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Using superannuation to purchase the family home

Yolanda Li
UNSW, CIFR / CMCRC Honours Scholarship Program 2014

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Housing affordability in Australia has been in decline for more than two decades. Over the same period, the value of superannuation assets has risen strongly. Accordingly, the question arises as to whether Australia should follow the lead of a number of overseas countries and allow the use of superannuation assets to fund the purchase of a family home. This study examines this question, and also looks at whether such a move will lead to increased engagement with superannuation.

The family home and individuals' superannuation account balances represent the two largest household assets in Australia. Given the sustained decline in housing affordability over recent years, and the growth in superannuation assets, this thesis aims to investigate the perceived value of using superannuation assets to buy a family home. It also examines whether people will become more actively involved with superannuation if superannuation assets are able to be used to purchase a family home.

Purchasing a first home has become increasingly difficult for many Australians. Reflecting the extended rally in property prices, Australia has experienced an unprecedented deterioration in housing affordability since the 1980s. In the Annual Demographia International Housing Affordability Survey, all the major metropolitan markets in Australia are rated as severely unaffordable. The survey specifically shows that Sydney and Melbourne are among the ten most unaffordable cities in the world, alongside Hong Kong, London and San Francisco. Adelaide, Brisbane and Perth also rank well above the severely unaffordable threshold.

The long-term decline in housing affordability indicates it is increasingly challenging for Australians seeking to purchase their first family home. This is particularly the case for young people, who are more likely to be constrained by a lack of liquidity. Figures from the Australian Bureau of Statistics show that first-home buyers made up a record-low 12.3 per cent of owner-occupied home loan commitments in November 2013, prompting the Reserve Bank of Australia (RBA) to observe that people trying to buy their first family home may feel "squeezed out" of the market. More recently, the Australian Prudential Regulation Authority (APRA) ruled out capping loan-to-valuation ratios, which would have made it even harder for people with a small deposit to secure a housing loan. Had APRA introduced such a cap, it would most likely have unduly impacted first-home buyers, rather than investors, who appear to account for a major portion of the rising demand for homes.

Against this backdrop, Australians' superannuation assets have been growing significantly over recent years, with the value of investments in the sector rising from A$154 billion in 1992 to over A$1.67 trillion in 2013. The economic significance of superannuation is likely to continue to grow, with the compulsory contribution rate for employers set to rise from the current level of 9.5% to 12% by July 2025.

The prospective further growth in superannuation opens up the possibility of these assets being used to finance the purchase of a family home. It follows that this additional source of funding would correspondingly improve housing affordability. However, under the current Superannuation Industry (Supervision) (SIS) Act, superannuation assets may not be used for this purpose. In contrast, a number of other countries, for example Singapore, Switzerland and Canada, allow pension savings to be used to finance a down payment on a residential property for the buyer's use.

A survey sample of 143 university students finds that most respondents value the option of using superannuation to finance their family home. Furthermore, most respondents showed a preference for using any additional liquidity provided by superannuation to reduce their outstanding mortgage debt, rather than buying a more expensive home. The survey also finds that the option of using superannuation savings to purchase a family home may increase respondents' level of engagement with superannuation.

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