Financial System Inquiry

National Seniors Association - Submission

Treasury "Granny" Bonds

National Seniors Association (NSA) recommends that the Federal Government introduce Treasury Bonds to provide a vehicle for surplus funds generated when people of a mature age rationalise their accommodation. Investments in these bonds by those in receipt of an age pension would be *exempt* under the assets test for the age pension.

Desired Outcome

- **That people in receipt of an age pension may sell their current home and move into more appropriate accommodation without the fear of losing their source of income.**

Target Audience

- **People of pensionable age who receive a full or part pension who wish to move to more appropriate accommodation but are of the mindset that to move would exempt them from access to the Age Pension.**

Background Information

Age pensions are granted to a person of pensionable age under either income" or " assets" test rules - which ever pays the lowest rate.

Under the Department of Social Security test, assets include money held in the bank, value of real estate, value of businesses, value of gifts above certain amounts, value of loans, household contents and personal effects, disposable / immediate or presently payable annuities and cash value of any life insurance policies. (The principal residence is exempt from this test.)

Under current Department of Social Security rules, funds received from the sale of a pensioners home is not included under the assets test for a period of 12 months. This allows the pensioner time to purchase another home / retirement unit.

However the interest on the funds from the sale is immediately assessable under the incomes test. The income from this interest can often prevent a person from receiving the age pension.

Research has confirmed our (NSA) belief that older people develop a *mindset* where they do not seek more appropriate housing because they are concerned at losing all or part of the Age Pension.

Downsizing from a larger family home to a smaller, more appropriate one may in some cases release funds for investment. This can have two perceived disadvantages that could inhibit the move:

- the additional investment income could move older persons beyond the part pension and fringe benefits and create uncertainty about income.
- reduce the amount of assets resident in the exempt family home and increase the level of funds subject to capital gains tax.

(Department of Housing and Regional Development)
***Draft Report* - June 1995,**

Case Study

Older people in the community need to be free to consider moving to appropriate housing.

Mrs Jones, a 76 year old widow, lives alone in a weather board house in Brisbane. Her children have moved interstate and her only income is a full age pension.

Her house is valued at $450 000 and is situated on a 1/3 Acre block. The house requires restumping, the tin roof needs replacing, the exterior needs repainting and electrical rewiring is needed. This comprehensive style of maintenance is common in Brisbane.

Unfortunately, Mrs Jones has only nominal savings and can not afford the vital repairs required to her house. Furthermore, significant modifications are imperative because she can no longer climb the high steps from the ground level to the doorstep of her house.

The cost of living in an inner city area is also proving prohibitive to Mrs Jones as she is effectively being “rated out” of her neighbourhood. Rising land values have caused council rates to soar.

Mrs Jones would like to sell her home for $450 000 and buy a self contained unit which would cost approximately $150 000. This would provide a surplus of $300 000. A move into more appropriate accommodation seems sensible but Mrs Jones is worried by two factors.

She is worried that she will lose her single source of income, (the Age Pension) because if her inflated income exceeds the pension income test she will *forfeit the Age Pension and associated concessions.* Single home owners with over $240 000 of assets receive no pension at all.

Mrs Jones also doubts her knowledge and ability to manage the substantial funds derived from the sale of the house.

> *“Recent focus group research with older people indicates a preference for a* ***steady, reliable, income stream*** *that allows expenses to be budgeted for rather than a less reliable income. There is a reluctance to cope with a variable income position even if on average the variable income is higher”*
> **(Department of Housing and Regional Development)**
> ***Draft Report* - June 1995**

To alleviate the economic and emotional stress this reduction or loss creates, NSA proposes that people of pensionable age and in receipt of an age pension can purchase Treasury Bonds with surplus funds which result from changing to more appropriate housing. These bonds will be exempt from the DSS assets test.

The general benefits achieved from introducing such Treasury Bonds for people in retirement include;

- **allowing the elderly to move to appropriate housing without affecting their age pension and concessions;**
- **providing better opportunity for effective community health care;**
- **assisting in rationalising and reducing the level of investment in housing stock in Australia;**
- **improving national savings;**
- **investment in capital works by freeing up previously unavailable funds;**
- **no additional cost to the budget as the person currently receives the age pension (this is a revenue neutral situation for the Government).**

Treasury Bonds **should be introduced so the elderly can lodge surplus money and place it in Treasury Bonds at a low interest rate. Seniors such as (Mrs Jones) only want a low income and have lost the confidence to invest in banks and insurance companies.**
They wish to invest in Government bonds as they regard them as being a secure investment option.

Billions of dollars could be raised by opening up bonds to pensioners. This move would benefit thousands of widow/ers, across the nation. This group requires more appropriate housing and better care .

Bond Specification

- **Interest paid on Treasury Bonds should be pitched lower than market interest rates, say 50% because of the security of the bonds and the benefit of being exempt under the DSS assets test. The bonds should not be treated under the new DSS deeming regime.**

- **Treasury Bonds will be at call and may be cashed in or withdrawn, however at that time the funds will be classed as an asset for DSS purposes. Funds for the purchase of Treasury Bonds may only come from the sale of a principal home**

- **The bonds would only be available to pensioners**

- **The available funds could be invested by the Federal Government in nursing homes and hostels. Vital upgrading of aged care facilities could be completed.**

- **A means test may need to be introduced to prevent any misuse of Treasury Bonds. This would discourage younger people investing heavily in their house before retirement and then protecting the asset for inheritance, through these bonds.**

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families moving into homes previously occupied by only one person.

Pensioner

Bonds

would increase national savings and release funds for capital works. (upgrading of aged care facilities.)

Retirement Villages provide care on site while duplex accommodation is closer to care facilities and or vital shops.

Income Issues.

Moving from a large family home to a smaller more appropriate home may release capital. If this is invested it will affect an older person’s or couple’s income. This can concern older people on the Age Pension as it may affect their pension entitlements by **reducing** the ***exempt assets*** in the family home and increasing their income.

This group requires more appropriate housing and better care .

Reduces housing stock expenditure would also be achieved with families moving into homes previously occupied by only one person.

Pensioner Bonds would increase national savings and release funds for capital works. (upgrading of aged care facilities.)

Retirement Villages provide care on site while duplex accommodation is closer to care facilities and or vital shops.

Older people are often “rated out” of their homes in inner city areas.

Case Study

Older people in the community need to consider moving to appropriate housing.

Mrs Jones is a 76 year old widow who lives alone in a timber structured, weather board house in Brisbane. Her children have moved interstate and she survives on the Age Pension.

Her house is worth $450 000 and is situated on a 1/3 Acre block. The house requires restumping, the tin roof needs replacing, the exterior needs repainting and electrical rewiring is needed. This comprehensive style of maintenance is common in Brisbane.

Unfortunately, Mrs Jones has only nominal savings and can not afford the vital repairs required to her house. Furthermore, significant modifications are imperative because she can no longer climb the high steps from the front yard to the doorstep of her house.

The cost of living in an inner city area is also proving prohibitive to Mrs Jones as she is effectively being “rated out” of her neighbourhood. Rising land values have caused council rates to soar.

Mrs Jones would like to sell her home for $450 000 and buy a self contained unit which would cost approximately $150 000. This would provide a surplus of $300 000. A move into more appropriate accommodation seems sensible but Mrs Jones is worried by two factors.

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New Homes for Old Survey
retirees have a block on selling because they think they will lose the pension or affect social security entitlements

Research confirms our belief that older people do not seek more appropriate housing because they are scared of losing eligibility for the age pension.

<u>Department of Housing and Regional Development</u>

Downsizing from a larger family home to a smaller, more appropriate one may in some cases release funds for investment. This can have two perceived disadvantages that could inhibit the move:

- the additional investment income could move older persons beyond the part pension and fringe benefits and create uncertainty about income.

- reduce the amount of assets resident in the exempt family home and increase the level of funds subject to capital gains tax.

Income Issues.

Moving from a large family home to a smaller more appropriate home may release capital. If this is invested it will affect an older person's or couple's income. This can concern older people on the Age Pension as it may affect their pension entitlements by reducing the *exempt assets* in the family home and increasing their income. If the increased income is above the pension income test the will *lose their pension and associated concessions*.

Recent focus group research with older people indicates a preference for a ***steady, reliable, income stream*** that allows expenses to be budgeted for rather than a less reliable income. There is a reluctance to cope with a variable income position even if on average the variable income is higher..

In addition, anybody in receipt of a part pension, however small, is eligible for the "fringe benefits." Various research has shown these concessions are valued very highly and pensioners do manage their financial affairs to remain within the pension system to retain them. This may increase the reluctance to move if, as result, moneys could be released that generate an income above the pension assets test.

The recent final report of the strategic review of the Pension's Income and Assets Tests has recognised this and recommended both an extension of the moratorium in assessing income from sale of the family home and also the ability to gift a larger amount to the family than the usual $10 000 per year if this is necessary.

Any uncertainty on this issue could act as an inhibitor to moving. However, in the case where relocation will free up significant funds the ability to gift a sufficient amount to assist the children and to ensure existing income arrangements are maintained could be an incentive.