Excerpt from The Growing Debt Burden of Retiring Australians

Challenges, Solutions and Opportunities

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Executive Summary

From an individual's perspective, retirement planning today is best conceptualised as trying to solve a 'risky, long-horizon, multi-dimensional problem' with antiquated tools and outdated guidance.

Unlike prior generations, home-owning Australians now face a new, significant challenge, paying off a home loan before retirement. 33 years since the commencement of the superannuation guarantee, housing wealth still dominates household balance sheets, being approximately three times as large as the super sector. The level of outstanding housing debt, in aggregate, is now nearly equivalent to total APRA-regulated super assets.

In essence, lifetime consumption smoothing for working Australians involves running two multi-decade savings programs in parallel, with the aim of zeroing the balance of one while maximising the balance of the other at the point of retirement.

Chronologically, superannuation begins with the first contribution (often in the late teens to mid-twenties) and grows through regular SG contributions and the compounding of investment returns to retirement.

Home ownership entails one or more loans often paid down over two or three-plus decades. The retirement readiness clock starts ticking once the last home loan prior to retirement commences. Thereafter the complexity resides in whether that debt can be discharged through employment-based cashflow (disposable income) prior to retirement, or whether there will be an outstanding amount at the point of retirement.

This white paper will present compelling evidence that, for the median homeowning near-retiree household the odds today are essentially 50-50 on still having a home loan balance as retirement approaches.

These are not matters super funds should take lightly, given that many members approaching retirement appear to be making lump sum withdrawals, with property-based spending (including extinguishing housing debt) a key reason cited. This thereafter clearly diminishes the retirement income generating ability of the residual super, which can be considered that member's Net Pension Generating Super.

This white paper aims to surface all the issues pertinent to later-life housing debt, and the ramifications this growing trend will have for households, superannuation funds and the retirement income system more broadly.

Lifting the levels of understanding, and engagement, of innovative home equity release solutions amongst superannuation funds and financial advisers will allow more Australians access to a wider range of options to optimise their financial wellbeing in retirement.

In that sense, home equity release solutions face the same hurdles to wider consumer uptake (namely consumer awareness and literacy) as do lifetime annuities and lifetime income stream products at present.

Our hope is that, armed with the contents of this white paper, those charged with improving retirement outcomes will have a better toolset from which to build next-generation retirement solutions; incorporating housing wealth into the totality of resources (alongside the Age Pension and innovative lifetime income streams) able to support a dignified retirement.

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