At least ten cents in every dollar of superannuation assets is indirectly financing house purchases via commercial bank debt.AAP/Lukas Coch

The federal government is split on whether first home buyers in Australia should be allowed to use part of their superannuation for home deposits. But what the more strident critics miss is that Australia's superannuation system already channels a significant proportion of retirement savings into housing.

It does this not via the traditional route of people buying a house outright, but rather through an indirect channel, by transforming the household's compulsorily acquired superannuation equity into mortgages from commercial banks and other financial intermediaries.

Statistics from the ABS (December 2016) show that for every A$1 of assets managed by the superannuation sector, approximately 27 cents is directly financing Australia's banking sector. This is via superannuation holdings of bank deposits (14c in the dollar), bank equity (7c in the dollar), and other bank liabilities (6c in the dollar).

What do banks do with this 27c? The ABS reports that 38% of bank financial assets are long-term loans to households. We have cross-inspected this data with figures from the Australian Prudential and Regulation Authority (APRA) and found that nearly all of these loans are mortgages.

This suggests that at least 10c of every A$1 of superannuation assets is indirectly financing house purchases via commercial bank debt.

But this also excludes other indirect financing of banks by superannuation. For example, the portfolios of non-money market mutual funds and other private non-financial corporations are also heavily weighted towards funding banks (24% and 36% of their assets, respectively), and superannuation funds allocate 6% and 24% of their funds to these agents respectively. This potentially adds a further 4c in every A$1 of superannuation assets that ultimately results in

debt financing of housing.

Why using super for housing might be good idea

One of the merits of allowing households to use their superannuation to supplement their housing deposits would be to reduce unnecessary and expensive financial middlemen. Under the present system, the money from superannuation that finds its way into housing finance does so by passing through chains of two or more intermediaries. This means that it incurs management expenses at each step.

The first link in the chain is the superannuation sector (with an average expense ratio of 0.7%) . Next is one or more financial intermediaries, like banks. A plausible estimate of the banking sector's expense ratio, by our calculations, is 1% to 2.3% of bank assets.

Total expenses through the intermediation chain could therefore be as high as 1.7% to 3%. These expenses might be lower under a housing equity super access scheme. Another potential benefit relates to the accumulation of debt and its consequences for financial stability.

Most of the money people put away into superannuation, because its compulsory, would have otherwise been used for other types of saving. If you look at the assets in a household’s balance sheet , it is clear that housing equity (representing 65% of non-superannuation assets) is the household's preferred savings vehicle.

It is possible that growth in compulsory superannuation has contributed to growth in household debt in two ways. First, by frustrating people's ability to finance home ownership through their deposit. Second, by increasing the supply of mortgage finance, as superannuation savings are recycled through the financial system, and converted to mortgages by the banks .

The risks with the plan

One concern about letting people divert money into buying a house is that their income in retirement could suffer as a result. To mitigate the risk of this happening, any policy on this would need to record and track the values of super funds' home equity stakes (just as super funds presently track values for the traditional assets they hold).

But retirement income is determined by total net assets, not superannuation assets alone. In this context, home ownership provides retirees an important stream of stable tax-free, inflation-protected, income. This is recognised by the Association of Superannuation Funds of Australia benchmarks for “modest” and “comfortable” retirement income.

These assume that retirees own their home outright. So the decline in home ownership is a significant threat to the adequacy of Australia’s retirement income system.

A second risk is that the policy could further raise house prices, reducing affordability and exposing retirement savings to a house price collapse. In the present house price environment, this is a real risk, which would need to be monitored. But the policy’s two main merits (reducing intermediation costs and improving financial stability by reducing gross debt) are long-run benefits that will continue to hold beyond our current point in the house price cycle.

APRA also already monitors risks associated with housing credit growth, and has the tools, and the willingness to use them, should the policy promote undesired house price growth.

There are reasons to expect that a policy allowing first home buyers access to super will not lead to net growth in housing finance. Superannuation funds are already required by APRA to understand their underlying asset exposure risks. So super funds might try to maintain their total exposure to property risk under this policy, for example by reducing their exposure to the banks.

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