



THE ROLE OF DOWNSIZING IN HOME CARE

Submission to the Royal Commission into Aged Care quality and Safety

20th July 2020

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Introduction

National Seniors has been advocating for a range of policies to encourage downsizing over the past few years. We have done so based on the view that downsizing supports older people's overriding preference to stay in their own homes and out of residential care.

This is based on our support for the concept of ageing in place. Ageing in place has been a global health priority and recognised as a necessary means to support healthy and optimal ageing¹. The ability to age with dignity and autonomy within community has been linked with better psychosocial and health outcomes for older adults². People who utilise social support services and have an identified carer are likely to remain at home for longer³. Effective and accessible home care has the potential to increase healthy life expectancy and reduce care consumption burden, as well as prolong older adults' abilities to remain active unpaid care contributors to society.

Older Australians, carers and Australians more generally express preferences for and desires to support ageing at home^{4,5,6}. A well-integrated Australian home care system is fundamental to addressing the multidimensional needs and desires of ageing carers and care recipients, and to maximise the contributions of the unpaid workforce. To support this, National Seniors believes it is good public policy to encourage people to downsize to dwellings that are more suitable as they age to facilitate ageing in place.

However, there are number of key barriers to downsizing that need to be addressed in order to facilitate greater uptake of downsizing among older Australians. This is based on evidence from past

¹ World Health Organization 2017. Global strategy and action plan on ageing and health. WHO: Geneva.

² World Health Organization 2015. World report on ageing and health. WHO: Geneva.

³ Jorgensen, M., et al., Modeling the association between home care service use and entry into residential aged care: A cohort study using routinely collected data. *Journal of the American Medical Directors Association*, 2018. 19(2): p. 117-121. e3.

⁴ Royal Commission into Aged Care Quality and Safety 2020. [What Australians think of ageing and aged care](#). Research Paper, 4 July 2020

⁵ Kendig, H., et al., Preferences and predictors of aging in place: longitudinal evidence from Melbourne, Australia. *Journal of Housing for the Elderly*, 2017. 31(3): p. 259-271

⁶ Stones, D. and J. Gullifer, 'At home it's just so much easier to be yourself': older adults' perceptions of ageing in place. *Ageing & Society*, 2016. 36(3): p. 449-481.

research into downsizing^{7,8,9}, evidence from a range of other contemporary research^{10,11} and anecdotal evidence gathered from feedback from National Seniors members and supporters.

Tax and transfer system

Pension means testing

National Seniors believes that Age Pension means testing arrangements discourage downsizing.

The exemption of the family home from the means test creates a disincentive to downsize because downsizing impacts on pension eligibility and the level of income a person receives in retirement. While the pension system should encourage and reward people who save for retirement, means testing rules create distortions which undermine this objective. According to a major 2014 Australian Housing and Urban Research Institute (AHURI) report on downsizing:

Both the Henry Tax Review (Australian Treasury 2010a) and a recent Productivity Commission report (Productivity Commission 2011) note the distorting effect of income and assets tests on the housing and retirement decisions of older people.¹²

The use of means testing to progressively withdraw pension entitlements from those with more assets, creates an incentive to overinvest in the family home. Those with more assets (outside the family home) have an incentive to overinvest in the family home to reduce their assessable assets because this increase their pension and with it their overall income.

This situation has been made worse as a result of changes to the assets test taper rate in 2017. Based on a conservative estimate of returns from investments of 5.5%, National Seniors has shown¹³ that a home owning couple with \$800,000 in assessable assets will earn an income which is \$1,000 per month less than a couple with assets of \$400,000 (see Figure 1 below).

While some commentators, such as the Grattan Institute¹⁴, argue that the simple solution is to include some or all of the family home in the pension assets test, evidence from National Seniors surveys suggests that older Australians roundly oppose any such move (see Figure 2 below).

⁷ Rees, K. & McCallum, J. 2017. [Downsizing: Movers, planners, stayers](#). Brisbane: National Seniors.

⁸ Annand K, Lacey W, & Webb E. 2015. [Seniors downsizing on their own terms: Overcoming planning, legal and policy impediments to the creation of alternative retirement communities](#). Melbourne: National Seniors Productive Ageing Centre

⁹ Adair T, Williams R, Menyen T. 2014. [Downsizing decisions of senior Australians: What are the motivating and discouraging factors?](#) National Seniors Productive Ageing Centre: Melbourne.

¹⁰ Judd, B., Liu, E., Easthope, H., Davy, L. and Bridge, C. 2014. [Downsizing amongst older Australians](#), AHURI Final Report No.214. Melbourne: Australian Housing and Urban Research Institute

¹¹ James, A., Rowley, S. and Stone, W. 2020. [Effective downsizing options for older Australians](#), AHURI Final Report No. 325, Australian Housing and Urban Research Institute Limited: Melbourne.

¹² Judd et al 2014. *Op Cit*.

¹³ National Seniors Australia 2019. [FACT SHEET: Age Pension asset test taper rate](#). Media fact sheet

¹⁴ Daley, J., Coates, B., Wiltshire, T., Emslie, O., Nolan, J. and Chen, T. 2018. [Money in retirement: More than enough](#). Grattan Institute

As such, National Seniors believes it is more prudent to explore alternatives to including the family home in the pension means test to encourage downsize (these are discussed below).

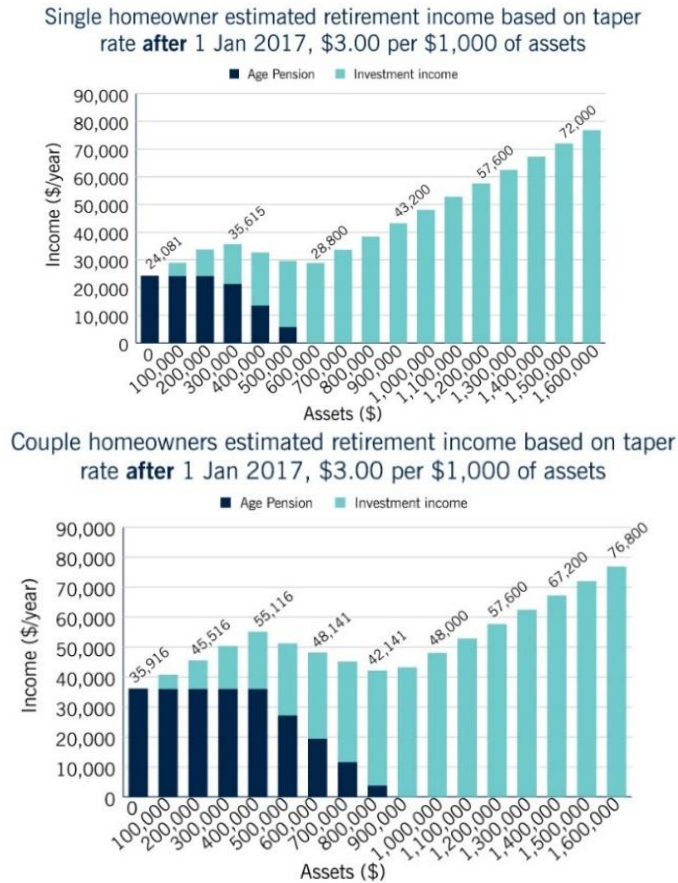
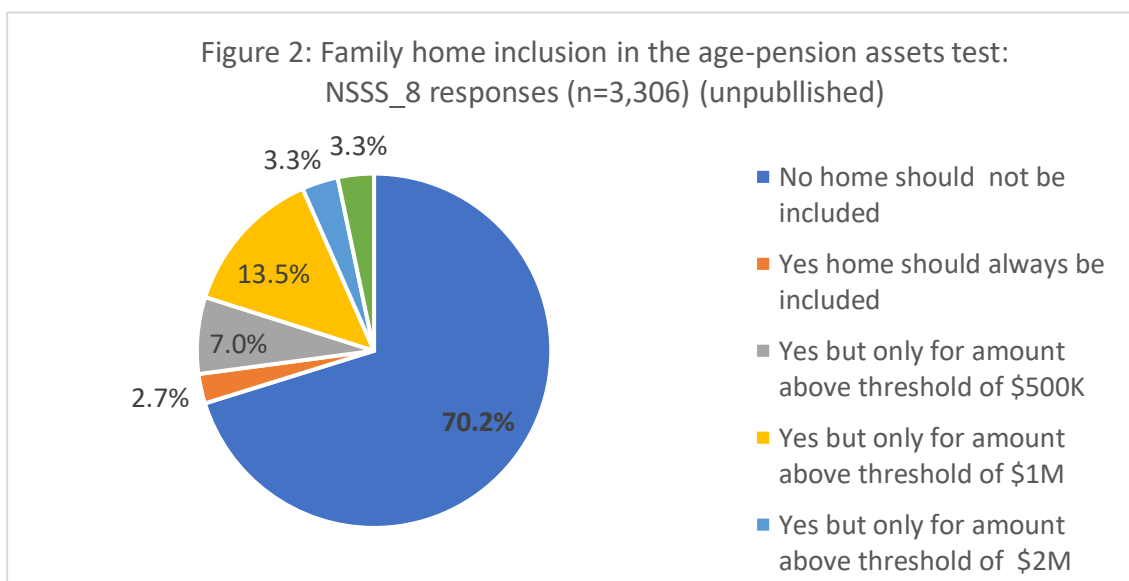


Figure 1: Impact of current assets test taper rate on income of single and couple homeowners



Retirees' preference to remain or overinvest in the family home is also likely to be influenced by perceptions about the value of investing in housing as an asset class. It is likely that the upward trend in house prices over the past 30 years¹⁵ and the preferential tax treatment of the family home (e.g. capital gains tax exemption)¹⁶ when compared to other investments, undermines preferences to downsize.

Alternatives to including the family home in the means test

Pension Loans Scheme

The Pension Loans Scheme provides retirees with an opportunity to use the equity built up in the family home to generate income. This income could be used by retirees to supplement government funded home care services improving their capacity to remain in their home.

However, the PLS interest rate is currently too high and unattractive to retirees. The PLS is also poorly promoted (most retirees would not know about it). National Seniors is advocating for government to reduce the PLS interest rate to increase take up.

While this would not encourage downsizing it would improve the capacity of older Australians to fund additional home care services to remain in their own home.

Removing of means testing

National Seniors has also suggested that the government explore the idea of removing means testing, replacing this with a universal pension and implementing tax reform. We raised this in our submission to the Retirement Income Review in February¹⁷. In the submission we drew attention to the fact that many of the countries with highly rated pension systems have some form of universal pension (see table 1 below).

We suggest that removing means testing would remove the incentive to overinvest in the family home as it would create a stronger incentive to invest in other productive assets that generate income retirement. Retirees would therefore be more inclined to downsize to free up capital to do this. This view is supported by Dr David Knox from Mercer¹⁸. Clearly, there are large impediments to removing means testing and introducing a universal pension. However, we believe that these impediments are not insurmountable. Like National Seniors, Mercer has suggested, in their submission to the Retirement Income Review, that a universal pension would create a significantly simpler retirement income system with multiple benefits to retirees and government and is therefore worthy of consideration¹⁹.

¹⁵ Kohler, M. and van der Merwe, M. 2015. '[Long-run Trends in Housing Price Growth](#)' in *RBA Bulletin*, September Quarter 2015.

¹⁶ Judd et al 2014 *Op Cit*.

¹⁷ National Seniors Australia 2020. [Submission to the Retirement Income Review](#) National Seniors: Brisbane February 2020

¹⁸ David Knox 2020. (interview) '[Retirees call for tax & income reform](#)' in *Wake Up Australia with Michael McLaren*

¹⁹ Mercer 2020 [Submission to the Retirement Income Review](#) 3 February 2020

Pension System	MMGPI 2019 grade	Pillar 1		Pillar 2	Pillar 3
		Universal age pension	Income Supplement	Compulsory superannuation	Voluntary savings
The Netherlands	A	Yes	No	Earnings-related occupational pension	
Denmark	A	Yes	Means-tested pension supplementary benefit	A fully funded defined contribution scheme; Mandatory occupational schemes	
Australia	B+	Means-tested age pension (based on both assets and income)		Employer contribution	Voluntary contributions from employers, employees and self-employed
Canada	B+	Yes	Means-tested pension supplementary benefit	Earnings-related pension based on revalued lifetime earnings	Voluntary occupational schemes and individual retirement savings plans
Finland	B+	Income-tested basic national and guarantee pension		Statutory earnings-related schemes	Voluntary Occupational and personal pensions
Germany	B+	Means-tested safety net		Earnings related pay-as-you-go pension	Supplementary occupational pension plans
New Zealand	B+	Yes	No		Voluntary private pensions KiwiSaver direct contribution retirement savings schemes
Italy	C	Minimum means-tested social assistance benefit		Notional defined contribution scheme	Voluntary supplementary occupational schemes (low coverage)
United Kingdom	C	Yes	Income-tested pension credit		Voluntary occupational and personal pensions
United States	C	Yes	Means-tested supplemental security income	Progressive social security benefits	Voluntary occupational and personal pensions

Table 1: Age Pension and other features of selected pension system around the world²⁰

²⁰ Ruthbah, U. and Pham, N. 2020. [Retirement Income Review Submission](#). Monash Centre for Financial Studies (MCFS), Monash University Business School

Stamp duty

Stamp duty is one of the main identifiable barriers to downsizing.

National Seniors has been advocating for senior's concessions on stamp duty at the state and territory level for many years. Four states and territories already offer a concession – Victoria, Northern Territory, ACT and Tasmania.

We are encouraging the remaining states to do this through our annual budget submissions. This is a position that receives unanimous support among our state and territory-based Policy Advisory Groups, which are made up of older Australians.

There is broad support for the removal of stamp duty more generally from economists, however we don't believe that it is likely that state and territory governments will pursue this reform. In the absence of broader changes to remove stamp duty it makes sense to advocate for a concession for seniors as a means of encouraging downsizing.

Housing

National Seniors has also been advocating for more seniors friendly housing options as a means of encouraging downsizing.

We believe that one of the barriers to downsizing is that the market simply isn't delivering housing suited for older people. This is supported by research and also from feedback provided to National Seniors from older Australians. For example, a major AHURI research paper on downsizing found the following:

The literature review reported on in the Positioning Paper (Judd et al. 2012) indicated that obstacles to downsizing fall into two major categories: the attitudes of older people themselves; and financial disincentives. The empirical research conducted for this report, on the other hand, found that while these were certainly difficulties that older people encountered when considering or undergoing the process of downsizing, the main obstacle for the majority of respondents was in fact housing availability and the appropriateness of the housing options currently available to older people who choose to move.²¹

While seniors specific housing options, such as retirement villages, do exist, feedback to National Seniors from members and supporters suggests some wariness to this housing model. Criticism of high exit fees and unfair contract terms has led many states and territories to review the legislation governing retirement villages. Despite some positive changes, National Seniors remains concerned the village model is not necessarily in the best interests of retirees or what many seniors want with regards to housing.

The recent tendency to construct large unit or apartment towers is also unlikely to be appealing to older people. These are often built in inner-city areas, away from an older person's community. Their mixed tenancy also makes them potentially undesirable. This is something that we raised in a submission to the ACT government as part of a consultation on future housing options in consultation with members of National Seniors ACT Policy Advisory Group²².

²¹ Judd et al 2014 *Op Cit*.

²² National Seniors Australia 2018. [Submission to the ACT Housing Choices Consultation](#). March 2018.

Older Australians need other housing options, but efforts to ensure new housing meet basic accessibility standards are failing, in part because they are voluntary. The target of having 100 per cent of new housing meet a basic accessibility standard will likely fall far short. It is estimated that only 5 percent of all new homes will be built to the minimum Universal Housing Design standard by 2020²³.

Private developers and government planning laws are failing older Australians.

National Seniors supports the need for new and innovative downsizing options for older people. There is a distinct need for alternatives that continue to provide financial and social independence while offering access to care and opportunities for social interaction.

National Seniors believes that housing with a better balance between independence and care can be obtained through innovative design. We have, for example, been advocating for small scale residential developments with accessible design features that allow older people to downsize to a more suitable home without having to be locked into a village model.

In our federal budget submissions, we argued that the Commonwealth Government could facilitate this by providing innovation grants to developers; subsidies for housing incorporating accessible design; and by working with state and territory counterparts to ensure planning laws enable innovative housing solutions (such as those encouraged by the NSW Government's Low Rise Housing Diversity Code²⁴ provided these retained adequate planning oversight). AHURI have echoed this call for greater innovation in housing industry²⁵.

Finally National Seniors supports older Australians strong desire to live out their lives in their own homes²⁶. Downsizing is a key element of this preference ageing in place. It can facilitate financing care at home including enabling unpaid care. Current policy settings do not do enough to facilitate or encourage this option and need be overhauled in the context of other proposed reforms.

²³ Australian Network for Universal Housing Design (ANUHD) [Report on the Progress of the National Dialogue on Universal Housing Design 2010-2014](#). January 2015

²⁴ NSW Department of Planning, Industry and Environment 2020. [The Low Rise Housing Diversity Code](#). Accessed online 17 July 2020.

²⁵ Judd *et al* 2014 *Op cit*.

²⁶ McCallum, J., Rees, K. & Maccora, J. (2018). [Accentuating the positive: Consumer experiences of aged care at home](#). Brisbane: National Seniors. April 2018.

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