HOUSING

Recommendation 8:

Remove disincentives and provide informational supports for Age Pension homeowners to share their homes if they wish.

Overview

- The severe housing crisis facing Australia is affecting both young and old. Increased demand for housing is not able to be rapidly matched by supply, given the long lead times required to build new housing.
- Research shows a growing trend for older people to share housing.[34] Sometimes this will take place in the home owned by an older person(s) and sometimes in a fully rented property.
- Older people report home sharing arrangements fulfilling several needs, including: addressing loneliness; providing increased safety; offering stronger social connections; and improving affordability. These benefits are relevant to both the older homeowner and older renter.
- However, house sharing is a relatively new phenomenon among older people and for older homeowners there are several barriers, including financial disincentives, a lack of information and concerns about risk.
- There is a need to address certain financial barriers that discourage older people from sharing their home – these include impacts on the pension and Capital Gains Tax (CGT) liabilities.
- There is also a need to ensure older people have the information they need to consider if this arrangement is right for them.

WHAT ARE WE CALLING FOR?

- NSA recommends pensioners who do not own additional property (aside from their principal residence) should be able to rent out a room in their home without this affecting their pension. A limit could be placed on the amount that could be exempted.
- To support this change, government should create an education program to ensure older people make informed decisions. This program should:
  - inform Age Pension recipient homeowners of their rights and responsibilities as landlords and the rights and responsibilities of tenants sharing their home.
  - outline some of the potential risks and benefits of house sharing.
  - answer the full range of frequently asked questions regarding the implications of house sharing in someone's own home and the range of decisions and management supports available.
- NSA also recommends government investigate the feasibility of exempting the principal place of residence from CGT liabilities when renting a room/s to a tenant for all homeowners as a means to boost the availability of housing.

Why is the policy needed?

- There is a major social problem with loneliness among many older people, which is increasingly being seen as a priority public health problem and policy issue for older people.[36]
- Older homeowners who receive the full Age Pension are not likely to jeopardise their pension entitlement by increasing their assessable income. A pensioner can earn a maximum of only $204 per fortnight from any means before their pension is reduced.
- Treating rental income from home sharing in a similar way that employment income is exempt under the Work Bonus scheme could provide a degree of peace of mind to pensioners wishing to share their homes.
- There are potential risks for older homeowners sharing housing with others. It will not be suitable for everyone. Information and guidance must be available to older homeowners to help them judge if this arrangement is suitable.
- While older people who make their homes available for sharing on a rental basis may choose a housemate from the full range of ages, emerging evidence suggests they prefer to share with someone of a similar age and life stage to themselves.
- Partially exempting the principal place of residence from CGT when home sharing could also remove a key disincentive to these arrangements. However, more work is required to understand the implications of this and whether this arrangement should be extended to other age groups.

Budget Impact

- There is likely to be limited budget impact from offering an income test exemption for older people who rent a room in their home.
- The rate at which older people share housing is currently very low. There is significant opportunity to increase sharing given the number of single person households in this age group.
    - According to the ABS only 1.3% of all households, where the reference person was aged 65-74, were classed as non-family group households with only 0.7% of households in the 75+ age group being non-family group households.
    - In comparison, 36.4% of all households, where the reference person was aged 65 to 74 were lone person households with 51.8% of households in the 75+ age group being lone person households.
- The cost of a CGT exemption when renting a room in a home needs to be fully understood, hence the need to investigate this as an option to increase the availability of shared housing among homeowners.

Recommendation 9:

Exempt excess sale proceeds from the Age Pension means test for Home Care Package (HCP) recipients over 80, to support downsizing into age friendly homes.

Overview

- The housing needs of people change as they age. Data suggests, for example, that 45% of households receiving a pension or government allowance have two or more bedrooms spare, some of which may be surplus to need.[37]
- Housing, which once might have been suitable, can become difficult to maintain and unsafe, due to changes to capacity and mobility. Properties with large yards, for example, may become difficult and costly to maintain.
- Older Australians may find the idea of moving to more suitable housing daunting. This is especially problematic when people begin to need assistance with daily living as is provided via the care at home system.
- While NSA surveys suggest as much as a third of older people are not interested in moving in later life, one-third are open to the idea of moving. In terms of reasons for moving, 50% of respondents want housing that meets ageing needs, 43% want a smaller property and 40% are seeking lifestyle improvements.[38]
- Our research also shows there are barriers to moving or downsizing in later life, including the cost of moving and impacts on pension entitlements. If barriers to moving were addressed, this could help older people gain access to more age-appropriate homes, improving the supply of housing more generally.

WHAT ARE WE CALLING FOR?

- NSA recommends that excess proceeds from the sale of the family home be exempt from the Age Pension means test.
- The policy would be restricted to ensure it was targeted at those most in need. Eligible recipients should:
  - be assessed as requiring a Home Care Package;
  - be aged 80 or older; and
  - have lived in their home for a minimum of 15 years.
- The total amount able to be exempted could be capped, similar to the Downsizing into Super scheme. This will avoid people with significant property wealth receiving an unfair financial advantage from downsizing later in life.
- Those choosing to downsize could place excess funds into superannuation using the Downsizing into Super scheme and would then be able to purchase additional care and support.
- The exemption could apply to Age Pension means testing but not to aged care means testing to ensure those with adequate means contribute to the cost of providing care at home.

Why is the policy needed?

- Many older people see the value in downsizing to make life more manageable or to provide access to age friendly or age-appropriate services and activities.
- If a person stays in a home that is inappropriate for their ageing needs, this could increase the risk of falls and precipitate early entry into costly residential care. A recent study showed every hour of service received per week was associated with a 6% lower risk of entry into residential care.[39]
- Supporting older people to downsize into more suitable homes would:
  - keep people out of residential care for as long as practical;
  - unlock capital that could be used to meet health and ageing costs;
  - free up larger housing for larger families or redevelopment;
  - stimulate demand for construction of seniors friendly, accessible housing; and
  - boost spending among older people, create jobs and boost economic development.

Budget Impact

- The budget impact of this measure would be limited because many older people (80+) do not consider downsizing in later life and often continue living in their homes. People in this situation would receive the same level of pension if they were granted an exemption, which means there would be no cost for Treasury.
- While some people may benefit because they may have downsized regardless of the exemption, we believe the impact of this on the budget would be minimised by targeting the exemption and limiting the amount that can be exempted.
- The residential construction industry for age-friendly housing would get a boost and older people would have more money to spend in the economy and on care and support. This would have positive flow on impacts on the Federal Budget. These are not able to be estimated but could be significant.

Recommendation 10:

Increase the maximum rate of Commonwealth Rent Assistance (CRA) and tie indexation to changes in rental prices rather than overall CPI.

Overview

- The rental crisis in Australia is worsening as rental prices and competition for housing increase.
- National weekly rents for all houses have increased by 52% (14.8% per year) since May 2020 far higher than in the previous 20 years - from $440 in May 2020 to $672 December 2023.[40]
- National residential vacancy rates have fallen rapidly over the same period to only 1.1% in December 2023 and are at their lowest level since 2006.[41]
- The number of social housing dwellings (public, community and indigenous housing) for the most vulnerable, has increased since 2006. However, only approximately 16,000 additional dwellings were added to the social housing total in the past 10 years.[42]
- The proportion of the population who are renters is increasing steadily over time (rising from 27% in 1999 to 31% in 2019[43]) with a rising proportion of older people now reliant on the rental market for housing.
- Government provided a one-off 15% increase in Commonwealth Rent Assistance (CRA) in the 2023 Budget, which has helped in a small way to meet rising costs. However, this one-off increase is not enough and will disappear if indexation continues to be attached to general CPI and not to the rent component of CPI specifically.
- Increasing CRA and indexing to the rent component of CPI are simple and effective ways to address the housing problem facing older renters into the future.

WHAT ARE WE CALLING FOR?

- The federal government should increase the maximum CRA payment and index regular increases to the rent component of CPI (not overall CPI) in recognition that recent increases in housing costs have been far in advance of average inflation.
- To be more accurate, indexation of CRA should account for geographical inconsistencies by providing a differentiated maximum rate for different rental markets – this would be subject to more detailed data collection and reporting of rental CPI from the Australian Bureau of Statistics.

Why is the policy needed?

- Housing security is critical to wellbeing; however, an increasing number of older people cannot afford to own their own home and must rely on the rental market.
- More than 325,000 people aged 65 and older are renters, two-thirds of whom rely on the private market.[44] Around 310,000 CRA recipients are Age Pension recipients.[45]

- Older people who cannot afford to own their own home find themselves in precarious financial circumstance. According to NSA surveys, home ownership is an important determinant of financial wellbeing, especially for people on the Age Pension, which helps to mediate cost-of-living concerns.[46] This is supported by evidence presented in the recent Retirement Income Review, which found that older renters are most likely to experience poverty.[47]
- A lack of social housing means that older renters must meet their housing needs through less stable private housing, where price increases are making it difficult to afford suitable housing.

Budget Impact

- The cost of providing a further one-off 15% increase in CRA would be similar in scope to the increase in 2023 – approx. $2.7b over forward estimates.
- Tying indexation to the rent component of CPI would be more modest and would vary depending on the trajectory of rental costs.
    - As an example, applying indexation using CPI rents in September would have resulted in an increase in the maximum rate of CRA to approx. $188.10 as opposed to the increase of $184.80 using overall CPI. An increase of about $3.30 per fortnight.
    - If this methodology was applied to specific cities, the increase in the maximum rate of CRA in September would be approx. $188.75 (Sydney), 186.40 (Melbourne) and $190.30 (Brisbane) due to price differences between these locations.
- Note: applying indexation to rent provides an incentive for government to address rent pricing because it creates more direct budget implications. If rental costs were to fall relative to CPI, this would reduce the increase and budget outlay for CRA.

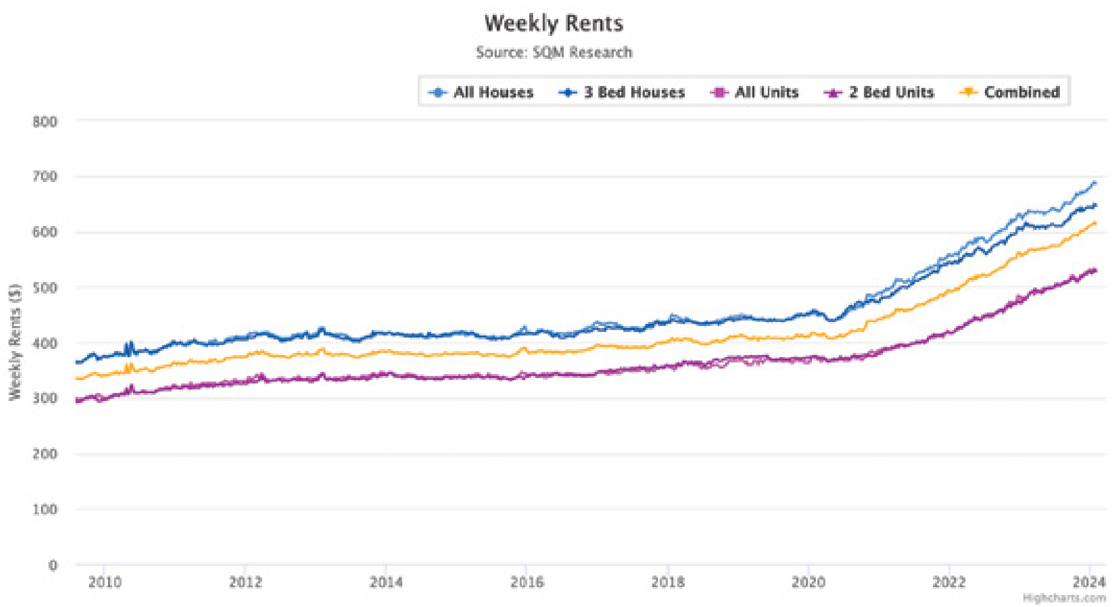

Figure 5: National weekly rents 2009 – 2024[48]