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Research Note: Analysis of pensioner home owner house values, 2019-20

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Introduction

This paper presents the results from an analysis of age pensioner home owner house values. Part of the aim of the analysis is to determine the proportion of pensioner household, pensioners and total pension paid to pensioners in households where the house value is one million dollars or more, with a view to assessing the impact of a policy proposal to cap pensions based on house values.

We consider tenure type, specifically focusing on home owners (with and without a mortgage) while also considering the effects of location, specifically state/territory and metropolitan/non-metropolitan regional characteristics.

We use ANU's microsimulation model of the Australian Tax and Transfer system PolicyMod to estimate the impact on households and the Commonwealth Budget of all of the major changes in legislation in this area and to develop estimates of the total impact on different household and income level types.

House value is estimated using the estimated sale price of the dwelling from the 2015-16 ABS Survey of Income and Housing, inflated in the model using state specific house price inflation values generated from the ABS Residential Property Price Indexes: Eight Capital Cities publication (ABS Catalogue No. 6416.0).

Methodology

The modelling approach is summarised in the following steps.

1. Estimate age pension payments and housing values for the 2019-20 financial year, based on current tax and social security policy settings using the PolicyMod population basefile. .
2. At the income unit level, extract information for income units and households with at least one person in receipt of the age pension, including tenure type (owner/renter), dwelling type (house/unit/semi-detached), location (state and greater capital city indicator) and household value (estimated sale price of main dwelling).

The simulation benchmarks to 2019-20 using actual recipient numbers and projects into the future using age and sex demographic projections and modelling of the expected policy by 2019-20.

The aspects of the social security and tax system included in the model are personal income taxation including the Medicare levy and the Budget Repair Levy. All the major social security benefits including Pensions and Allowance, Family Tax Benefits and School Kids Bonus, Supplements, Child Care

Benefit/Child Care Rebate and the new Childcare Subsidy. Not included are the maternity payments (e.g., Baby Bonus) and Paid Parental Leave.

Results

For the 2019-20 financial year, the analysis estimates that of the 1.99 million households with at least one age pensioner, 1.45 million (73%) are classified as home owners (with or without a mortgage).

Table 1 shows a summary of the number of households with at least on age pensioner, categorized by house value and tenure type.

Table 1: Pensioner households, by house value and tenure type, 2019-20

House Value range	Owner without a mortgage	Owner with a mortgage	Renter	Other	Total	Owners
\$0-\$250k	77,451	6,158	316,673	63,581	463,863	83,609
\$250k-\$500k	404,503	43,355	3,644	19,508	471,010	447,858
\$500k-\$1m	594,970	72,915	21,123	54,314	743,322	667,885
\$1m-\$2m	214,863	11,677	3,290	41,254	271,084	226,540
\$2m+	27,307	2,596	1,090	5,825	36,818	29,903
Total	1,319,094	136,701	345,820	184,482	1,986,097	1,455,795
\$1m+	18.4%	10.4%	1.3%	25.5%	15.5%	17.6%

Overall, 1.319 million (91%) households classified as home owners are owners without a mortgage, while 17.6% of households classified as home owners have a house value of \$1 million or more (18% of owners without a mortgage and 10% of owners with a mortgage). This represents 13% of all pensioner households.

Figure 1 presents the results in Table 1 graphically, showing the number of pensioner home owner households (with and without a mortgage and total) by house value.

Figure 1: Pensioner home owner households by house value, 2019-20

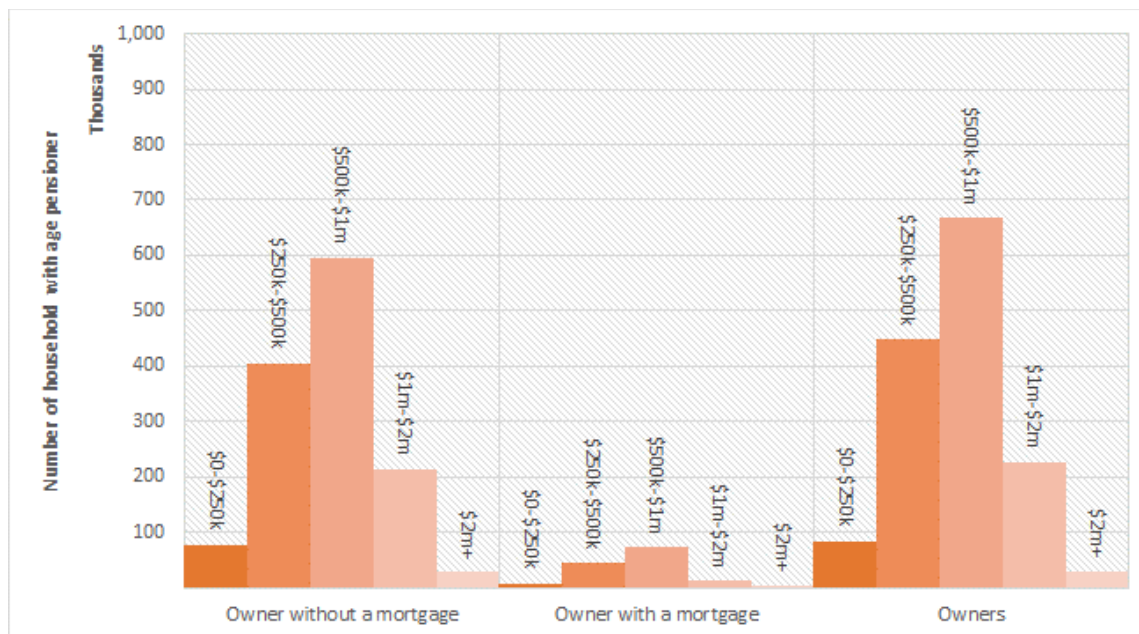


Table 2 shows the number of pensioner home owner households, classified by household value and dwelling type.

Table 2: Pensioner home owner households, by house value and dwelling type, 2019-20

Value range (owners only)	Separate house	Semi-detached, row or terrace house, townhouse	Flat, unit or apartment	Caravan, other	Total
\$0-\$250k	73,772	7,372	1,128	1,337	83,609
\$250k-\$500k	414,138	43,020	10,596	2,653	447,858
\$500k-\$1m	653,739	60,105	28,940	534	667,885
\$1m-\$2m	241,950	17,498	11,634		226,540
\$2m+	34,734	822	1,263		29,903
Total	1,427,175	128,817	53,561	4,524	1,455,795
\$1m+	19.4%	14.2%	24.1%	0.0%	17.6%

Of the 1.456 million pensioner home owner households, the majority are classified as separate houses (88.1%), with a further 8% classified as semi-detached and 3.6% as flats, units or apartments. Nearly a quarter of pensioner home owner flats/units/apartments (24.1%) and one in 5 pensioner home owners separate homes (19.4%) with are estimated to have a value of \$million or more.

Table 3 shows the total estimated pension paid for the 2019-20 financial year, summarized by house value and tenure type.

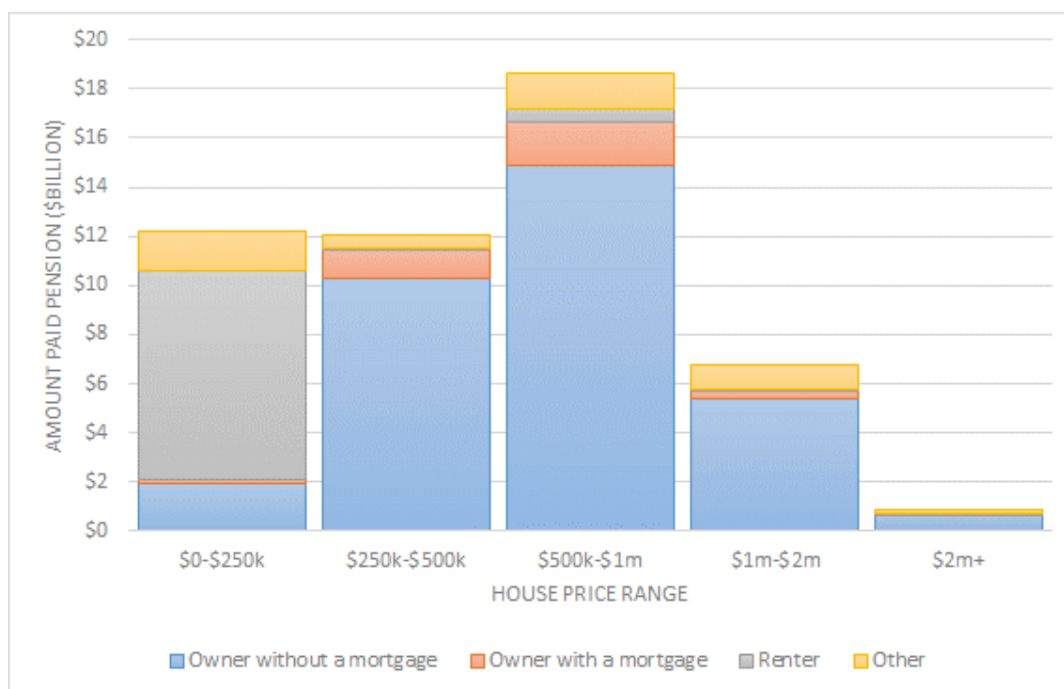
Table 3: Total pension value (\$ billion) by house value and tenure type, 2019-20

Value range	Owner without a mortgage	Owner with a mortgage	Renter	Other	Total	Owners
\$0-\$250k	\$1.93	\$0.17	\$8.53	\$1.54	\$12.17	\$2.10
\$250k-\$500k	\$10.31	\$1.16	\$0.09	\$0.47	\$12.02	\$11.46
\$500k-\$1m	\$14.89	\$1.74	\$0.56	\$1.45	\$18.65	\$16.64
\$1m-\$2m	\$5.36	\$0.32	\$0.07	\$1.00	\$6.75	\$5.68
\$2m+	\$0.61	\$0.07	\$0.03	\$0.15	\$0.86	\$0.68
Total	\$33.10	\$3.46	\$9.27	\$4.61	\$50.45	\$36.56
\$1m+	18.5%	20.2%	0.0%	0.0%	15.1%	17.4%

Of the estimated \$50.45 billion paid in total pension, \$36.56 billion (72.5%) is paid to pensioner home owners and \$6.36 billion (12.6%) to pensioner home owners in house with a value of \$1 million or more.

Figure 2 shows the same information graphically, with columns for house value range showing the contribution by tenure type.

Figure 2: Total pension paid (\$ billion), by house value and tenure type, 2019-20



An important consideration when analysing home value is the location of the property. House prices are likely to be significantly higher in metropolitan areas than in non-metropolitan areas, and house price is also dependent on the metropolitan area, as the following table of median house prices for 2019-20 by capital shows (Table 4):

Table 4: Median house and units prices, by Australian capital city, March 2019

Capital City	House price	Unit price
Sydney	\$1,027,962	\$696,935
Melbourne	\$809,468	\$466,892
Brisbane	\$563,666	\$372,852
Adelaide	\$542,474	\$312,459
Canberra	\$722,440	\$426,719
Perth	\$529,997	\$347,596
Hobart	\$478,247	\$363,418
Darwin	\$514,546	\$313,462
National	\$748,217	\$526,130

Source: www.domain.com.au

This suggests there are likely to be a larger number (and proportion) of pensioner home owner households with a house value in excess of \$1 million in the Sydney and Melbourne metropolitan areas.

The following analysis looks at pensioner home owner household house values classified by state/territory and Greater Capital City Statistical Classification (GCCSA) .

Table 5 summarises the number of pensioner home owner households by state and household value.

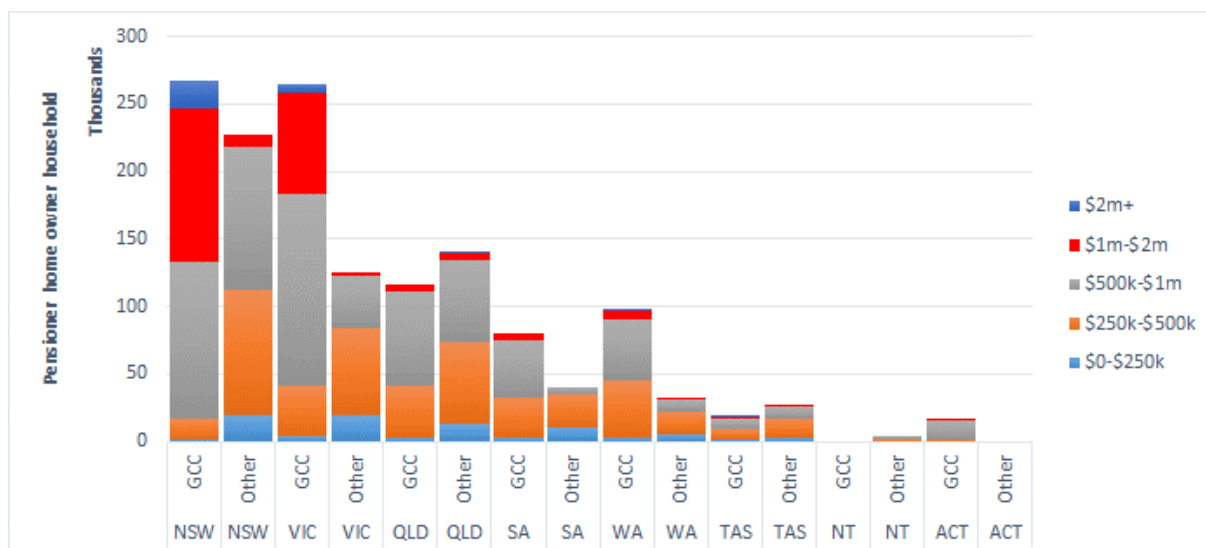
Table 5: Number of pensioner home owner households by state and house value, 2019-20

STATE	\$0-\$250k	\$250k-\$500k	\$500k-\$1m	\$1m-\$2m	\$2m+	Total	% \$1M+
NSW	20,469	108,135	222,076	123,213	20,994	494,887	29.1%
VIC	22,260	103,877	179,888	77,240	6,022	389,287	21.4%
QLD	15,641	98,651	131,266	11,127	890	257,575	4.7%
SA	13,209	54,316	46,684	5,370		119,579	4.5%
WA	8,277	57,937	54,502	6,683	1,899	129,298	6.6%
TAS	3,578	22,204	16,903	1,532	98	44,315	3.7%
NT	175	1,009	3,125			4,309	0.0%
ACT		1,729	13,441	1,375		16,545	8.3%
AUST	83,609	447,858	667,885	226,540	29,903	1,455,795	17.6%

Overall, 29% of pensioner home owner properties in New South Wales and 21% in Victoria are valued at \$1 million or more, so that these two states account for half of all total \$1 million or more households. Additionally, the vast majority of \$2 million or more properties are in New South Wales.

To further investigate the effect of location, we add the dimension of metropolitan/non-metropolitan location to state/territory. Figure 3 shows the total number of pensioner home owner households, by state/territory, GCCSA and house value.

Figure 3: Pensioner home owner households, by state and GCCSA and house value, 2019-20



As expected, the proportion of \$1million or more pensioner home owner households is significantly higher in metropolitan/greater capital city areas, with 27.6% of pensioner home owner households in greater capital city areas having a value of \$1 million or more, while only 3.1% of pensioner home owner households in regional/non-metropolitan areas have a value of \$1 million or more.

It is also the case that a large proportion of pension home owner households with a value of \$1 million or more are in the Sydney and Melbourne metropolitan areas (216,278 of 256,443, or 84% of all \$1million or more pensioner home owner households).

Figure 4 presents the information in a different way, showing, for each state/GCCSA combination, the proportion of pensioner home owner households with a house value of \$1 million or more.

Figure 4: % of pensioner home owner households with value \$1 million or more, by state and GCCSA, 2019-20

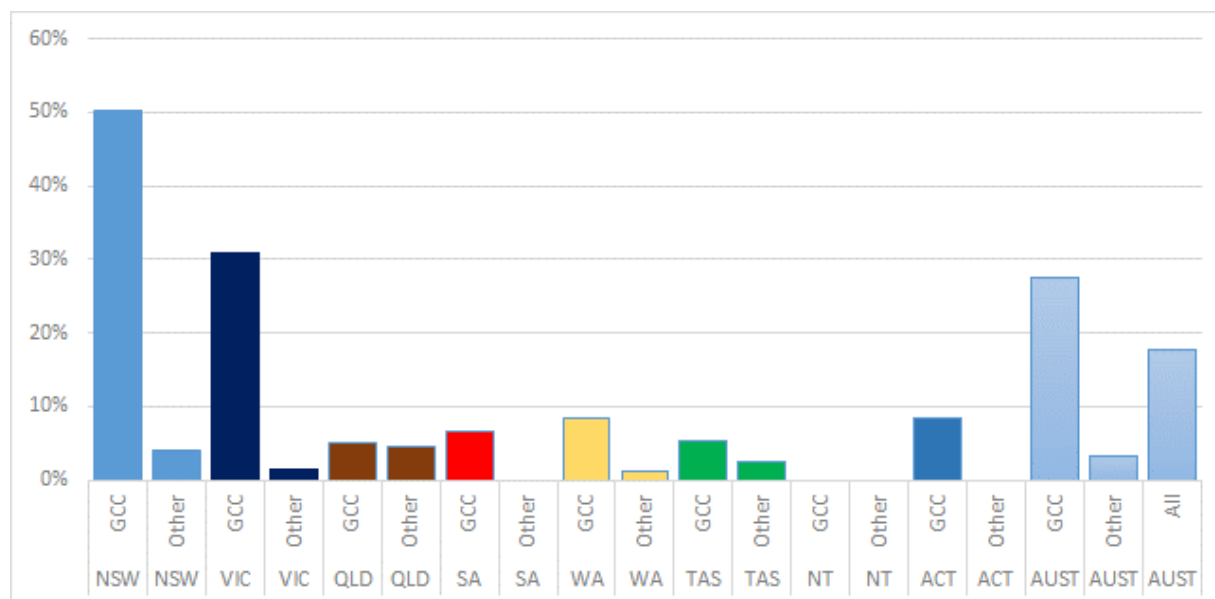


Figure 4 shows that 50% of pensioner home owner households in the greater Sydney area and 31% of pensioner home owner households in the greater Melbourne area have a value of \$1 million or more, much higher than other greater capital city areas and all non-metropolitan areas.

Figure 5 presents similar information to figure 3, showing the total estimated pension paid for 2019-20, classified by state/territory, GCCSA and house value.

Figure 5: Total pension paid, pensioner home owners, by state and GCCSA and house value, 2019-20

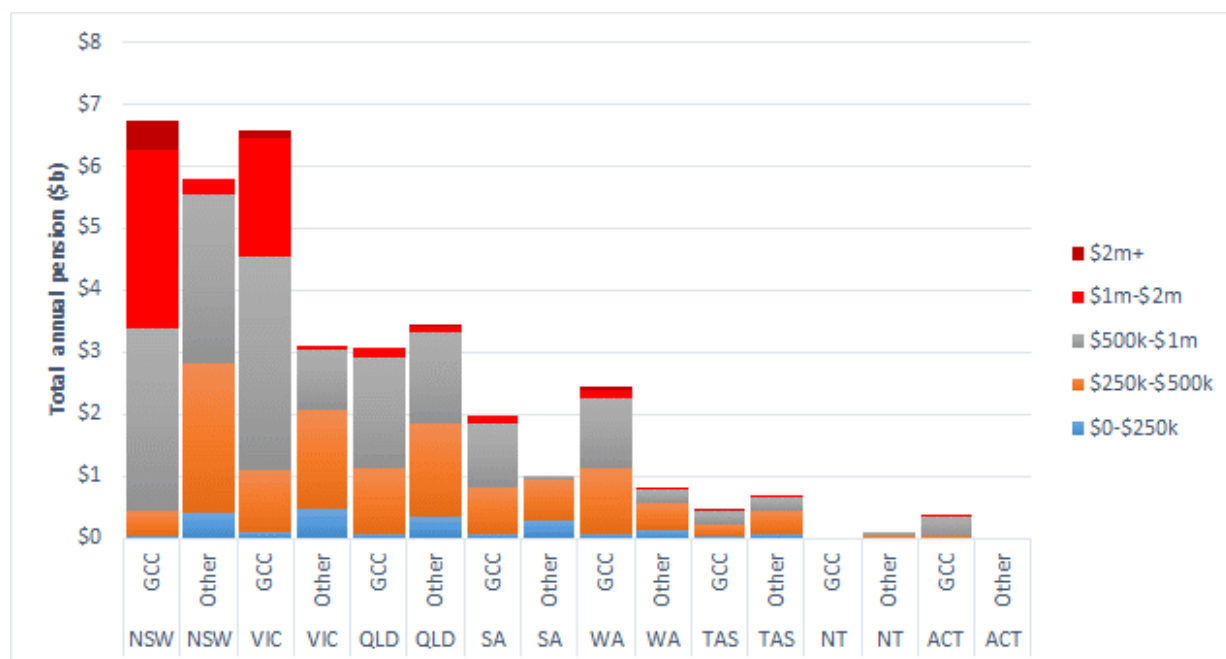
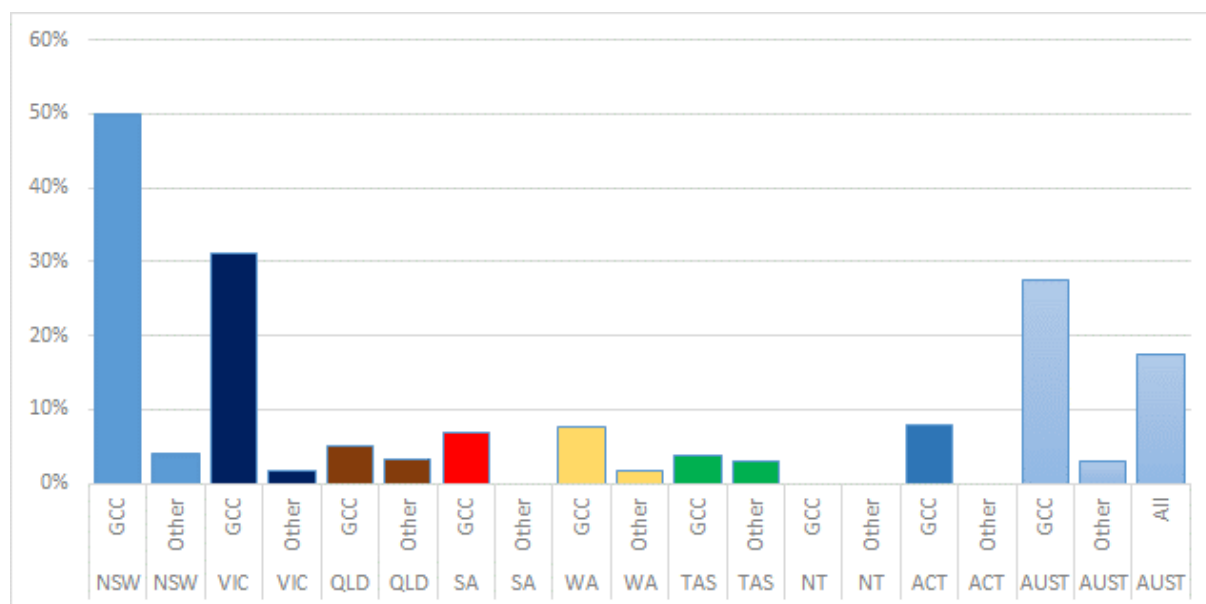


Figure 6 shows similar information relating to total pension paid according to state and greater capital city statistical area classification. The results are very similar to the proportions of households shown in figure 4, with pensioner homeowners the greater Sydney and Melbourne greater capital city areas accounting for 36% of the total pension payment.

Figure 6: % of total pension paid, home owner households with value \$1 million or more, by state and GCCSA, 2019-20



Conclusion

This research note provides information on the distribution of house values for age pensioners in Australia. The current age pension payment does not include the value of the family home in means testing, only including different asset testing thresholds depending upon the home owner status of the pensioner.

The inclusion of the family home's value is a controversial idea. Since the family home is not a liquid asset it is often argued that the inclusion of the value of the family home would push some age pensioners into poverty and potentially force some to sell their family home. Financial products such as reverse mortgages, the current pension loan scheme or recovering pension payments through deceased estates are options that may overcome such concerns, however these options are also controversial and politically difficult.

In this paper we focus on pensioners with a family home valued at greater than \$1 million. We find that around 18 per cent of pensioners currently have a family home valued over this amount and that these people are concentrated in Sydney and Melbourne. Around \$6.4 billion out of around \$50 billion in age pension payments go to pensioners with a family home valued at over \$1 million. This suggests there

are large potential savings in recouping pension payments to those with family homes of considerable value.

This paper does not attempt to develop a policy option for the inclusion of the family home in the pension asset test, rather provides distributional estimates for pensioner households by the value of the family home.