portfolio construction forum

First-home buyers should be able to use their super

Ron Bird | University of Technology Sydney | 29 March 2017

We have every reason to be grateful to Paul Keating for opening up the Australian economy by way of the reforms he introduced to the capital market – and then there is compulsory superannuation. He is obviously passionate about the latter, especially when anyone has the temerity to suggest that it be used to assist people putting down a deposit to buy a first home.

He describes the idea as an "ideological" attack by the Liberal Party on the retirement income system. One might question whether his comments are equally ideological.

There seems to be two major reasons why he argues against the use of superannuation funds to finance entry into home ownership. The first, and probably most important, is because it would take funds out of the superannuation balances largely of the younger members and, because of the power of compound interest, would result in much smaller balances on retirement. Of course, this is true – as far as it goes. If the funds were being used to finance something like a luxurious holiday, one could hardly argue against Keating's proposition. But housing provides the owner with a roof over her head and capital appreciation.

Those who argue so strongly against raiding the superannuation fund to purchase a house forget that a house purchase is not consumption but an investment not dissimilar to how the funds are used within the superannuation fund. What is more, it is an investment that has been supporting the retirement income system since time immemorial and is just as much a pillar of that system as are savings (including superannuation) and the age pension.

Home ownership is of critical importance for a retiree with very little to live on other than the age pension. Paying rent in a major capital city would take such a high proportion of the pension that there would be little left for anything else.

Australia has always enjoyed a very high level of home ownership but we are reaching a situation where less than 50% of people live in a house they own and this is creating a huge problem for our retirement income system going forward. This emphasises that housing is not only an investment but one that keeps on giving well beyond retirement.

The question then becomes whether it is better for a person to have their funds invested in a house or invested in super. This analysis has been done, but before turning to the findings it is important to recognise that we are not dealing with a homogeneous group of people. For simplicity, we have broken them into three groups: high-income earners; middle income earners; and, low-income earners.

Compulsory superannuation does absolutely nothing for high-income earners, other than providing them with tax subsidies of many hundreds of thousands of dollars over their lifetime. The group that we want to concentrate on are the low income earners who surely are the ones about whom we must have the greatest concern.

Our analysis shows that home ownership will do twice as much for the welfare of such people than compulsory superannuation will ever do. There are many reasons for this, including that home ownership is a good investment that yield returns that come at much lower costs than those associated with having funds tied up in superannuation.

Unfortunately, compulsory superannuation is playing a major role in ensuring low-income earners never gain access to home ownership. Their chances of accumulating the deposit to purchase a home are almost zero when a sizeable chunk of their earnings is deducted for superannuation. We should relieve this impost on them by allowing low-income earners access to their superannuation to purchase a house. This suggests limiting the access to superannuation balances for purchasing a house only up to a particular value.

Of course, as Keating pointed out, a second reason to deny people access to their superannuation balances to purchase their first home is because it would drive up property prices. As he points out, anything that increases demand and leaves supply unchanged will cause property prices to increase. Is this a good reason for denying the poorer among us access to an investment that provides such good outcomes for the wealthier, especially where home ownership is so critical for them in retirement?

The answer surely lies in pursuing other policies aimed at increasing supply or decreasing demand such as limiting negative gearing, something with which Keating should be well familiar.

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