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RESEARCH PAPER

RESEARCH PAPER SERIES, 2016–17

12 OCTOBER 2016

Housing and the social security system

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Social Policy

Executive summary

- Housing affordability is a significant issue for low income households in receipt of social security payments.
- The social security system recognises the additional financial challenges that non-homeowners face in two ways:
 - providing Commonwealth Rent Assistance (CRA) to assist with the cost of rent for those social security recipients in the private rental market and
 - relaxing the assets test eligibility for payments for non-homeowners compared to homeowners.
- Declining rates of home ownership and lower levels of public housing provision mean that more social security recipients are accessing private rental accommodation.
- Rental costs have been rising at a higher rate than CRA thresholds and rates, leading to increased numbers of recipients experiencing housing stress, that is, where housing costs exceed 30 per cent of the gross household income.
- While CRA does reduce housing stress for many income support recipients, the majority of those aged under 25 remain in housing stress even after receiving CRA.
- Both homeowners and non-homeowners are subject to an assets test to determine their eligibility for receipt of income support payments. The family home is excluded from the test. Non-homeowners have a relaxed assets threshold to compensate for this, however most have few assets anyway.
- There have been a number of proposals to include at least some consideration of the family home in the assets test arrangements, but there has been no action on this to date. While such changes may ensure social security payments are better targeted and reduce outlays, they would not address housing stress among non-homeowners.
- Proposals for changes to CRA to improve support for those faced with high rental costs have not been acted on, even where potential offsetting savings have been identified. In view of the increasing levels of housing stress being experienced by income support recipients, it would appear timely to revisit these proposals.

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Introduction

Housing tenure is a significant factor in the adequacy of income support payments, with those who own their own homes outright generally having the highest ‘after housing’ incomes, while those in the private rental market have the lowest.¹ Some commentators have remarked that the Age Pension system in particular is predicated on the basis that most recipients own their homes.²

In 2007, the most recent data available, most couples receiving the Age Pension were living in their own homes, as were just over half of single Age Pensioners (see Table 1 below). However this is not the case for singles receiving other payments, in particular Disability Support Pension (DSP), Parenting Payment Single (PPS), Newstart or Youth Allowance.

Table 1: housing tenure of recipients of social security payments, percentage distribution, September 2007

Main transfer payment	No rent	Funded	Public	Private	Private	Home	Total
	paid	aged	housing	rent—	rent—	owner /	
		care		No RA	RA	purchaser	
<i>Couples</i>							
Age Pension	4.0	1.5	2.8	1.3	7.5	82.9	100.0
Carer Payment	5.4	0.0	8.2	3.2	17.6	65.6	100.0
Disability Support Pension	5.3	0.3	10.7	3.1	17.5	63.2	100.0
Family Tax Benefit (only)	7.6	0.0	1.5	10.8	20.6	59.5	100.0
Newstart Allowance	10.6	0.0	9.8	8.6	35.2	35.9	100.0
Parenting Payment Partnered	8.5	0.0	4.6	7.3	36.9	42.7	100.0
Youth Allowance	22.3	0.0	3.8	19.7	51.8	2.4	100.0
Other	7.8	0.1	4.2	8.7	26.0	53.2	100.0
All	6.0	0.7	4.2	5.3	16.5	67.3	100.0
<i>Singles</i>							
Age Pension	9.1	9.8	9.0	3.2	15.4	53.4	100.0
Carer Payment	20.6	0.0	16.5	14.9	23.7	24.2	100.0
Disability Support Pension	15.6	1.1	19.3	14.6	32.2	17.2	100.0
Family Tax Benefit (only)	8.8	0.0	3.2	18.5	29.9	39.5	100.0
Newstart Allowance	20.4	0.0	8.8	22.1	37.6	11.0	100.0
Parenting Payment Partnered	16.7	0.0	13.3	6.7	30.0	33.3	100.0
Parenting Payment Single	10.4	0.0	14.3	11.4	45.3	18.5	100.0
Youth Allowance	7.2	0.0	0.7	71.6	20.1	0.4	100.0
Other	10.0	0.3	8.8	19.3	29.5	32.2	100.0
All	11.9	3.6	10.6	17.9	27.3	28.6	100.0

Source: J Harmer, [Pension Review: Background Paper](#), Department of Families, Housing, Community Services and Indigenous Affairs, Canberra, August 2008, p. 42, accessed 14 June 2016.

The social security system recognises the additional financial challenges that non-homeowners face through two mechanisms—Commonwealth Rent Assistance (CRA) to assist with rent payments for those in the private rental market, and more generous thresholds for the assets tests for payments.³ However, both these mechanisms have remained essentially unchanged since the late 1990s, while the Australian housing market has altered

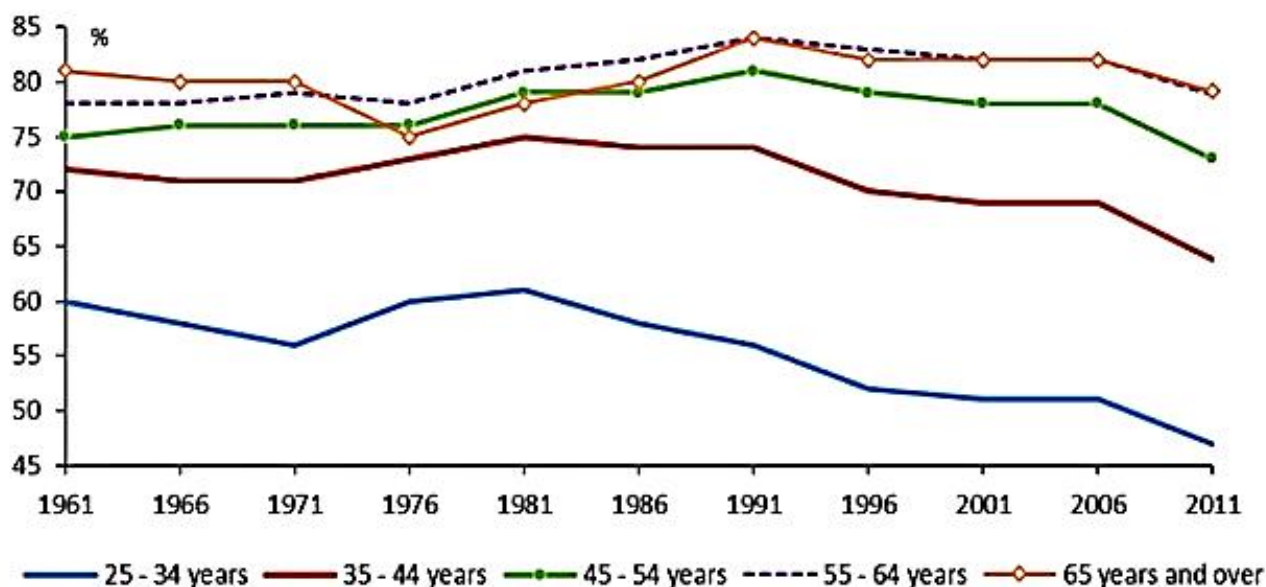
1. W Stone, S Parkinson, A Sharam and L Ralston, [Housing assistance need and provision in Australia: a household-based policy analysis](#), Australian Housing and Urban Research Institute (AHURI) Final Report 262, AHURI, Melbourne, May 2016, p. 27, accessed 14 June 2016.
2. See for example Senate Economics References Committee, [Out of reach? The Australian housing affordability challenge](#), The Senate, Canberra, May 2015, pp. 165 and 190, accessed 14 June 2016.
3. Access to income support payments is subject to means tests which assess both income and assets. The family home is not included in the assets tests. Further details on the assets test are provided later in this paper.

considerably during that time. Therefore it is timely to review how effective these measures are in reducing the housing stress of income support recipients who don't own their own homes.⁴

Changes in the Australian housing environment

According to Census data compiled by economist Saul Eslake, Australian home ownership peaked at 72.5 per cent of households in 1966, and has subsequently declined to 67.0 per cent in 2011.⁵ This decline has been mainly due to a significant reduction in the proportion of younger households purchasing houses, possibly associated with later entry into the workforce and family formation, but since 1991 there has also been a decline in home ownership among older age groups as shown in Figure 1 below.

Figure 1: home ownership rates by age of household head at Census, 1961–2011



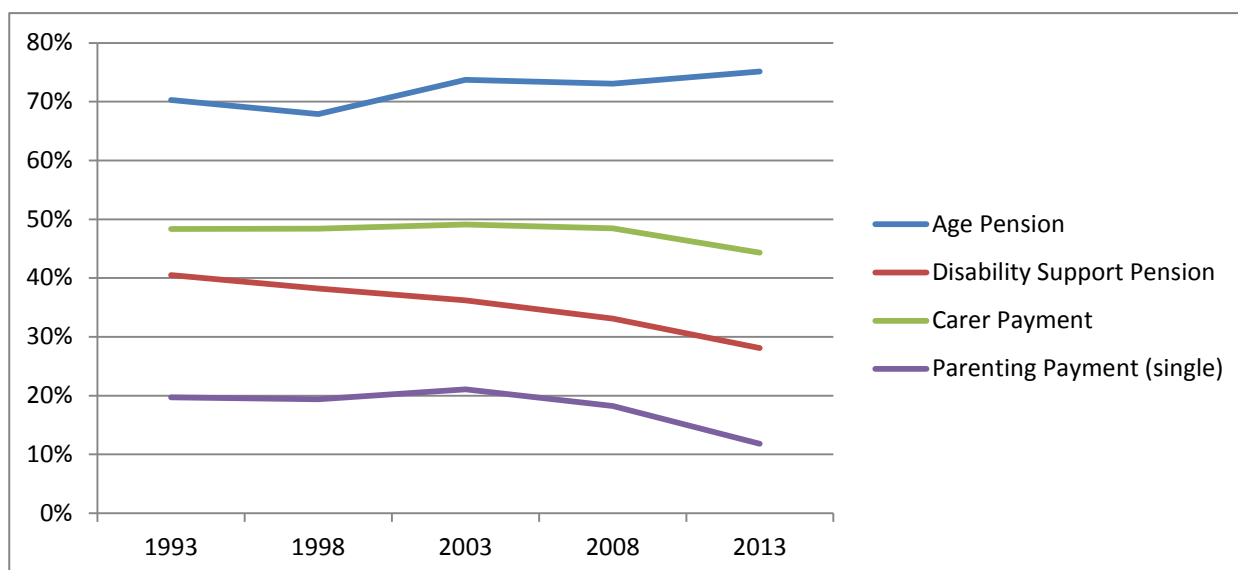
Source: S Eslake, 'The housing affordability trap', *Inside Story*, 12 May 2016, accessed 14 June 2016.

The decline in home ownership is also reflected among social security recipients, except in relation to the Age Pension where there has been a slight increase in home ownership rates since 1998 (see Figure 2).

4. It is generally considered that a household is in housing stress where housing costs exceed 30 per cent of the gross household income. Other measures are sometimes used. See Australian Bureau of Statistics (ABS), *Measuring wellbeing: frameworks for Australian social statistics, 2001*, cat. no. 4160.0, ABS, Canberra, 2001, accessed 23 June 2016.

5. S Eslake, 'The housing affordability trap', *Inside Story*, 12 May 2016, accessed 14 June 2016.

Figure 2: home ownership rates of income support recipients, selected payments, 1993–2013



Source: Department of Social Services (DSS), [Occasional Paper No. 1](#) and [statistical papers](#), accessed 14 June 2016.

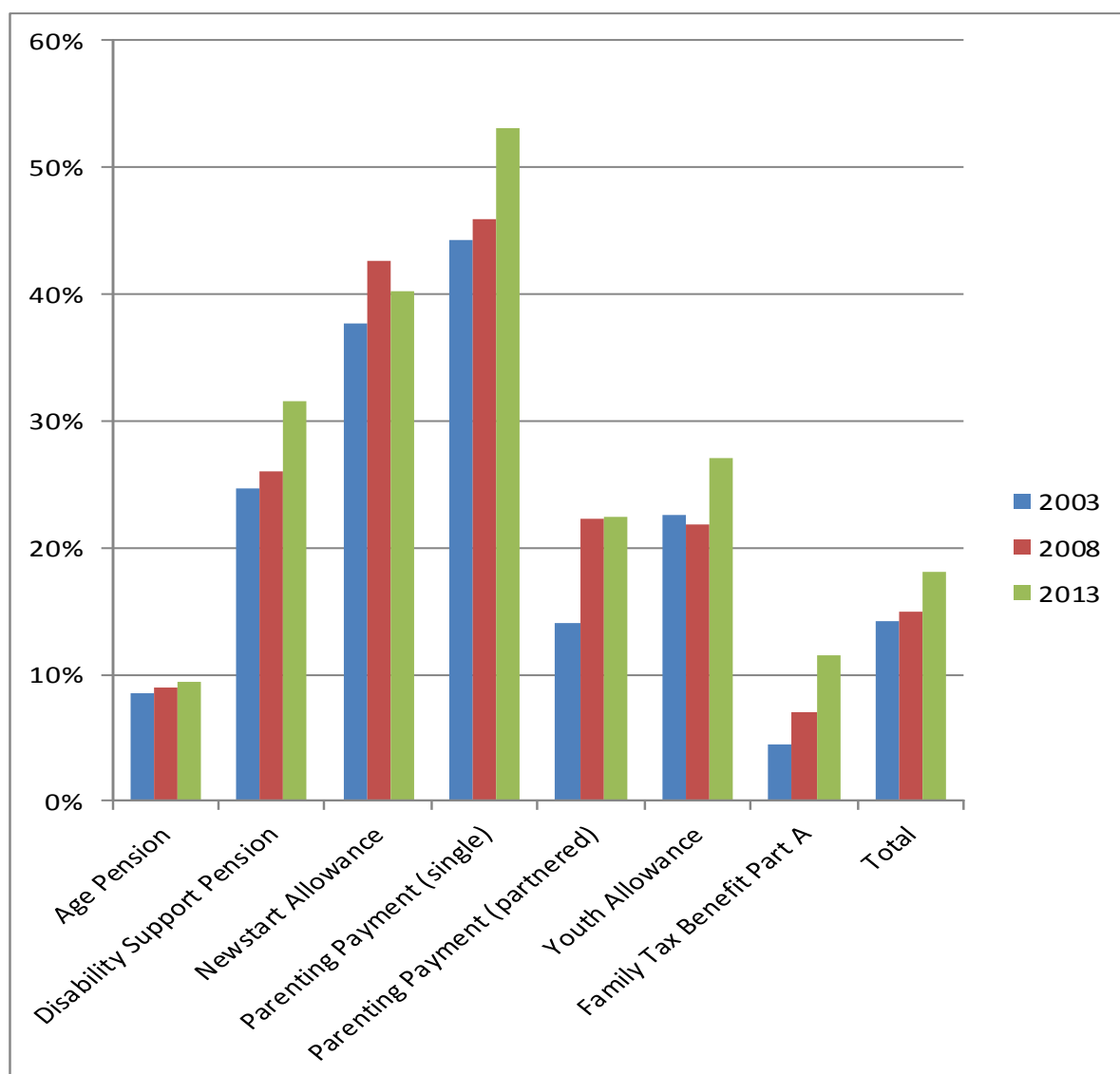
As can be seen in Table 1 on page 3, public housing provided by state and territory governments (which does not attract CRA) is also a significant form of housing for income support recipients. However public housing stocks have also declined since the mid-1990s.⁶ While this decline has been partially offset in recent years by an increase in other forms of social housing, such as low cost rental accommodation provided by the community sector, the Australian Institute of Health and Welfare notes that ‘To meet the projected increase in the demand for public rental housing in Australia expected by 2026, the social housing dwelling stock will have to increase at an even faster rate than the total dwelling stock.’⁷

The decline in home ownership and the reduction in the availability of public housing have combined to increase the proportion of social security recipients living in private rental accommodation and in receipt of CRA (see Figure 3).

6. K Jacobs, R Atkinson, A Spinney, V Colic-Peisker, M Berry and T Dalton, [What future for public housing? A critical analysis](#), AHURI research paper, AHURI, Melbourne, February 2010, p. 28 and Australian Institute of Health and Welfare (AIHW), [Housing assistance in Australia 2016 supplementary data: social housing dwellings](#), AIHW, June 2016, Table 1, accessed 14 June 2016.

7. AIHW, [Housing assistance in Australia 2014](#), AIHW, 2014, pp. 60–61, accessed 23 June 2016.

Figure 3: proportion of recipients claiming CRA, selected payments and total, 2003–2013



Source: DSS, relevant [Statistical Papers](#), accessed 14 June 2016.

At the same time, the cost of private rental accommodation has increased substantially faster than CRA payments. While CRA rates increased by between 30.1 per cent and 30.4 per cent (depending on family circumstances) between September 2005 and September 2015, median rent is estimated to have increased by 67.2 per cent for three bedroom houses and 74.5 per cent for two bedroom units (weighted capital city average) over the same period.⁸

These changes create a challenge for the social security system in ensuring that payment levels are adequate to allow income support recipients to actively participate in society, while limiting the costs to the social welfare budget.

Commonwealth Rent Assistance (CRA)

Some form of assistance with rent has been provided to certain social security recipients since 1958, with CRA introduced in 1985 and subsequently extended across all income support payments, as well as for low-income

8. CRA figures derived from Australian Government, '[5.2.6.10 RA Rates - June 1990 to Present Date](#)', Guides to social policy law website, house rents from Real Estate Institute of Australia (REIA), [Quarterly median house rents all capital cities](#), REIA, December 2015 and other rents from REIA, [Quarterly median other dwellings rents](#), REIA, December 2015, all accessed 21 June 2016.

Family Tax Benefit Part A (FTB (A)) recipients not in receipt of an income support payment.⁹ In 2014–15, some \$4.2 billion was paid in CRA.¹⁰

CRA is payable in addition to other social security payments where more than a minimum rent is paid to a private landlord or community housing provider. It is not generally payable for those in public housing or those in government funded places in nursing homes and other aged care facilities, and special rules apply to single sharers, people who pay board and lodging and those who live in retirement villages.¹¹ CRA is paid at the rate of 75 cents for each dollar of rent paid above the minimum rent threshold, up to the maximum rate applicable. The minimum rent threshold and maximum payment per fortnight are determined by the family situation of the recipient as set out in Table 2 below. Thresholds and rates are indexed in March and October each year in line with movements in the Consumer Price Index (CPI).

9. Further information about the history of CRA can be found in C Ey, [Social security payments for the unemployed, the sick and those in special circumstances, 1942 to 2012: a chronology](#), Background note, Parliamentary Library, Canberra, 4 December 2012, pp. 7 and 56-9, accessed 23 June 2016.

10. Department of Social Services (DSS), [Annual report 2014–15](#), DSS, 2015, p. 48, accessed 23 June 2016.

11. Further details on eligibility can be found at DSS, [Commonwealth rent assistance](#), DSS website, accessed 12 June 2016.

Table 2: maximum CRA payment, threshold levels and rent required to receive maximum payment by family situation as at June 2016

Family situation ^(a)	Maximum CRA payment per fortnight	No payment if fortnightly rent is less than	Maximum CRA payable if fortnightly rent is more than
Single, no children	\$130.40	\$116.00	\$289.87
Single, no children, sharer	\$86.93	\$116.00	\$231.91
Couple, no children	\$122.80	\$188.20	\$351.93
Partnered, illness separated, no children	\$130.40	\$116.00	\$289.87
Partnered, temporarily separated, no children	\$122.80	\$116.00	\$279.73
Single, one or two children	\$153.02	\$152.60	\$356.63
Single, three or more children	\$172.90	\$152.60	\$383.13
Couple, one or two children	\$153.02	\$225.82	\$429.85
Couple, three or more children	\$172.90	\$225.82	\$456.35
Couple, illness or temporarily separated, one or two children	\$153.02	\$152.60	\$356.63
Couple, illness or temporarily separated, three or more children	\$172.90	\$152.60	\$383.13

(a) There are also levels for parents with shared care arrangements or not in receipt of FTB (A).

Source: DSS, '[Commonwealth Rent Assistance](#)', DSS website, accessed 14 June 2016.

In June 2015, there were 1,343,431 recipients of CRA.¹² The major payment types of these recipients were Newstart (22.4 per cent), DSP (19.9 per cent) and the Age Pension (18.3 per cent). The majority (53.8 per cent) were single with no children, 21.1 per cent were single parents and 16.5 per cent were couples with children. Only 8.4 per cent were couples with no children.¹³

The median fortnightly entitlement was \$128.40, while the median rent paid was \$415.38 per fortnight (pf).¹⁴ This means that half of CRA recipients were paying in excess of \$415.00 pf in rent. Given that the rent required to obtain the maximum CRA rate in 2015 was less than \$400.00 for all groups except couples with children, who only represented 16.5 per cent of the total, this suggests many recipients were receiving the full rate of CRA and paying rent at well above the maximum rate cut-off levels.

'Housing stress' is usually defined as households where more than 30 per cent of gross income is spent on housing. In 2015, 69 per cent of households receiving CRA would have been in housing stress if they hadn't received CRA, but CRA reduced the proportion in housing stress to 41 per cent. However CRA was less effective for reducing the housing stress of young people aged under 25 (who were more likely to be single), with 58 per cent still in housing stress even after receiving CRA.¹⁵ That is, even when receiving CRA, more than half of young people on income support (most of whom receive Newstart or Youth Allowance) are spending greater than 30 per cent of their income in rent.

Using the level of 30 per cent of gross income to determine 'affordable rent', the Victorian Department of Human Services monitors the proportion of rental properties on the market in both metropolitan and regional areas in Victoria which are affordable for those on selected social security payments. As can be seen in Figure 4

12. AIHW, '[Housing assistance in Australia 2016 supplementary data: financial assistance](#)', AIHW, June 2016, Table 1, accessed 14 June 2016.

13. Ibid., Table 2.

14. Ibid., Table 1.

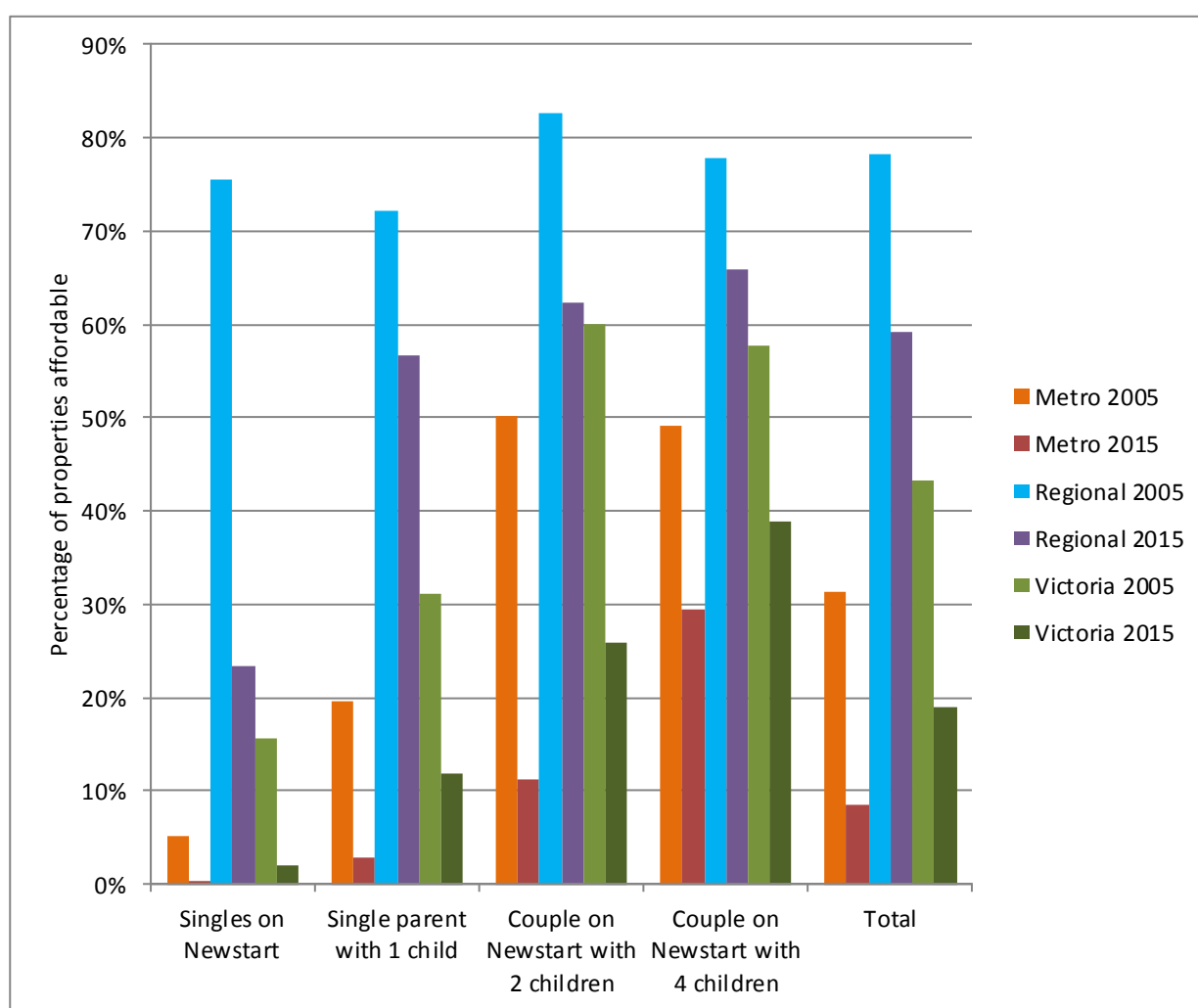
15. AIHW, '[Financial assistance](#)', AIHW website, accessed 12 June 2016.

below, in December 2015 only 0.3 per cent of one-bedroom rental properties in metropolitan Melbourne were assessed as affordable for a single Newstart recipient with no children, while only 2.9 per cent of two-bedroom properties were affordable for a single parent with one child. The situation for larger families was somewhat better, with 29.4 per cent of properties in Melbourne assessed as affordable. Properties in regional Victoria were considerably more affordable, with nearly a quarter of one-bedroom properties affordable for a single Newstart recipient, while over half the larger properties were affordable for recipients with children.

Affordability has declined significantly across all categories of income support recipients in the last decade, although the proportion of properties in Melbourne assessed as affordable for single Newstart recipients with no children has always been low.

Using similar methodology, Anglicare undertakes an annual snapshot of rental properties to assess how many properties across Australia are affordable for those on low incomes. In the snapshot undertaken in April 2016 they only found one property of the 75,410 available for rent over the weekend surveyed which was affordable for a single person on Youth Allowance, and only 21 were affordable for a single person on Newstart.¹⁶

Figure 4: rental affordability by indicative households on social security incomes, Victoria, December 2005 and December 2015



Source: Victorian Department of Human Services (VDHS), [Affordable lettings by LGA December quarter 2015](#), VDHS website, accessed 14 June 2016.

A possible consequence of the greater affordability of rental properties in regional areas is that income support recipients may move from metropolitan to regional areas in order to access affordable housing, despite potentially reduced employment opportunities. Analysis undertaken in 2003 for New South Wales and South

16. Anglicare Australia, [Rental affordability snapshot](#), Anglicare Australia, Canberra, 2016, p. 11, accessed 23 June 2016.

Australia suggested that there was a net flow of income support recipients to non-metropolitan areas, which contrasted with net migration from the country to the city by the general population.¹⁷ It is also likely the lack of affordable housing deters those on income support living in regional areas from moving to metropolitan areas.

Overall it appears that while CRA makes a valuable contribution to improving the housing options and likely well-being of those in receipt of social security payments, the rapid rise in private rental costs relative to CRA rates in recent years has reduced the subsidy's effectiveness. In particular, despite access to CRA, many single income support recipients find it difficult to afford private rental housing.

Assets test arrangements

As noted above, the social security system also acknowledges the different circumstances of homeowners and non-homeowners through applying different asset test levels.

When the Age Pension was introduced in 1909, receipt of payment was subject to a means test on assets (as well as one on income) which included the pensioner's residence. The family home was excluded from the assets test in 1912, and has not been included subsequently. Various forms of means tests have operated since that time, with asset levels not considered for eligibility during the period 1976 to 1985. The assets test was reintroduced in 1985, with different levels for homeowners and non-homeowners. Non-homeowners were permitted a higher level of assets before losing payments, presumably to compensate for the lack of homeownership. The 1985 arrangements have essentially been in place since, with relatively minor changes.¹⁸

For allowances, the assets test is a threshold level, where the allowance is not payable if the assets exceed the designated amount. In relation to pensions, the full pension is payable if assets are below the threshold, while assets over the threshold reduce the value of the pension by \$1.50 per fortnight for every \$1,000 above the threshold amount. The assets test is applied independently of the income test, with the amount payable being the lesser of the income and assets test calculations. The thresholds are generally indexed in line with changes in the CPI, although 2014 Budget changes paused the indexation of the thresholds for allowances for three years from 1 July 2014.¹⁹ This means the threshold for allowances is no longer aligned with the one for pensions. The current asset test thresholds are set out in Table 3 below.

Table 3: asset test limits for allowances and pension, June 2016

Family situation	Allowances		Pensions	
	Homeowners	Non-homeowners	Homeowners	Non-homeowners
Single	\$202 000	\$348 500	\$205 500	\$354 500
Couple (combined)	\$286 500	\$433 000	\$291 500	\$440 500
Illness separated (couple combined)	\$286 500	\$433 000	\$291 500	\$440 500
One partner eligible (combined assets)	\$286 500	\$433 000	\$291 500	\$440 500

Source: Department of Human Services (DHS), 'Assets', DHS website, accessed 14 June 2016.

In introducing the 1985 assets test arrangements, the Hawke Government did not follow the recommendation of the panel it had established to review the test arrangements to include the family home in the assets test. Instead it decided that 'in Australia it is fairer to allow exemption of the home, as long as the inequity that this introduces in relation to people who do not own their own homes is addressed in other ways.'²⁰ To address this inequity, non-homeowners were allowed an additional \$50,000 in assets before the asset test took effect. It is unclear how this figure was decided upon. Median capital city house prices in 1985 were in the range \$52,000 to

17. N Marshall, I Burnley, P Murphy and G Hugo, *Migration of income support recipients from non-metropolitan NSW and SA into Sydney and Adelaide*, Positioning paper, 55, AHURI, Melbourne, July 2003, pp. 4 and 17, accessed 12 June 2016.

18. Further details about the history of the assets test can be found in D Daniels, *Social security payments for the aged, people with disabilities and carers 1901 to 2010*, Background note, Parliamentary Library, Canberra, 21 February 2011, pp. 30–42 and pp. 45–6, accessed 12 June 2016.

19. Parliament of Australia, 'Social Services and Other Legislation Amendment (2014 Budget Measures No. 6) Bill 2014 homepage', Australian Parliament website, accessed 12 June 2016.

20. R Hawke, 'Report and Ministerial statement', House of Representatives, *Debates*, 1 June 1984, p. 2718, accessed 21 June 2016.

\$90,000, so it may have been considered that this was the equivalent to the value of a modest house.²¹ On the other hand, \$50,000 in assets above the test threshold reduced the pension by \$100 per week, so it may have been felt that this provided an adequate income to pay for rental costs for non-homeowners.

While the gap between the assets tests for homeowners and non-homeowners has only changed in line with the CPI since 1985, housing prices have increased at a much faster rate, particularly in recent years. For example, from December 2003 to December 2015 prices for capital city residential properties increased by 82.4 per cent, compared to an increase of 38.0 per cent over the same period in the asset test gap between non-homeowners and homeowners on the pension.²²

This means that while the additional asset allowance for non-homeowners in June 2016 is \$146,500 for allowees and \$149,000 for pensioners, the mean capital city residential dwelling price has risen to \$612,100 in December 2015.²³ Hence if the additional allowance was initially meant to represent the value of a modest house, the current differential is substantially less than that.

Changes to the asset test taper arrangements mean that the additional allowance of \$149,000 above the threshold now reduces the pension received by \$112.75 per week, considerably lower in real terms than the initial value of \$100 per week in 1985.

Changes to the pensions' assets test announced in the 2015 Budget, which are due to take effect on 1 January 2017, will increase this gap to \$200,000, but this is still likely to be less than the value of the average pensioner's home.²⁴ These changes will also increase the assets threshold, but assets above the threshold will reduce the pension payable at the rate of \$3.00 per \$1,000 per fortnight, rather than the current rate of \$1.50 per \$1,000 in assets above the threshold. This means the value of the additional \$200,000 (for those at the threshold limit) translates to \$300 per week in pension, which is similar in real terms to the 1985 value.²⁵

However, non-homeowner pensioners have considerably fewer assets on average than homeowners, even without considering the value of the family home, so in general this additional allowance makes little difference. As Table 4 shows, the average value of assets included in the assets test for non-homeowner Age Pensioners is less than half of that for homeowners. More than half of non-homeowners have less than \$50,000 in assets, compared to around a third of single homeowners and 16.5 per cent of couples who own their home.

Thus while the relaxation of the assets test introduced in the 2015 Budget is expected to result in some four per cent of pensioners receiving increased pensions, this will have little impact on non-homeowners, because few are affected by the assets test.²⁶ As at June 2013, only 1.7 per cent of non-homeowners received a reduced Age Pension due to the operations of the asset test, compared to 19.0 per cent of homeowners.²⁷

21. P Abelson and D Chung, [Housing prices in Australia: 1970 to 2003](#), Economic research paper, 04/9, Department of Economics, Macquarie University, Sydney, 2004, p. 8, accessed 21 June 2016.

22. Ibid., Table 1: Residential Property Price Index, Index Numbers and Percentage Changes, accessed 20 June 2016 and Australian Government, ['4.10.3 Historical Age and Invalid \(Disability Support\) Pension income and assets limits'](#), Guides to social policy law website, accessed 20 June 2016.

23. Australian Bureau of Statistics (ABS), [Residential Property Price Indexes: Eight Capital Cities, Dec 2015](#), cat. no. 6416.0, ABS, 22 March 2016, accessed 21 June 2016.

24. Parliament of Australia, ['Social Services Legislation Amendment \(Fair and Sustainable Pensions\) Bill 2015 homepage'](#), Australian Parliament website, accessed 12 June 2016.

25. ABS, [Consumer Price Index, Australia, Mar 2016](#), cat. no. 6401.0, ABS, 27 April 2016, accessed 21 June 2016.

26. M Klapdor, [Social Services Legislation Amendment \(Fair and Sustainable Pensions\) Bill 2015](#), Bills digest, 129, 2014–15, Parliamentary Library, Canberra, 2015, p. 10, accessed 12 June 2016.

27. DSS, [Statistical paper no. 12: income support customers: a statistical overview 2013](#), DSS, Canberra, January 2015, p. 6, accessed 12 June 2016.

Table 4: assets of Age Pensioners included in the assets test, December 2015

Family situation	Average asset value	Percentage with less than \$50,000 in assets
Single homeowner	\$143 023	36.3%
Single non-homeowner	\$70 556	68.3%
Couple homeowner	\$277 612	16.5%
Couple non-homeowner	\$109 279	56.5%

Source: DSS, '[DSS Demographics December 2015](#)', Data.gov.au website, accessed 14 June 2016.

Options for change

Numerous reports have recommended amending the pension assets test to take into consideration the value of the family home, in part due to concerns that its exclusion results in distorted housing decisions, for example, not downsizing.²⁸ There is also a view that relatively wealthy homeowners should not be as reliant on taxpayer funded assistance.²⁹

The Productivity Commission recently summarised the recommendations of several of these studies in its review of the housing decisions of older Australians (see Box 1). The Commission noted that the family home has a key role in Australia's retirement savings and income system, and quoted Prime Minister Hawke's comments:

... there is a feeling ... throughout the community there is some special significance attached to the home. People don't like to feel that that is something which is included in some sort of testing in their rights in regard to the pension.³⁰

However the Commission itself concluded, 'Removing the family home exemption would be the most efficient and equitable outcome, but this appears intractable in the immediate future. At a minimum, there is a strong case on equity grounds to set a limit on its value.'³¹ However it noted that any such cap on the value of the family home that was exempt from the means test may have to take into consideration regional variation in housing prices.³²

Most of the inquiries that considered changes to the pensions assets test to account for the value of the family home did not address the issue of access to affordable housing for those who don't own their own homes, and hence did not consider the role of CRA. However, some reviews have suggested changes to CRA arrangements.

In 2009, the Harmer Pension Review concluded that while the then pension rates were adequate for couples living in their own homes or public housing, it found 'strong evidence that many pensioners in private rental housing face particularly high costs and have poor outcomes.'³³ It suggested that there would be merit in restructuring the rent thresholds to remove access for those paying relatively low rents to better target those facing high housing costs, and also suggested the arrangements regarding sharers should also be reviewed.³⁴

These findings were subsequently incorporated into the recommendations of the Henry review of the tax system:

- Recommendation 102: The maximum rate of Rent Assistance should be increased to assist renters to afford an adequate standard of dwelling. To ensure that Rent Assistance can be maintained at an adequate level over time, the rent maximum should be indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients.

28. Australia's future tax system (Henry Review), [Report to the Treasurer: part two—detailed analysis](#), Department of the Treasury, December 2009, p. 550, accessed 12 June 2016. The Productivity Commission reviewed a number of studies investigating the issue and considered there was some evidence to support this view, see Productivity Commission, [Housing decisions of older Australians](#), Research paper, Productivity Commission, Canberra, December 2015, pp. 123–4, accessed 12 June 2016.

29. S Cowan, '[Fairness and the family home](#)', Centre for Independent Studies website, 1 May 2016, accessed 12 June 2016.

30. Productivity Commission, op. cit., p. 20.

31. Ibid., pp. 20–1.

32. Ibid., pp. 128–9.

33. J Harmer, [Pension review report](#), FaHCSIA, Canberra, February 2009, p. xiv, accessed 12 June 2016.

34. Ibid., p. 94.

Box 1: Suggested reforms to the Age Pension affecting housing

The Henry Review — cap for exemption

The Henry Review (Henry et al. 2010) suggested that to increase the fairness of the means test for the Age Pension, a cap should be applied to the exemption of the principal residence — amounts above a specified cap would be included in the assets test, and be subject to deeming. It was argued that this arrangement would make an allowance for the primary role of housing in providing shelter, but also recognising that beyond this basic function, housing represents an asset that people purchase with an expectation of generating a future return. Henry et al. (2010) stated that such an approach would ensure that only housing of ‘significant value’ (p. 550) was targeted by the means test. They estimated that a cap of \$1.2 million would result in approximately 10 000 Age Pension recipients having their principal homes partially assessed under the means test.

National Commission of Audit — cap for exemption

The National Commission of Audit proposed that from 2027-28, the threshold for the inclusion of the principal residence in the Age Pension means test should be set at the indexed value of a residence valued at the time of writing at \$750 000 for couples, and \$500 000 for a single pensioner (NCA 2014a).

Rice Warner — cap for exemption and no part pensions

Rice Warner [a financial services research and consultancy firm] recommended that singles should be permitted to have \$250 000 in superannuation assets (\$350 000 for couples) plus a home value of up to \$1 million to be eligible for the Age Pension. For those with assets exceeding these amounts, no Age Pension would be payable — that is, tapering would be eliminated. Those with a home value in excess of \$1 million who wanted to obtain access to the Age Pension would need to sell their home, or alternatively, borrow against the property to reduce their net equity position to \$1 million. In their submission to the Australian Government’s Tax White Paper, Rice Warner (2015) revised their threshold to \$1.5 million for the principal residence and up to \$500 000 for all other assets (including superannuation).

Grattan Institute — no exemption for principal residence

Recognising that including the value of the principal residence in the Age Pension assets test would disadvantage asset rich, income poor households, Daley et al. (2013) suggested that those who fail [sic] the assets test due to the value of their home be permitted to access the Age Pension, but for the Australian Government to accumulate a claim against the dwelling in return. The value of the debt to the Australian Government could be incorporated in the assets test, such that over time a person’s net asset value might reduce to the point where they became eligible for the Age Pension (depending on the value set in the asset test threshold) without accumulating further debt.

Centre for Independent Studies — no exemption for principal residence

Cowan and Taylor (2015) advocated including the entire value of the principal residence in the Age Pension assets test. This was part of a three-pronged approach which also included legislating for a default reverse mortgage product to be offered by banks and superannuation funds, but guaranteed by the Australian Government, as well as deeming income from the reverse mortgage product and including it in the Age Pension income test.

Source: Productivity Commission, [Housing Decisions of Older Australians](#), Research paper, Productivity Commission, Canberra, December 2015, p. 125, accessed 12 June 2016.

- Recommendation 103: To better target an increase in the maximum rate, Rent Assistance should be part of the income support system, with eligibility based on rent paid and the income support means test, rather than on eligibility for another payment (for example, Family Assistance).
- Recommendation 104: Mechanisms should be developed to extend Rent Assistance equitably to public housing tenants along with removing income-linked rent setting in public housing.³⁵

Recommendation 104, together with Recommendation 106, that the states charge market rents for public housing, were designed to address the inequity between income support recipients in public housing and those receiving CRA in the private rental market, as well as to improve the efficiency of public housing investment.³⁶ The Rudd Government rejected Recommendation 103, and also the proposal that the states charge market rents to public housing tenants, but did not explicitly respond to the recommendation to increase the maximum rate of rent assistance.³⁷

The 2012 Senate Committee inquiry into the adequacy of the allowance payment system noted that many submissions to the inquiry concluded that ‘the Newstart Allowance did not enable people to house themselves in a manner conducive to finding employment’, in particular because of the high proportion of recipients who were renting privately.³⁸ High housing costs were considered likely to increase the risk of homelessness and limit the funds available to cover the costs of job hunting such as making phone calls, travelling to and from interviews, and buying suitable interview clothes.

One witness, Dennis Trewin, from the Academy of Social Sciences, suggested that raising the amount of rent assistance would improve housing affordability, but this was not taken up by the Committee.³⁹ Instead it considered raising the basic rate of allowances but rejected this in part due to the cost, and focussed on strategies to reduce the amount of time recipients spent on welfare.⁴⁰

More recently the Reference Group on Welfare Reform (McClure review) reiterated the Henry recommendation to remove income-based rental arrangements for public housing tenants, and extend CRA to cover them, because these arrangements provided a disincentive for income support recipients to gain employment.⁴¹ In addition, the Reference Group recommended a review of the levels and indexation of CRA ‘to ensure that it appropriately reflects the costs of rental housing to tenants’.⁴²

The 2015 Senate inquiry into housing affordability concluded:

Unequivocally, evidence confirmed the fact that low-income earners need rental assistance to access affordable and appropriate housing and that they were becoming increasingly reliant on this assistance. Moreover, a number of comprehensive reviews have recognised that for some period of time the rate of CRA has continued to slip behind the rate of rent increase. Indeed, as far back as 2009, the call for an increase in CRA was clear and definite. Evidence presented to this inquiry highlighted this growing gap.⁴³

As a result, while noting that a rise in CRA may have an inflationary effect on rents if not accompanied by an increased supply of affordable rental properties, it recommended:

that the Australian Government:

- review the eligibility criteria for CRA to ensure that it is targeted at those most in need;
- review the method of indexing CRA with a view to retaining its adequacy; and

35. Australia’s future tax system (Henry Review), [Report to the Treasurer: part one—overview](#), Department of the Treasury, December 2009, p. 101, accessed 12 June 2016. For a full discussion of the considerations of the Henry Review on CRA see part two, op. cit., pp. 595–609.

36. Australia’s future tax system, part 2, op. cit., p. 609.

37. K Rudd (Prime Minister) and W Swan (Treasurer), [Stronger, fairer, simpler: a tax plan for our future](#), media release, 2 May 2010, accessed 12 June 2016.

38. Senate Education, Employment and Workplace Relations References Committee, [The adequacy of the allowance payment system for jobseekers and others, the appropriateness of the allowance payment system as a support into work and the impact of the changing nature of the labour market](#), The Senate, Canberra, November 2012, p. 42, accessed 12 June 2016.

39. Ibid., p. 43.

40. Ibid., p. 54.

41. Reference Group on Welfare Reform, [A new system for better employment and social outcomes: final report](#), DSS, Canberra, 2015, p. 59, accessed 20 June 2016.

42. Ibid., p. 40.

43. Senate Economic References Committee, op. cit., p. 393.

- review the adequacy of CRA.⁴⁴

At the time of writing the Government had not responded to these recommendations.

Similarly, following a review of earlier proposals, the Productivity Commission considered a 'dedicated review of CRA, which includes the structure and level of payment, is warranted to ensure it is effective in supporting low-income private renters who are at risk of poverty.'⁴⁵ The Commission also noted that there appeared to be an inequity in the CRA rules between residents of mobile homes (who are generally eligible for CRA) and those in retirement villages (who are generally not).⁴⁶

Conclusion

The availability of affordable housing is recognised as a key component in the ability of income support recipients to live adequately on their payments.

Changes in the Australian housing market have led to a greater proportion of income support recipients accessing the private rental market at the same time as private rental costs have increased substantially relative to the indexation of CRA. This has meant a decline in housing affordability, particularly for single recipients of allowance payments, potentially impacting on their ability to participate in jobsearch activities, and thus extending their reliance on income support.

There have been several calls for a review of CRA arrangements to address this issue, but no action has been taken to date.

Analysis undertaken by the Harmer review and the Productivity Commission suggest that there is scope to increase the maximum CRA payments available to those in higher cost rental properties, without undue budgetary pressure, through reducing payments to those in lower rent accommodation and by removing inconsistencies in the current system. As such additional payments would be applied directly to housing costs they are less likely to create disincentives to find work, which has been a concern about proposals to raise the base rates of allowance payments, and may act to reduce the current incentive to reside in areas of low rent with few employment prospects. With no imminent changes apparent in the current housing environment, such proposals appear worthy of greater consideration.

44. Ibid., p. 394.

45. Productivity Commission, *op. cit.*, p. 96.

46. Ibid., p. 101.

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