The McKell Institute
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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra

Via email: economics.sen@aph.gov.au

Dear Committee members,

Re: Improving consumer experiences, choice, and outcomes in Australia's retirement system

The McKell Institute welcomes the opportunity to contribute to the Committee's inquiry into the consumer side of superannuation.

As a progressive policy research institute, we have a strong background in superannuation policy. We welcome the Senate Standing Committee's interest in examining areas for improvement to benefit the greater Australian population in retirement.

We submit three pieces of research for inclusion in this inquiry, in response to the terms of reference concerning climate change impacts and home ownership:

- *The Cost of Extreme Weather* looks into the future costs of climate change across Australia and the impacts that this will have on households.
- *Mortgaging Our Future* explores the potential impact of superannuation for housing schemes, outlining the risks for the housing market and on long-term retirement savings.
- *Buy high, sell low? The early super access scheme and forgone returns on investment* shows the impact early super release had when individuals were able to access funds during the Covid-19 pandemic, offering lessons for future decision-making.

The above hyperlinks are included in full on the final page as an appendix.

Insurance and extreme weather event costs will rise due to climate change

As outlined and supported with evidence in *The Cost of Extreme Weather*, climate change will drive extreme weather event frequency and intensity. Insurance premiums will broadly increase as a result and will spike for those living along coasts and in bushfire-prone areas.

This will put Australians who have retired at higher risk of having to pay significantly more for both insurance and other associated costs. This work also outlines how the cost to government will increase alongside the cost of insurance claims.

The direct household impact of climate change is set to grow another 5.3 per cent by 2050 and households are expected to spend $2509 (in 2020 dollars) each year on extreme weather events. This is an increase of almost 200 per cent from the 10-year rolling average of $888 per household. This figure does not include intangible costs such as increased grocery and fuel prices resulting from an extreme weather event.

Using superannuation to buy a home would further inflate the property market and leave individuals worse off long-term

The McKell Institute's research into superannuation and the housing market has shown that allowing buyers to access their super would inflate the market while reducing long-term savings for when people retire.

As outlined in *Mortgaging Our Future,* federal and state governments have historically favoured demand-side interventions to influence the housing market and raise ownership levels. This has led to higher property prices without a marked increase in homeownership levels.

Governments, state and federal, have a number of levers available to make owning property more equitable and affordable, which we have outlined in out extensive body of housing research and referred in a number of other submissions to government and . Increasing supply as we have outlined throughout an extensive

Allowing early access to super flies in the face of seeking to help buyers and the purpose of superannuation – to provide for people in their retirement.

If prospective homeowners were able to access their superannuation to fund a house purchase, the housing market will be driven up for all, pricing more people out of the market.

This widely-held view was upheld by the modelling done in our report. The analysis showed that if homebuyers were to use their superannuation to purchase, the scheme would add about $69,000 to the price of the average house in Sydney, $108,000 in Melbourne and $159,000 in Adelaide.

Analysis to pinpoint an amount that could realistically be added to a first homebuyer's deposit from their superannuation with minimal inflationary impact would be about $10,000 to $30,000.

As the report shows, amounts within that $10,000 to $30,000 bracket would have little impact on lifting first homebuyer ability to enter the market. But taking that money out of superannuation funds would leave first homebuyers worse off in the long-term.

That was a lesson learned from the Covid 19 experience, when people were allowed to withdraw from their superannuation during the pandemic. The impact is shown in our review of that early super access scheme, *Buy High, Sell Low.*

THE McKell Institute

Join us in setting the public policy agenda

Superannuation delivers higher long-term returns than money invested in property, and as our research shows, leaving superannuation untouched leads to a more prosperous future for individuals.

Australia's superannuation system is undermined when it isn't used as intended — to provide for people in retirement. This is why we have previously supported the Commonwealth's moves to legislate the objective of superannuation.

Rebecca Thistleton
Executive Director,
The McKell Institute Victoria

Appendix:

Web addresses in full for the McKell Institute reports referred to above:

The Cost of Extreme Weather

https://mckellinstitute.org.au/research/reports/the-cost-of-extreme-weather-1/

Mortgaging Our Future

https://mckellinstitute.org.au/research/reports/mortgaging-our-future/

Buy high, sell low? The early super access scheme and forgone returns on investment

https://mckellinstitute.org.au/research/articles/buy-high-sell-low-the-early-super-access-scheme-and-foregone-returns-on-investment/