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**Press Release**

# Milliman analysis: Home downsizing scheme to help older Australians with smaller super balances

SYDNEY – APRIL 9, 2018 – Milliman, Inc., a premier global consulting and actuarial firm, today released research that found a new scheme aimed at encouraging older Australians to downsize their homes is likely to help couples with lower superannuation balances.

The new scheme will allow Australians aged 65 and over to sell a long-held home and divert up to $300,000 per person into their super beginning July 1, 2018.

Those contributions are exempt from existing super contribution restrictions, including the age test, work test, and the $1.6 million tax-free balance cap, which initially raised fears that the benefits would flow to wealthy retirees.

However, modelling by Milliman shows that the relative benefit is skewed toward couples with lower super balances, due to its interaction with the Age Pension.

The following table shows a hypothetical couple with varying starting super balances and the boost in sustainable annual income to life expectancy (at 75% certainty with super invested in a balanced fund) if they downsize rather than retain their home.

Downsize Impact

| STARTING BALANCE | RETAIN HOME | DOWNSIZE | DIFFERENTIAL |
|---|---|---|---|
| $100,000 | $41,510 | $69,269 | $27,759 |
| $200,000 | $47,505 | $72,382 | $24,877 |
| $300,000 | $53,139 | $75,479 | $22,340 |
| $400,000 | $58,232 | $79,035 | $20,803 |
| $500,000 | $62,425 | $82,694 | $20,269 |
| $600,000 | $65,976 | $86,302 | $20,326 |
| $700,000 | $69,269 | $90,268 | $20,999 |

Source: Milliman Retirement Expectations and Spending Profiles 2017 Q2 report

For example, a couple with just $100,000 in super could expect a $27,759 boost in their real annual income if they sold their family home and invested $600,000 of the proceeds into their super.

A key reason is the threshold for Age Pension eligibility. The Age Pension asset test threshold for couples who own their home is $380,500 in assets, cutting out completely at the upper limit of $837,000.

In other words, for a couple with a balance of $100,000, nearly half of the downsize proceeds, $285,500 would not factor into the Age Pension asset test being under the threshold. On the other hand, for a couple with a starting balance over this threshold, all downsize proceeds would reduce, or eliminate altogether, eligibility for the Age Pension.

The interactions between retirees own assets and the Age Pension are complex:

- Below the full pension threshold, additional assets can be used to bolster retirement incomes.
- As asset balances rise above the full pension threshold, yet still remain below the upper limit, assets support higher drawdowns but reduce pension entitlements.
- Even with asset balances above the upper limit – where there is expected to be no pension entitlement at the start of retirement – as assets are drawn through, retirement pension entitlements return.

The Age Pension provides a base level of sustainable income, indexed to inflation, and acts as a hedge for poor fund returns when assets are between the lower threshold and upper limit where lower asset balances increase the pension entitlement.

For example, an additional $100,000 invested in a balanced fund with a starting balance of $500,000 is expected to support an annual sustainable income of about $3,500 (at 75% certainty over a retirees' expected lifetime). However, with a starting balance of $100,000, and therefore full entitlement to the Age Pension, an additional $100,000 invested in super will support close to $6,000 of additional sustainable income.

"This Milliman analysis highlights the potential benefits from releasing home equity and downsizing, assuming retirees are equally (or better) suited by less expensive properties," says Milliman Consultant Jeff Gebler.

"The stabilising impact of the Age Pension means that it is also relatively more beneficial to retirees with lower super balances than those with higher balances considering similar levels of home equity available for release. However, the circumstances for individuals vary and will depend on factors such as their spending needs, availability of home equity, and housing preferences."

Retirees selling their primary residence will also incur a range of transaction costs such as stamp duty, real estate agent and legal fees. Similarly, the purchase of a new property will incur another round of costs, including relocation expenses.

The downsizing legislation, which was finally passed last December, allows older Australians to unlock large sums of wealth in their family home to pay for health, aged care, or other productive purposes. It is also aimed at increasing housing supply after a five-year east coast property boom has locked many younger Australians out of the market.

However, downsizing has been relatively uncommon among older Australians.

Only 20% of older Australians have downsized by selling a primary residence to buy another property, while only 5% of Australians have sold their property to rent, according to the ABS Household Wealth and Wealth Distribution, Australia, 2011–12.

A recent survey by seniors advocacy group National Seniors found that the legislation would encourage 17% of 'stayers' (who did not intend to move) to consider downsizing, although almost one-quarter (24%) would consider downsizing if the sale proceeds were exempt from the Age Pension assets test.



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