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Session 2A: Pension issues in ageing societies

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Housing wealth as retirement saving:

Does the Australian model lead to over-consumption of housing?

Owner-occupied housing has long been seen as a key pillar of retirement saving in Australia. The Australian elderly receive a relatively small amount of their income from occupational pensions, have high home ownership and private saving, and Australia is particularly unusual in that the majority of the aged population receive an income and asset-tested aged pension. The exclusion of owner-occupation from the asset test for this pension provides a strong incentive for the elderly to build up and maintain their home ownership assets rather than investing in other assets to finance their consumption.

Does this model contribute to making the Australian elderly asset rich but income poor? How does pattern of housing wealth accumulation in Australia compare with that in other countries? This paper will use data from the Luxembourg Wealth Study together with comparable Australian household survey data to address these questions.

Preliminary analysis suggests that, despite very high levels of home-ownership, the Australian elderly maintain a relatively small proportion of their assets in owner-occupation. However, such comparisons can be misleading, because they do not include rights to future pensions – which are higher in most other countries. To address this issue, this paper focuses on the flow of housing consumption, rather than the stock of housing wealth. Consumption of owner occupation services (imputed as a fraction of gross housing wealth) is compared with non-housing consumption (approximated as income minus housing costs). How do the patterns of housing and non-housing consumption of the elderly vary across countries? Are these patterns different to those of the non-elderly?