

Mr Lonsdale  
General Manager  
Personal and Retirement Income Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

7 March 2008

Dear Mr Lonsdale,

### **Response to First Home Saver Accounts Consultation Process**

I write in response to the Government's First Home Saver Accounts initiative. We congratulate the Government for its initial actions to address housing affordability through a suite of programs including the First Home Saver Accounts.

Comments and suggestions about the paper are as follows:

#### **Prevention of people falling into poverty**

Whilst the beneficiaries of this scheme are likely to be wage earners rather than Centrelink recipients, the Brotherhood believes in preventing people falling into poverty and experiencing social exclusion. It will help this group to manage their vulnerability by eventually owning their own home. This scheme will hopefully help to arrest the expansion of a class of lifelong renters.

#### **Regressive distribution of benefits**

The Brotherhood questions the disproportionate benefits from the policy enabling those earning over \$80 000 to receive a greater government co-contribution than those earning under this threshold. People on lower incomes need the greatest assistance in order to raise a home deposit. We therefore propose that there be a flat rate of the maximum Government co-contribution regardless of an individual's marginal income tax rate.

#### **Financial hardship provision**

The Brotherhood commends the government on building a provision in the instance of financial hardship by allowing a transfer of the balance to a superannuation fund and enabling application to access funds using superannuation early release provisions.

#### **Inequitable distribution of assets**

The distribution of assets in Australia is much less equal than the distribution of income. Recent data from the Household, Income and Labour Dynamics in Australia (HILDA) survey showed that the top 10% of Australians own 45% of all household wealth, while the bottom 10% own none. Like other Australians, many people on low incomes aspire to home ownership and the First Home Saver Accounts may assist many to realise this goal. Asset-based policies have been commonplace in Australia for a long time, however, benefits arising from existing policies tend to favour the middle to high-income earners and exclude those in the lower

income bracket. Examples in Australia of asset-based policies are First Home Owners Grant and tax incentives such as negative gearing.

This initiative represents an important step towards creating progressive savings policies that help people on low incomes build their assets.

### **The importance of asset building and addressing asset based poverty**

With the focus on income support and the poverty line, asset-based poverty is an area that is often forgotten. Savings and assets provide security and help provide a buffer against unexpected periods of financial vulnerability. In addition, assets can generate income flows that potentially improve living standards over the life cycle. Indeed it is difficult to obtain credit without some form of collateral, potentially leading to liquidity constraints for the asset poor and poverty traps.

The use of asset building initiatives as social policy tools has gained popularity both in the UK and USA. As Michael Sherriden (USA) suggests, for social policy makers to not consider the impact of asset based poverty on people's welfare, is like an accountant only looking at a profit and loss statement and ignoring the balance sheet when considering a company's financial health. Michael Sherriden's research has shown that building a base of assets helps people to feel more secure, gives pride, hope and helps to develop a longer term mindset.

### **The power of co-contributions to motivate people to save**

Saver Plus, a Brotherhood and ANZ partnership program, is an example of an asset building program piloted in Australia that aims to both encourage investment in children's education and develop savings behaviour. The program is an innovative example of how asset based programs can be used to build social and economic capacity amongst low-income families. Saver Plus shows this has changed savings behaviours and helped families to improve their lives. This can act as a circuit breaker. Given the appropriate support and the incentive of co-contributions, the Brotherhood has found that people living on low incomes are able to save towards specific goals.

Indicative findings from research on Saver Plus being conducted by RMIT University (2008) show that 70% of past participants are still saving the same amount or more 2 to 3 years after they complete Saver Plus. Other flow-on effects and benefits of the program include:

- a greater propensity to plan for the future
- a more positive outlook on life
- a greater level of confidence
- a sense of achievement in reaching a goal
- increased self-esteem
- a significant reduction in stress levels

Focus groups found that 96% of participants reported an increase in their abilities to manage money better through the financial education program that is part of the Saver Plus model.

### **Concluding comments**

Overall, we suggest the Government's First Home Saver Accounts are a vital first element of a more comprehensive and nationally coordinated policy to assist those on low incomes to accumulate savings and build assets. Asset building and savings assistance can contribute to the social inclusion of disadvantaged Australians, beyond the prevention of financial exclusion, through broadly enhancing people's opportunities to participate in society.

The Brotherhood believes this policy, in facilitating home ownership, has the capacity to build resilience of families against future financial shocks. Holding assets connects people to the economy, raises their economic expectations and allows them to shape their futures.

Yours sincerely,



**Tony Nicholson**  
**Executive Director**