

Including the Family Home in the Old Age Pension Test

The Age Pension provides income support and access to a range of concessions to older Australians.¹ Available to those who meet basic age requirements², the pension is provided to Australians aged 65 and older who have passed an income and assets test. The income test considers the income a person earns from any assets they own as well as any income earned from a job and the income of their partner, if applicable.³ The assets test assesses the collective value of any assets an applicant owns. The assets test free area ranges from \$250,000 and as high as \$575,000 depending on marital status and homeownership. For every additional \$1,000 worth of assets, the pension is reduced by \$1.50 per fortnight.⁴

Currently, the assets test does not include the family home in the algorithm. It is often argued that because the family home is often mortgaged – a financial liability and not, in fact, an asset, the home itself should be inconsequential. In some cases, these homes are still mortgaged. In others, the pensioner owns the home outright, voiding the defence. While three in four pensioners own their own home, only 1% of retirees use the associated savings to increase their standards of living through a reverse mortgage.⁵

To provide a financial reward to people for occupying a residence that, when compared to their needs and means, is disproportionate in size and price incentivises this behaviour and exacerbates the aging population problem while costing the taxpayer more than they can ever hope to receive. The age pension is too important a safety net to be allowed to fall into extinction due to unsustainable policies made to cater to idealistic expectations.

¹ Department of Human Services, Age Pension,
<https://www.humanservices.gov.au/customer/services/centrelink/age-pension>

² Applicant must be at least 65 years old at time of application. Department of Human Services, Age Pension <https://www.humanservices.gov.au/customer/services/centrelink/age-pension>

³ *How the Income Test Works*,
<https://www.humanservices.gov.au/customer/enablers/income-test-pensions>

⁴ *How Assets Over the Limit Will Affect Your Payment*
<https://www.humanservices.gov.au/customer/enablers/changes-pension-assets-test>

⁵ *Fairness and the Family Home*,
<https://www.cis.org.au/commentary/articles/fairness-and-the-family-home>

The assets test should take into consideration the value of the home, for several reasons.

The cost of the Aged Pension scheme has increased over the course of its history, costing the taxpayer more than ever before. The current scheme is unsustainable⁶ and unfairly favors some pensioners over others. Including the family home in the age pension assets test will reduce the financial strain on the taxpayer, free up larger homes for young families, and allow those who are truly struggling to receive a larger share of the pie by disqualifying wealthy applicants.

While often mistaken as one, the age pension was introduced not as a dollar prize for outliving one's neighbours, but instead as a kind of safety net designed to alleviate poverty.

Including the family home in the assets test will be beneficial in the following ways:

1. Homes will not be exempt from the function that prices serve and, by the divulgence of an accurate price signal, retirees will be encouraged to consider the value of remaining in a home that is too big and expensive to maintain.
 - a. Retirees will be presented with a choice:
 - i. Those who are unable to afford to keep their homes without the help of the pension will have an incentive to downsize, provided the value of the house is substantial and is responsible for disqualifying the applicant in the assets test. In cases where it isn't, the retiree will see no change and will have no incentive to sell.
 - ii. Retirees whose total asset value is too high – when the value of the home is included in the test – and are able to afford to keep their home, in spite of losing the pension, will no longer receive the pension.
 - b. The price of larger homes will fall as the supply on the market increases
 - i. The newly affordable homes will be available to young people who would otherwise be unable or unwilling to start families of their own. People are more likely to start families – and, by extension – address the aging

⁶ The percentage of people of retirement age has risen from less than 2% in 1911 to almost 11% in 2011

population problem if there are affordable family-sized houses on the market.