The Australian Dream

The big picture of housing in retirement

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Introduction

Housing is a critical foundation of any retirement planning strategy, and while many Australians regard their home as more than just an asset, the value of a home and its role in post-work life remains the cornerstone around which other building blocks of retirement take shape.

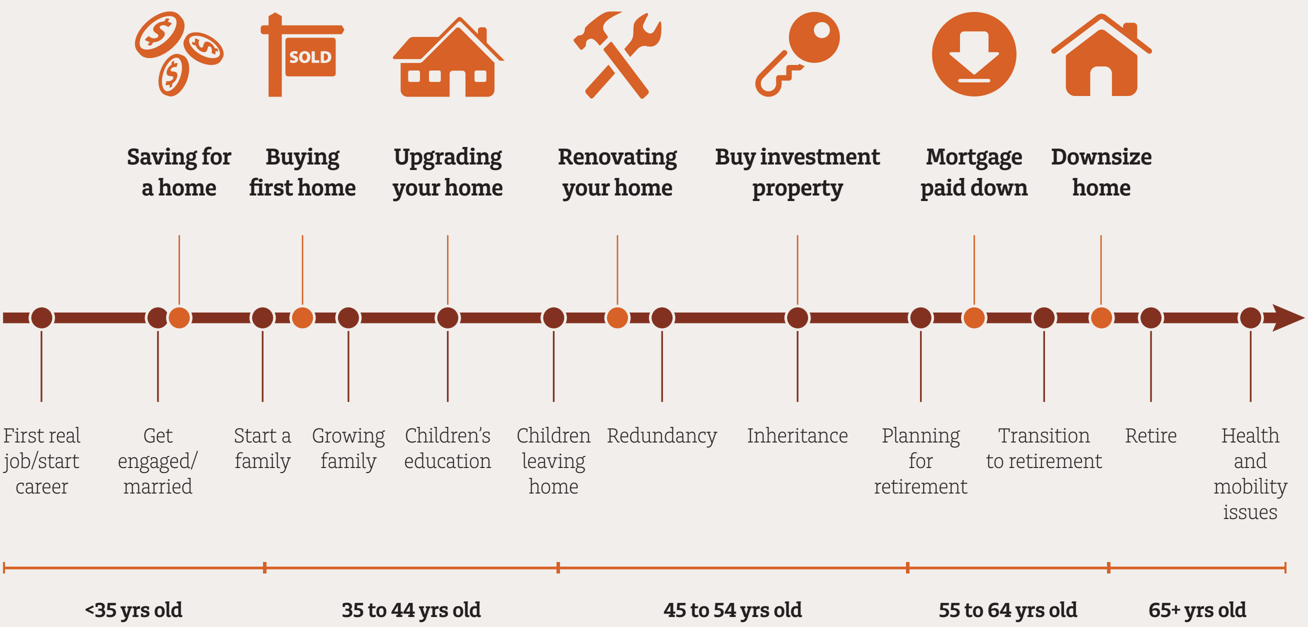
Real estate is something of a national obsession. While the Great Australian Dream is different for everyone, many references to Australian ambition include buying a home. Reality TV shows, real estate valuation apps and endless property marketing mean that even those who are not actively in the home-owner market are constantly exposed to it. From individual property owners and prospective buyers to decision-makers in business or government, Australian housing is a hot topic. But how should retirees navigate through the noise to understand how property affects their lifestyle in retirement? This paper looks at key housing considerations in the lead-up to, and during, retirement years.

The interplay between housing and retirement

Housing should be assessed against the backdrop of a retiree's overall lifestyle. Important considerations include where it's located, how it's paid for, maintenance costs and whether it's appropriate for the entirety of retirement years.

For many in the lead-up to retirement, there is a need to assess whether to downsize after children have left home, mortgages are paid off and

Housing needs change as we progress through life



Introduction

location is no longer determined primarily by proximity to work or family. Housing becomes more focused on lifestyle after winding down from traditional full-time work.

As described in MLC's *20:20 Retirement Report: A clear view on factors influencing Australian experience*, retirement is not a single time period[1]. At some point there's a need to cater for a gradual decline in health and mobility. Size, stairs and gardens need to be considered.

In later retirement, it's common to need care, whether that's at home with family, in assisted living or through other aged care options.

All of this means that housing is not simply a financial decision, or even a purely rational one. It's a series of informed choices about social and psychological needs and wants, set against the backdrop of a financially prudent planning framework.

Rather than talk about purely technical aspects of housing, policy settings or macroeconomic factors – all of which are discussed at great length elsewhere – we'll look at some of the factors that go into ensuring the place a retiree calls home during the course of retirement is the best it can possibly be for their lifestyle.

Unless otherwise referenced, all statistics quoted in this paper are from the Australian Bureau of Statistics (ABS).

1. MLC's 20:20 Retirement Report: A clear view on factors influencing Australian experience.

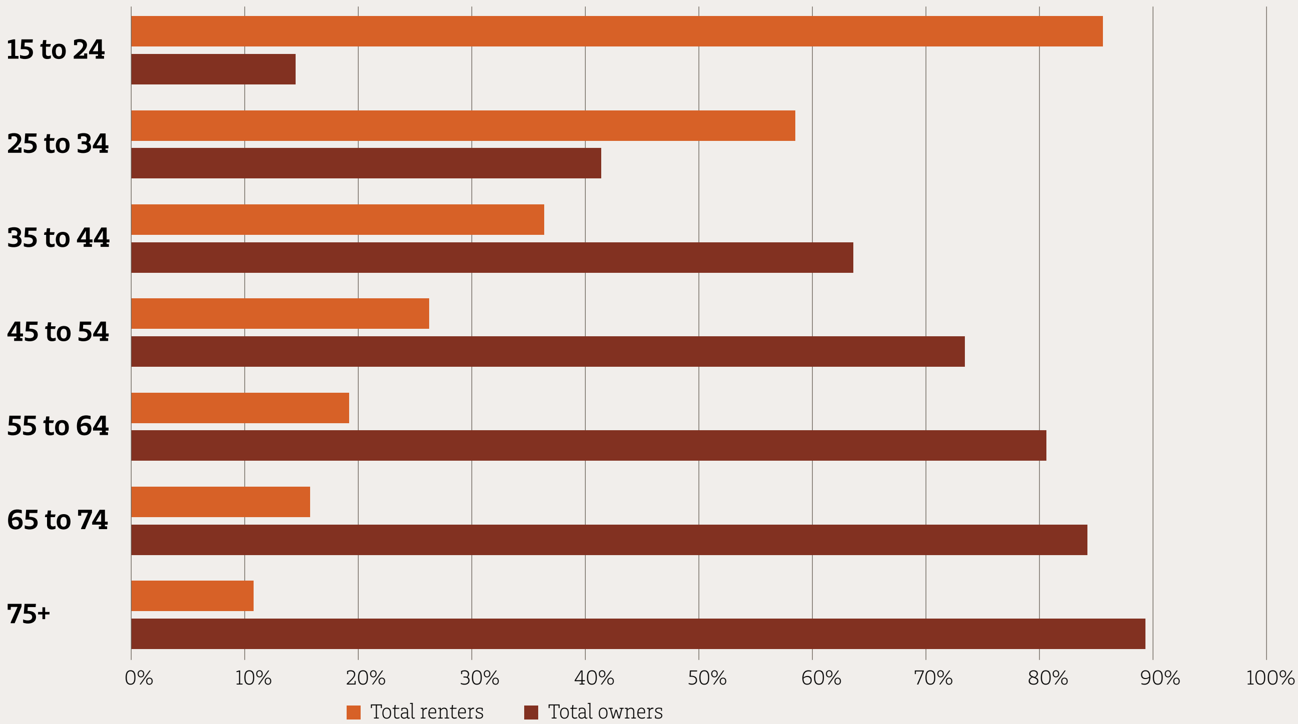
Renting vs owning in retirement

Home ownership is the Great Australian Dream for many people. But some are unable to achieve it and others choose not to.

The chart here shows the distribution of renters versus owners across the Australian population in different age brackets. It's no surprise that renting is more popular in the younger age brackets, but a significant percentage of retirees are renting.

Similar to understanding the real cost of owning a home, it's clear from a financial planning perspective that those people preparing for retirement as renters need to budget for additional costs such as rental bonds and moving costs as well as weekly rental payments.

Household occupancy type by age group



Source: Australian Bureau of Statistics 2015 and 2016

Mortgages into retirement

It's increasingly common for Australians to head into retirement with a mortgage. This is true for about 6% of retirees, and that figure is expected to grow as housing prices rise faster than earnings.

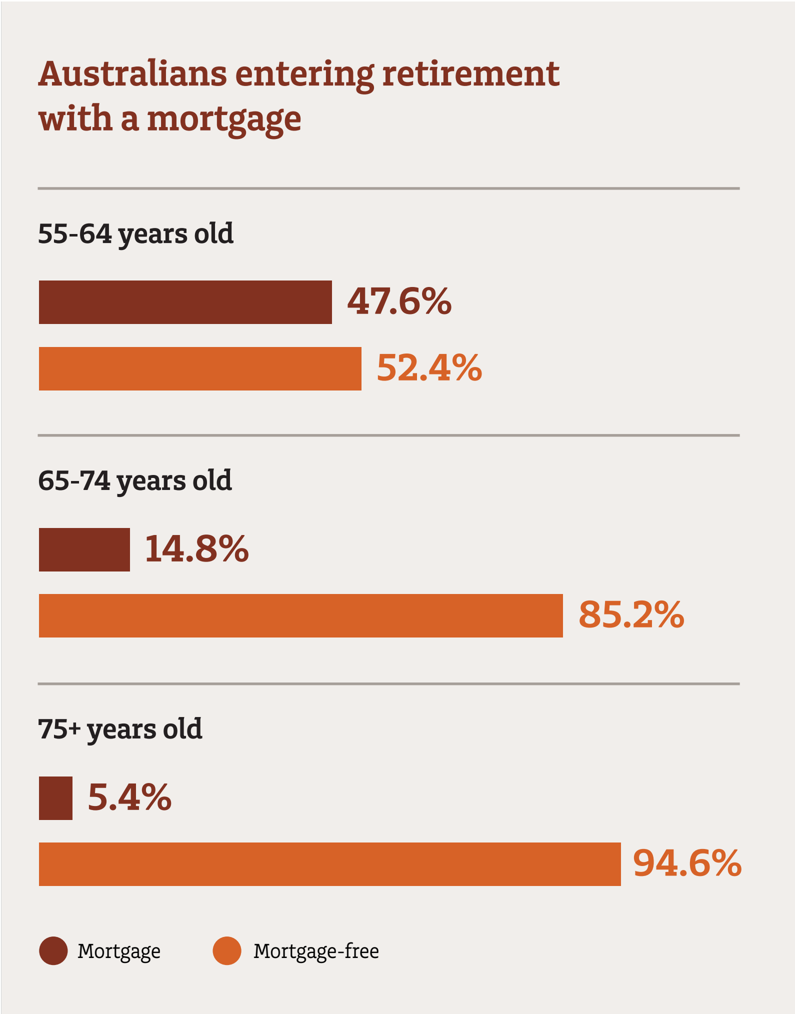
The figure here shows mortgages by age group. In the 55 to 64 age bracket, just under half of Australian homeowners still have a mortgage. This drops sharply in the 65 to 74 age bracket but doesn't entirely diminish to zero, even for those above 75 years old.

Research from the Centre of Excellence in Population Age Research (CEPAR) has shown that 36% of homeowners still have a mortgage at the point of retirement, up from 23% 10 years earlier in 2006[2].

The housing boom in Australia is well documented, particularly in metropolitan Sydney and Melbourne, and the associated mortgage burden has increased as house prices have risen. Many Australians are entering the housing market later, and younger generations face an increasing lack of housing affordability. For pre-retirees, these pressures are challenging the societal norm of entering retirement mortgage-free.

In practical terms this means that many retirees require more funds as part of a retirement income stream to fund mortgage payments, compared with those who have a home that is already paid off.

An interesting counterpoint is that many people of retirement age are still working. Currently, 12% of people aged 65 and over are still employed or looking for full- or part-time work. Outstanding mortgages are clearly a contributing factor.



Source: Australian Bureau of Statistics 2015 and 2016

About 36% of homeowners still had a mortgage at the point of retirement in 2016.

2. Housing in an ageing Australia: Nest and nest egg? CEPAR research brief, Nov 2019.

Mortgages into retirement

Using super to pay off housing debt

In parallel to the trend of more Australians heading into retirement with a mortgage, there's an increase in retirees using superannuation to pay off mortgages at the point of retirement.

For those Australians who withdraw lump sums from their super, approximately 20% of over-65s withdrew that money for housing purposes. This was mostly to pay off a mortgage, help fund the purchase of a new home or invest in home improvements.

The CEPAR research suggests that this is likely because, since the advent of superannuation, housing behaves as an economic substitute for super, as both are stores of wealth. This means that where people were once putting all their financial resources into paying off a home, now they split them between saving for retirement and being mortgage free[3].

As super balances rise in a compulsory superannuation environment, the likelihood of the trend to use super to pay down mortgages will continue.

Given that the main goal of superannuation is to provide an income in retirement, using super to pay off debt through lump sums needs to be weighed up against other retirement income factors: doing so means that there is less left over to draw down an income for general living in retirement instead.

3. Ibid.

Top 3 things people spend their super lump sums on

1 Home
Pay off mortgage, pay for home improvements, buy new home

2 Personal savings

3 Other financial products
Deposit fund, deferred annuity, other superannuation product

Approximately 20% of over-65s withdrew lump sums from super for housing purposes.

Source: Australian Bureau of Statistics 2015 and 2016

Moving in the lead-up to, or during, retirement

Part of preparing for retirement is deciding where to live and in what type of home. There are many factors that go into these decisions and they're often driven more by lifestyle factors than by financial factors. Common themes include downsizing and moving to a new area.

Downsizing

Many retirees find themselves in a house that was fit for purpose when they were raising children but is now too big in their retirement years. Big homes require more cleaning and upkeep and more gardening. The statistics show a sharp increase in the number of retirees downsizing their homes – roughly a fifth of over-65s and over-75s.

Downsizing isn't always financially advantageous. Though the statistics above refer specifically to size of home (and number of rooms), sometimes retirees may downsize to a more expensive apartment closer to the city or the beach, taking advantage of preferred lifestyle options.

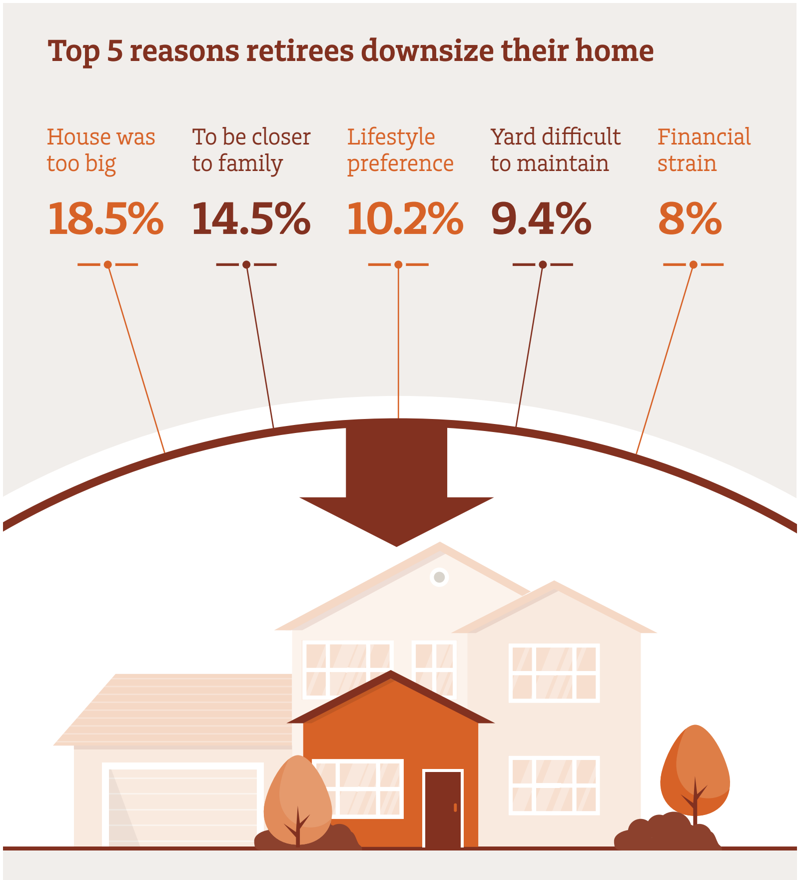
As mentioned in the CEPAR research, the top 5 reasons to downsize are related to lifestyle:

1. The house was too big
2. Moving to be closer to family
3. Lifestyle preference
4. Yard difficult to maintain
5. Alleviation of financial strain.

Super downsizer measure

Recognising that many retirees were heading into retirement with insufficient super balances, the Australian Government has allowed those aged over 65 to contribute up to $300,000 from the sale of their primary home to superannuation. The ATO[4] says this incentive scheme, which started on 1 July 2018, has seen more than 5,000 people participate so far. Of these contributions, 55% have been made by women, which shows that the downsizer contributions scheme has been a popular way to bridge the superannuation gender gap.

However, amounts contributed to super under this measure are not exempt from means-testing for social security, so freeing up equity could impact Age Pension entitlements. It's important to consider the impacts before selling the family home and to seek financial advice before making any decisions.



Housing in an ageing Australia: Nest and nest egg? CEPAR research brief, Nov 2019.

4. ATO 28th June 2019 'Downsizer contributions reach $1 billion' media release

Moving in the lead up to, or during, retirement

Sea changes and tree changes

One of the more aspirational notions about retirement is the dream to move to warmer places and more relaxed environments, away from the hustle and bustle of city working life, and the data supports this notion.

Most of the people who move between ages 55 and 64 are leaving metropolitan Sydney and Melbourne to live elsewhere. In fact, most Australian cities show an outflow of people within the 55 to 64 age bracket, and an equivalent increase in people moving elsewhere in their respective states.

In general, Queensland is the main state to which people move. This is hardly surprising given the warm climate. What's more noteworthy is that most of the moving in a general sense is taking place *before* retirement.

The MLC 20:20 Retirement Report, published in 2019, analysed how different retirement lifestyles could be across Australia, especially when comparing city and country. For example, a retirement budget stretches further along coastal New South Wales than it does in metropolitan Sydney. It's recommended to consult a professional like a financial adviser or accountant who will be able to help retirees work out how different options impact retirement finances.

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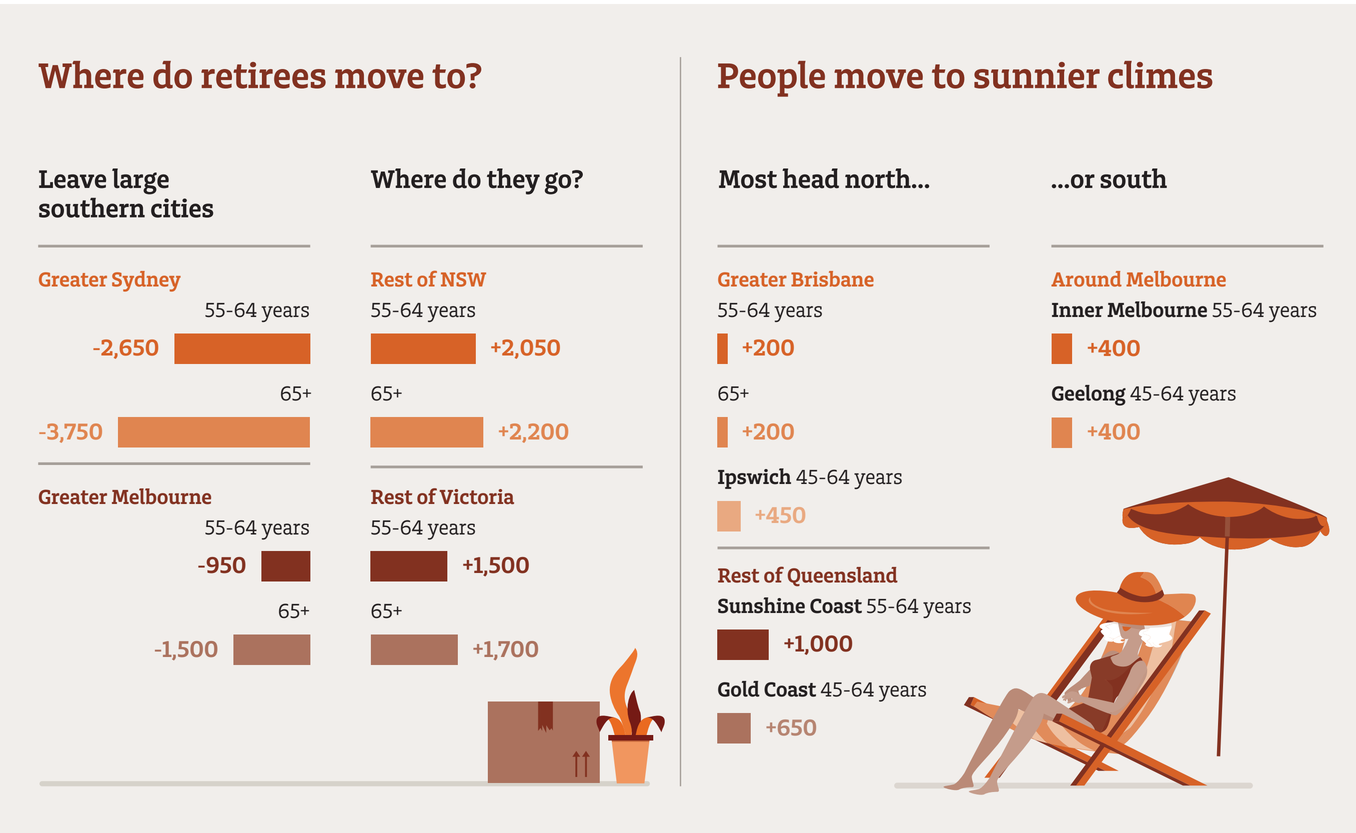


Source: Australian Bureau of Statistics 2015 and Milliman analysis

Factoring housing costs and home improvements into retirement planning

Housing is one of life's most significant costs. That's no different in retirement.

Even for those Australians who own their own home, recurring expenses such as rates and utilities are still significant. On a recurring basis it's very cheap to live in a house that's already paid off. At the other extreme, renting during retirement becomes a significant expense.

For those heading into retirement with a mortgage, there is the added pressure of ongoing repayments. In the 55 to 64 age bracket, Australians with a mortgage spend slightly more on housing costs than they would if they were renting.

It's clear from these figures that advance planning is required to understand and cater for home costs in retirement.

Housing costs (per week)

Source: Australian Bureau of Statistics 2017 and 2018

Home expenses

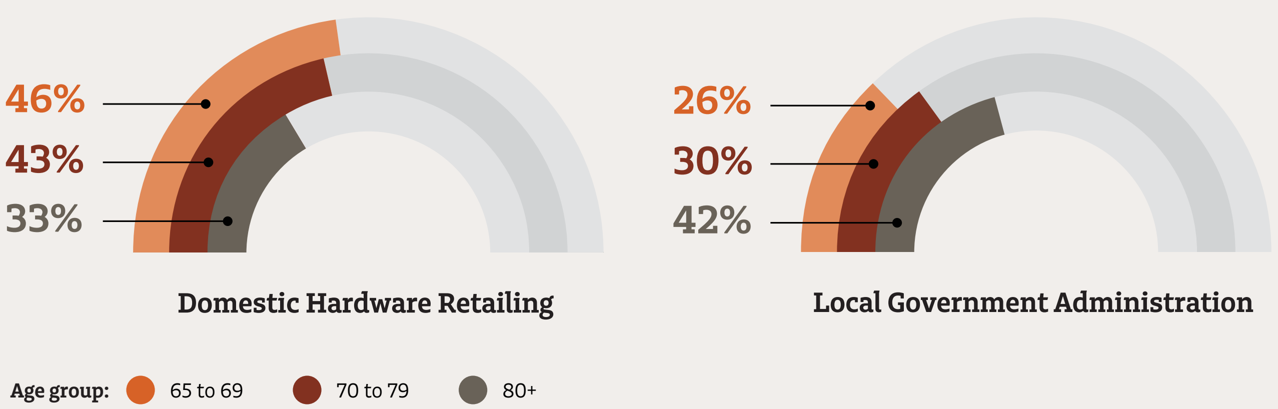
For those Australians who don't have a mortgage, retirees tend to spend money on home improvements.

According to Milliman Retirement ESP 2019 data, the number one item that retirees spend their money on when it comes to home-related costs is hardware retailing, which indicates that many retirees choose to carry out their own home improvements.

When it comes to other expenses, a large consideration is budgeting for items like local government costs, including rates payments, as well as heating and cooling.

The data shows that, while home ownership can be the cheapest form of housing on a recurring expense basis, the costs can still add up. There's also the requirement to ensure money is set aside for lump sum payments such as for renovations or new appliances.

Top home maintenance expenses



Source: Milliman Retirement Expectations and Spending Profiles 2019 (Retirement ESP)

The relationship between home ownership and aged care

As people progress into the later years of retirement, needs and lifestyles change. Retirees are less active in the Go Slow and No Go[5] years, with declining mobility and health often requiring additional living assistance.

The World Bank's 1994 paper Averting the Old Age Crisis[6] is still considered to be the major authority on all things retirement. It warns that there has been a substantial decline in the traditional methods of looking after the aged, which was predominantly done by family. The weakening of traditional structures in developed economies has given rise to other forms of aged care.

In Australia, aged care structures incorporate many types of assistance and care, including support at home. Australians largely aim to age in their own homes or with family members. Approximately 95% of Australians still live in a household, with the remainder in aged care.

The chart at right shows the proportion of people who move to aged care facilities after 65. While the total number of people decreases in the older age brackets, the proportion of people in aged care increases.

A large majority of Australians live in private accommodation for the duration of their retirement, with 83% in the 85 to 89 age bracket still living at home. While some retirees may require assistance depending on their mobility and health, many don't need to move out of home as a result. The ABS estimates 1.3 million retirees still live at home but receive some assistance with everyday activities. Of these, almost two-thirds had their needs fully met without having to move (down from 69% in 2015)[7]. As home care services continue to expand, we may find even more retirees being able to age in their home.

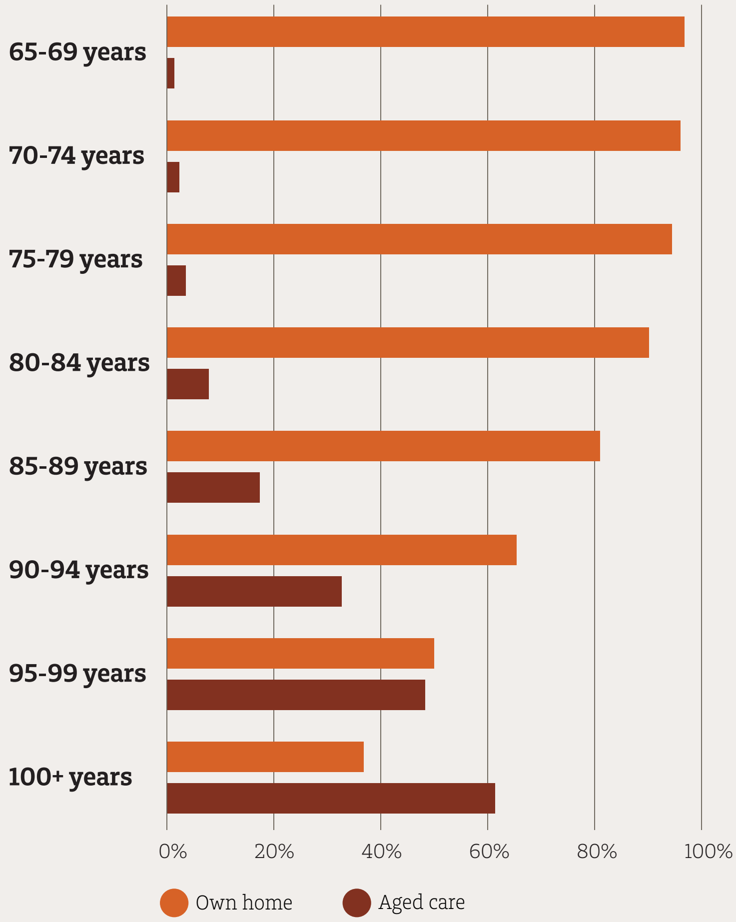
While the topic of aged care is expansive, we'll now discuss the interplay with retirement housing choices.

5. See MLC 20:20 Retirement Report 2019.

6. World Bank. 1994. Averting the old age crisis: policies to protect the old and promote growth (English). *Washington DC; World Bank.*

7. Disability, Ageing and Carers, Australia: Summary of Findings, 2018, Australian Bureau of Statistics, released 24 Oct 2019.

Do older Australians live at home or in aged care?



Source: Australian Bureau of Statistics 2018

Financial advice and housing decisions

When heading into retirement, housing decisions become more complex and overlap with other aspects of retirement planning.

Some of these include:

Aged care planning: From a lifestyle perspective, this is an important conversation for retirees to have with a financial adviser.

- Those who want to stay in their own home must take steps to ensure that living arrangements cater to changing needs as they age.
- Where health or lifestyle requirements necessitate a move to an aged care facility, what financial plans must be put in place to allow that to happen.

Estate planning: Important matters such as leaving the family home to the next generation should be factored into more holistic estate planning.

Conclusion

Housing is a national obsession in Australia, but it's worth considering choices against the overall retirement lifestyle picture. This means housing decisions cannot be viewed simply through a financial lens. They must take social, geographic and emotional factors into consideration.

Many housing variables impact on retirement and estate planning. These include having a mortgage into retirement, deciding to downsize or make a tree or sea change, and taking advantage of care services or other forms of government assistance. Talking things through with a financial adviser will ensure that the implications of such decisions are dealt with appropriately. This in turn will deliver better outcomes throughout the course of retirement.

About this paper

This paper has been prepared by Milliman Pty Ltd ABN 51 093 828 418 AFSL 340679 (Milliman). For its research, Milliman has used the Milliman Retirement Expectations and Spending Profiles (Retirement ESP) and the Australian Bureau of Statistics, as well as other data sources. Milliman, established in 1947, is a global independent actuarial management consulting firm. In Australia, it specialises in the retirement sector, where it partners with a range of organisations providing consulting, data analysis and risk management services and solutions to financial industry participants. Milliman provides products and solutions that create better outcomes, designed to help people have a better retirement. For further information, visit au.milliman.com

References

1. Australian Bureau of Statistics 2015 and 2016.
2. Milliman Retirement Expectations and Spending Profiles 2019 (Retirement ESP).
3. World Bank. 1994. Averting the old age crisis: policies to protect the old and promote growth (English). Washington DC; World Bank.
4. Housing in an ageing Australia: Nest and nest egg? CEPAR research brief, November 2019.

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