress (defined as spending more than 30% of their incomes on housing-related costs) are aged over 60 (Harding et.al. 2004). These figures are likely to increase with an ageing population and longer lifespan, thus increasing the demand on government to provide public housing and financial support for housing.

22. There will be an increased impost on governments to provide financial support for modifications to family homes through schemes such as the Home and Community Care program to enable the elderly to remain in their own homes. Infrastructure costs will increase with population increases, but costs for home care of aged people will be less than government expenditure on dedicated aged care infrastructure, such as retirement homes, hostels and nursing homes.

23. Based on population projections and using the government's current planning ratios, an REIA-commissioned report by NATSEM (2004) found that the number of residential care places will need to increase from 156,400 in 2001 to 335,800 in 2031. Table 6 shows the projected number of places and packages which will be required.

Table 6 **Projected residential aged care places and community aged care packages required, Australia, selected years 2001-2031** (‘000s)

	2001	**2011**	**2021**	**2031**
Residential places	156.4	189.4	261.1	335.8
High care	*69.5*	*84.2*	*116.1*	*149.3*
Low care	*86.9*	*105.2*	*145.1*	*186.6*
Community Age Care Packages	17.4	21.0	29.0	37.3
Total places	173.8	210.4	290.1	373.1

Note: Places and packages were calculated using the government’s planning ratio of 100 places and packages per 1,000 projected persons aged 70 and over. The ratio of 40:50:10 for high care: low care: CACP was used to allocate the places and packages.

Source: NATSEM

24. The Allen Consulting Group estimated the cost of residential care in 2001-02 to be $163 per day in High Care and $100 per day in Low Care (2002, p. 60). These costs included employment costs, consumables, non-capital overheads, depreciation and user cost of capital. Based on these costs and the projected numbers of places required (as presented in Table 6), estimates can be made of the aggregate cost of providing aged care places and packages. The estimates in Table 7 use the Allen Consulting Group costs for 2001 and then inflate these costs by one per cent per annum for the future projections. This assumes aged care costs will rise one per cent faster than the CPI as two-thirds of the aged care costs relate to employment costs, which traditionally rise faster than inflation. The projections also assume 96 per cent occupancy rates. The actual rate in 2001 was 95.9 per cent (AIHW, 2002, p.26). Community Aged Care Package (CACP) places are assumed to all be low care.

Table 7 **Projected aggregate cost of aged care, Australia, selected years 2001-2031**

		2001	**2011**	**2021**	**2031**
Daily cost of high care (a)	$/day	163	180	199	220
Daily cost of low care	$/day	100	110	122	135
Daily cost of CACP(b)	$/day	35	39	43	47
High care places (c)	‘000s	69.5	84.2	116.1	149.3
Low care places	‘000s	86.9	105.2	145.1	186.6
CACP	‘000s	17.4	21.0	29.0	37.3
High care total cost (d)	$bn p.a.	3.971	5.310	8.088	11.490
Low care cost	$bn p.a.	3.046	4.072	6.203	8.812
Low care cost	$bn p.a.	0.213	0.285	0.434	0.617
TOTAL COST	$bn p.a.	**7.017**	**9.382**	**14.291**	**20.302**

a 2001 value from The Allen Consulting Group (2002). 2011-2031 values equal 2001 value plus 1% p.a. real growth.

b It is assumed all CACP places are low care.

c From Table 6.

d Calculated as follows: number of places in that year * daily cost in that year * 365 * occupancy rate (96%).

Source: NATSEM calculations

25. The Allen Consulting Group also estimated the cost of CACP in 2001-02 to be $90 per day in High Care and $35 per day in Low Care (2002, p. 67). The report also notes the reason the costs are substantial lower than residential care is 'that residential care includes costs for housing and meals which an older person would usually provide for them while living at home' (p.18). In other words by having an older person remain in their home, they generally contribute more to the cost of their care.

26. Given the significant reduction in cost to the public purse of aged care being provided in the home, there will be savings to government if the proportion of older people staying in their home increases. Assuming that residential aged care residents who could be potentially moved to CACP are low care patients, a saving would be made of $100 - $35 = $65 per day or $23,725 per year. This may still understate the saving as a 1999 study showed that CACP service providers in NSW and ACT provided between 2.25 and 10.43 hours of assistance per week to clients. The average was 6.8 hours per week (DHAC, p. 49). However, there are a number of flow-on effects that could result from a person remaining in their own home rather than taking up a residential age care place that have not been considered. These include a greater demand for carers, the use of residential respite care, the need for specialised equipment such as mobility aids and home modifications to support the aged person in their own home, the observation that older people spend more time in hospital (Hollander, 2001), and that some people are not suited to home care. The costs of these extra demands have not been included in the analysis.

27. Table 8 shows that if a one percent transfer of people from low-care residential places to home care packages had been achieved, a saving of $20.6m would be have been made in 2001 (based on the assumption that a saving of $23,725 per person is made). By 2031 the saving would be almost $60m per year. A perhaps more significant and realistic goal would be to aim for a 5-10 per cent reduction in those going into low-care residential facilities. This would produce savings of between $210m and $420m in 2021.

Table 8 Projected aggregate savings for cost of aged care, Australia, selected years 2001-2031

Proportional reduction in low care and increase in CACP	Projected Savings in			
	2001	2011	2021	2031
	$mil p.a.	$mil p.a.	$mil p.a.	$p.a.
1%	20.617	27.570	42.005	59.670
5%	103.085	137.850	210.025	298.352
10%	206.170	275.699	420.050	596.704

Source: NATSEM

28. Whilst Federal Government policy can be rationalised in economic terms, there are also less quantifiable but nonetheless important social implications which must be considered. The link between social and economic policy is essential in supporting the housing needs of an ageing population.

Ageing and Future Housing Needs

29. A report prepared on behalf of the REIA by Swinburne University of Technology (Pidgeon et. al., 2003) found that at a national level, an increase in population implies an increase in the number of families and households and therefore an increase in the stock of dwellings. Family and household formation rates will almost certainly increase. This scenario does not rely solely on an increase in population. Indeed, further erosion of extant and future family units into two or more separate lone-person or single parent households will considerably affect and increase housing demand.

30. The Report stated that the underlying demand for housing derives from population dynamics (population growth, population structure and composition, internal and international migration and particularly household formation), the ageing and turnover of the existing housing stock and long-term trends in income growth and distribution. Demand for housing fluctuates in the short-term in response to a number of influences such as housing supply, employment security, consumer confidence and affordability, rental costs relative to mortgage payments and specific Government policy measures: for example, first home buyer schemes, the tax treatment of negative gearing and the sale of serviced Crown land (IBISWorld Pty Ltd, 2002).

31. A perspective on the future demand for private dwellings can be gained by examining the link between the number of persons and the number of physical dwellings. Historically, over 9% of the private dwelling stock in Australia has been unoccupied. This is a consequence of many factors such as: householders owning a second property which might be used for work, recreational and holiday purposes and is temporarily unoccupied; dwellings that are vacant because the normal occupants are on holidays or business at a different location in Australia or overseas; dwellings under construction or renovation; and, derelict dwellings. Recent figures show the percentage of unoccupied dwellings at 9.3% in 1991, 9.5% in 1996 and 9.2% in 2001. Taking this into account, the ratio of persons living in private dwellings to the stock of occupied private dwellings in Australia has varied from 2.78 persons/dwelling in 1991, 2.65 persons/dwelling in 1996 and 2.58 persons/dwelling in 2001. As such, a short-term trend of fewer persons per dwelling is likely to continue into the future, given the ageing and lower fertility rates expected in the population scenarios.

32. The Swinburne University concluded that 'the changing structure and composition of households with numbers of households increasing and household size decreasing … implies a demand for proportionately greater diversity in the stock of dwellings (that is, in dwelling types) in different locations and in possibly different forms of housing tenure' (ibid, p iii). In 2001, while 68.4% of Australia's housing stock was separate housing, stronger growth was being experienced in medium and high-density housing. With an expected increase in single-person and couple households as the population ages, it is likely that this trend will continue. Mobility rates also begin to rise for people aged more than 70 years. Accordingly, 'housing choices and location preferences will be important components of the decision making of the aged and will need to be monitored' (ibid, p x).

33. Australian Institute of Health and Welfare research (2003) has found that living arrangements amongst older people vary significantly from younger population cohorts and are highly variable. In the 60 – 69 year age cohort, the predominant living arrangement for men and women was with a spouse in a private dwelling (80% and 64% respectively), but this proportion reduces quite quickly with age, especially for women. By age 70 – 79

years, only 42% of women live in private dwellings with a spouse and by age 80 years and over, this reduces to 14%. The proportions living with relatives other than a spouse, or living alone, increase with age, particularly amongst women. Home ownership rates are higher among older people in couple households (85%) than among lone person households (70%). There are fewer renters compared with the 15 – 59 year age group, but those who do rent are more likely to be public rather than private renters, and are more likely to be single.

34. Of all the household types identified in ABS projections (*ABS Household and Family Projection Australia 1996-2021*), lone-person households are expected to display the strongest increase over the projection period from 2001 to 2021: increasing by 674,100 units or approximately 39%. Although not exclusively so, this will be in part due to the ageing of the population and the expected continuation of longevity differentials between females and males.

35. Based on the above, it can be concluded that as life expectancy increases, the housing requirements of the aged are likely to take many different forms. These might include a mix of time spent in the so-called family-home and a recreational home for those with the financial means, health and mobility; trading-down for quality-of-life reasons perhaps precipitated by financial and/or health factors; and, choosing forms of residential care based largely on mobility, health, safety and security factors. Government housing policy will need to address how older home owners can adjust their housing to fit their changing preferences and needs, and the potential related fiscal costs.

36. Housing design will also require attention – whether it be for housing specifically for older people, or housing which meets the changing needs of people as they age. Research by AHURI (2004) found that as Australia ages, there would be more frail, very old people, living on their own, creating a greater demand for housing that incorporates some forms of support. The Department of Health and Ageing (2002) has noted: 'The ability of the structure and design of housing to be adapted to support people's varying levels of independence will provide future cohorts of older people with more options to remain in their own homes and communities.'

37. Home ownership facilitates housing choices for the elderly. The family home asset can be used to obtain entry to a range of accommodation types including retirement villages, hostels and nursing homes. The ability of ageing Australians to access flexible models of housing provision in a wide range of settings, with supportive environments and appropriate care services, will be a crucial issue in the coming years.

38. The Swinburne University research (Pidgeon et. al. 2003) has found that future housing needs in terms of structure and tenure type are problematic, requiring insights into the supply of, as well as the demand for, housing. Supply can be significantly influenced by government through public housing policy, by developers in their use of more cost-effective building construction techniques for high-rise apartment blocks, smaller medium density developments and single detached dwellings, and, by current home owners and purchasers, who will be able to leverage equity in their homes and have an increasing space capacity to partition existing housing stock into dual or multi-household dwellings. For example, following some minor reconstruction or alteration to an existing owner-occupied private dwelling, that dwelling might constitute an attractive revenue source for a

household constrained by returns from superannuation products such as allocated pension, or by the possible erosion in the purchasing power of an aged pension.

39. Options for future governments might include consideration of incentives to existing home-owners to partition existing dwelling types such as separate houses to create an income stream for owners and affordable housing for many families in areas where employment opportunities might be greater.

Home Ownership, Superannuation and Self-Funded Retirement

40. Both major political parties are committed to self-funded retirement, in order to provide for quality in the standard of living for the elderly and to reduce reliance on government welfare funding including public housing. Self-funded retirement explicitly assumes home ownership. It can only be achieved through adequate superannuation provisions (retirement savings) and outright home ownership in retirement. Without a fully owned home, a retiree would need an additional superannuation fund of $200,000 yielding 5% pa to pay for a modest rent of $200 pw. This is clearly beyond the means of many Australians.

41. An OECD-commissioned report by David Carey (1999) found that retirement income could be considered to comprise three main components in Australia. The first is the age pension, which acts as a safety net but is not intended to be a primary source of income. The second is from pension funds (superannuation) financed by employment mandated by the Superannuation Guarantee. The third is voluntary savings, which includes sums voluntarily placed in superannuation funds, the purchase of owner-occupied housing and other private savings (including investment in residential and commercial property). These arrangements are similar to those in most OECD countries.

42. The REIA proposes that the Commonwealth government proclaim home ownership as the fourth pillar of policy for superannuation and self-funded retirement.

43. Home ownership also helps provide leverage for wealth creation. Wealth creation through voluntary savings gives people financial freedom and the ability to make lifestyle choices including self-funded retirement. Individual wealth reduces the need for, and reliance on, a range of government financial assistance programs. Any investment portfolio should be balanced with a range of different investments, including property investments, to spread the inevitable risks associated with achieving future earnings, particularly since the majority of superannuation funds invest in the share market. The REIA strongly supports maintenance of the current negative gearing and capital gains tax provisions by the Commonwealth government.

44. While superannuation and self-funded retirement explicitly assume home ownership, home ownership is being deferred by younger age cohorts and first home buyers are now about half of the historical average. Declining housing affordability and impediments such as State property taxes must be addressed if this situation is to be reversed.

45. Property-related revenues currently account for over 35% of total state government revenues (RBA, 2004). However, these taxes are obstacles to home ownership and wealth creation. Stamp duty on residential property and land tax are inefficient, and stamp duty on

non-residential property is the most inefficient tax, as shown in a report compiled by Access Economics (2002), which was commissioned by the Business Coalition for Tax Reform. It provided an efficiency ranking of state taxes which showed payroll tax and tax on gambling as relatively efficient taxes.

46. The Australian Institute of Health and Welfare (2003) has noted that while home ownership confers financial security on older people, property rates and maintenance costs may be a significant burden for those living on an aged pension or on a low self-funded income. Land taxes on high-valued owner-occupied homes are likely to impact negatively on the elderly who are more likely to have bought and retained inner city properties in major metropolitan areas where land values are higher.

Home Ownership Solutions to Help Ageing Population

47. Broad Government policy objectives include home ownership and self-funded retirement. There is ample evidence that both major political parties promote home ownership, eg First Home Owners Grant Scheme, (FHOGS), exemption from capital gains tax, exemption from social security asset testing, and concern to maintain low home mortgage interest rates. Noting the socio-economic benefits of home ownership which subsequently carry over into an ageing population there are some specific measures which Governments can take, ie:

a. Index link FHOGS to median house prices to ensure that the Scheme remains relevant to changing house prices.

b. State governments should be encouraged to continue to reduce stamp duty for first home buyers to encourage people to take up home ownership. The revenue for State governments can be made up by the GST as shown in Annex A.

c. State governments provide a one-off exemption of the stamp duty on purchase of the retirement home so that retirees can downsize from large family homes to more modest needs, so that their assets are not unduly diminished and the supply of houses is increased in order to help keep prices down for the next generation with a family.

SUMMARY

48. Housing is a major factor in the economic and social well being of the elderly. It is an essential prerequisite for the Commonwealth government’s policy of self-funded retirement. As the Australian population is ageing however, there are also major demographic shifts in the pattern of home ownership in Australia, changing housing requirements, and a significant decline in home affordability. These must be addressed by Commonwealth and State governments through a coordinated housing policy as a matter of urgency for the well being of all Australians, young and old.

49. Government policy supporting the provision of aged care services to older people wishing to remain in their own home would provide significant cost savings. A 5 to 10 per cent reduction in those going into low care residential facilities with a concurrent transfer to

home care packages would produce savings to government of between $210 m and $420 m per annum by 2021.

50. An important objective of government policy should be to encourage earlier entry to home ownership in order to provide through life social benefits. Commonwealth and State governments should address the need for a coordinated housing policy, overseen by a Federal housing portfolio and minister. This policy should take into consideration issues such as the need for self-funded retirement, deferral of home ownership, declining first home affordability, and the changing patterns of home ownership, which are likely to have significant economic and social impacts as Australia's population ages.

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3 September 2004

Annex:

A. Federal Government Mid Year Economic and Fiscal Outlook FY 2003/04 – GST to States

ANNEX A TO
REIA SUBMISSION INTO ECONOMIC
IMPLICATIONS OF AN AGEING AUSTRALIA
DATED 3 SEPTEMBER 2004

FEDERAL GOVERNMENT MID YEAR ECONOMIC AND FISCAL OUTLOOK FY 2003/04 - GST TO THE STATES

Table 9: Forward estimates of Budget Balancing Assistance and States' gains from tax reform[(a)]

2003-04 ($m)	**NSW**	**VIC**	**QLD**	**WA**	**SA**	**TAS**	**ACT**	**NT**	**Total**
Guaranteed Minimum Amount	9,777.9	6,868.8	6,046.9	3,008.0	3,046.4	1,313.3	624.3	1,568.8	32,254.4
GST Revenue	9,461.9	6,812.1	6,381.2	3,082.2	3,073.0	1,350.7	648.7	1,647.4	32,457.0
Budget Balancing Assistance	**316.1**	**56.7**	0.0	0.0	0.0	0.0	0.0	0.0	**372.8**
GST in excess of Guaranteed Minimum Amount	**0.0**	**0.0**	**334.3**	**74.2**	**26.6**	**37.3**	**24.4**	**78.6**	**575.4**
2004-05 ($m)	**NSW**	**VIC**	**QLD**	**WA**	**SA**	**TAS**	**ACT**	**NT**	**Total**
Guaranteed Minimum Amount	9,965.5	7,074.4	6,288.7	3,123.4	3,167.7	1,377.6	645.5	1,673.7	33,316.6
GST Revenue	9,873.5	7,176.2	6,779.4	3,262.6	3,218.3	1,414.7	676.1	1,719.2	34,120.0
Budget Balancing Assistance	**92.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**92.0**
GST in excess of Guaranteed Minimum Amount	**0.0**	**101.8**	**490.7**	**139.3**	**50.6**	**37.1**	**30.5**	**45.4**	**895.4**
2005-06 ($m)	**NSW**	**VIC**	**QLD**	**WA**	**SA**	**TAS**	**ACT**	**NT**	**Total**
Guaranteed Minimum Amount	10,507.3	7,629.6	6,861.7	3,318.8	3,327.6	1,446.0	687.5	1,749.0	35,527.5
GST Revenue	10,441.8	7,652.4	7,190.8	3,419.5	3,368.8	1,476.0	718.5	1,802.2	36,070.0
Budget Balancing Assistance	**65.4**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**65.4**
GST in excess of Guaranteed Minimum Amount(b)	**0.0**	**22.8**	**329.1**	**100.7**	**41.2**	**30.0**	**31.0**	**53.2**	**608.0**
2006-07 ($m)	**NSW**	**VIC**	**QLD**	**WA**	**SA**	**TAS**	**ACT**	**NT**	**Total**
Guaranteed Minimum Amount	10,810.0	8,009.9	7,061.2	3,406.3	3,446.4	1,492.4	712.6	1,823.7	36,762.6
GST Revenue	10,983.4	8,183.6	7,616.7	3,603.3	3,557.7	1,550.9	758.4	1,896.0	38,150.0
Budget Balancing Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GST in excess of Guaranteed Minimum Amount	**173.4**	**173.7**	**555.5**	**197.0**	**111.3**	**58.4**	**45.8**	**72.3**	**1,387.4**

(a) Projections from 2004-05 will be affected by variations in Guaranteed Minimum Amount components, GST revenue growth and recommendations by the Commonwealth Grants Commission on the distribution of GST to each of the States and Territories in future years. See Budget Paper No 3, *Federal Financial Relations 2003-04* for details of the Guaranteed Minimum Amount and the distribution of GST revenue among the States and Territories.
(b) In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, Bank Account Debits tax is scheduled to be abolished by 1 July 2005. The revenue forgone by the States and Territories is included in each State's and Territory's Guaranteed Minimum Amount from 2005-06 to ensure the States are no worse off. Accordingly, the amount by which GST exceeds the Guaranteed Minimum Amount decreases in 2005-06 compared to 2004-05.

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