



Renting in retirement

Why Rent Assistance needs to rise

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Renting in retirement: Why Rent Assistance needs to rise

Too many retirees who rent are struggling

- Homeowning retirees generally enjoy a comfortable retirement, with the Age Pension providing a modest but adequate safety net
- But retirees who rent face higher levels of poverty and financial stress than homeowners
- This is driven by renters having higher housing costs and fewer financial assets to draw on

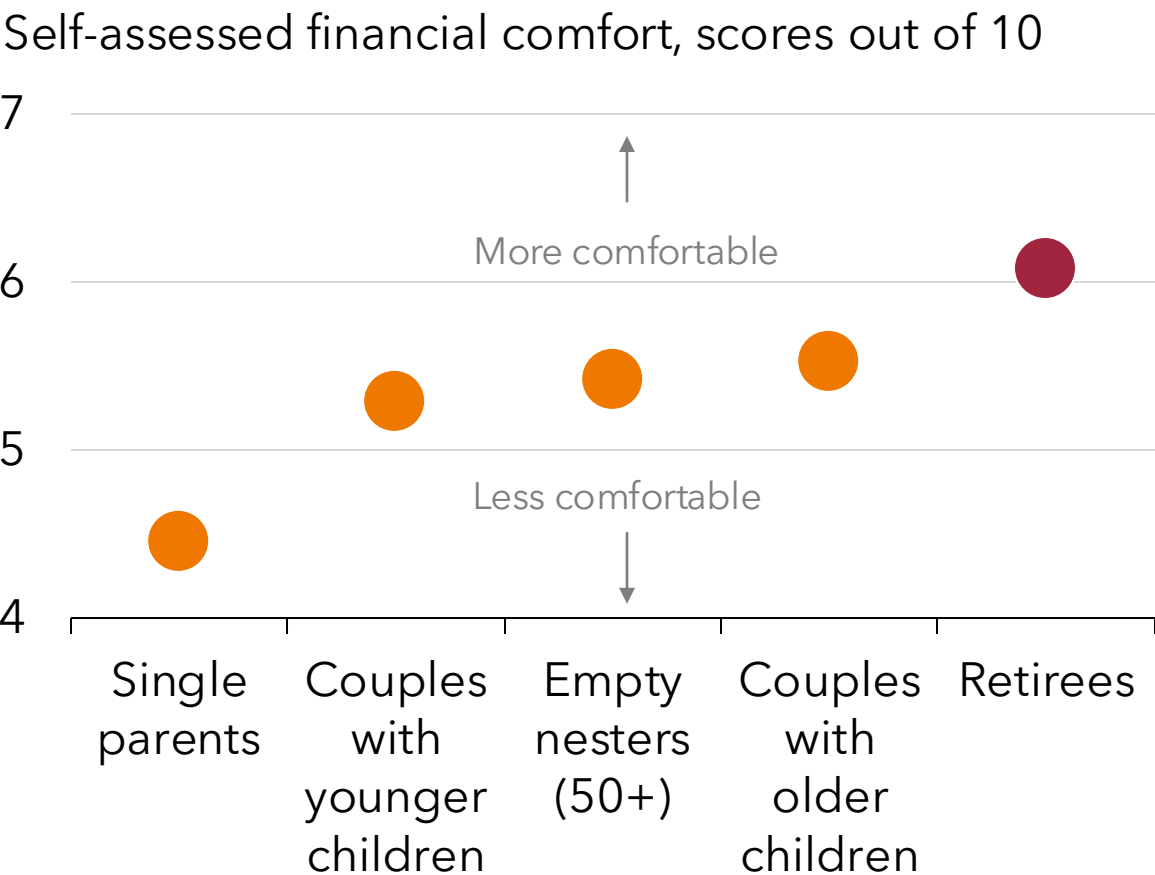
More retirees will rent in future, and many will continue to struggle

- Housing in Australia is becoming even more expensive, to rent or buy
- Homeownership rates are falling fast among poorer Australians of all ages
- Many older working renters won't have the savings to pay the rent in retirement

Boosting Rent Assistance is the best way to make renting affordable for retirees

- Rent Assistance is a demand-driven, effective way to help low-income renters in retirement
- But Rent Assistance needs to be increased to support a minimum standard of housing
- Rent Assistance should be increased by 50% for singles and 40% for couples
- Indexing Rent Assistance to rents on the private market would help maintain its value in future
- Rent Assistance should be increased both for retirees and working-age recipients
- Boosting Rent Assistance is affordable, if we look to savings elsewhere
- Little of Rent Assistance is passed-through to landlords

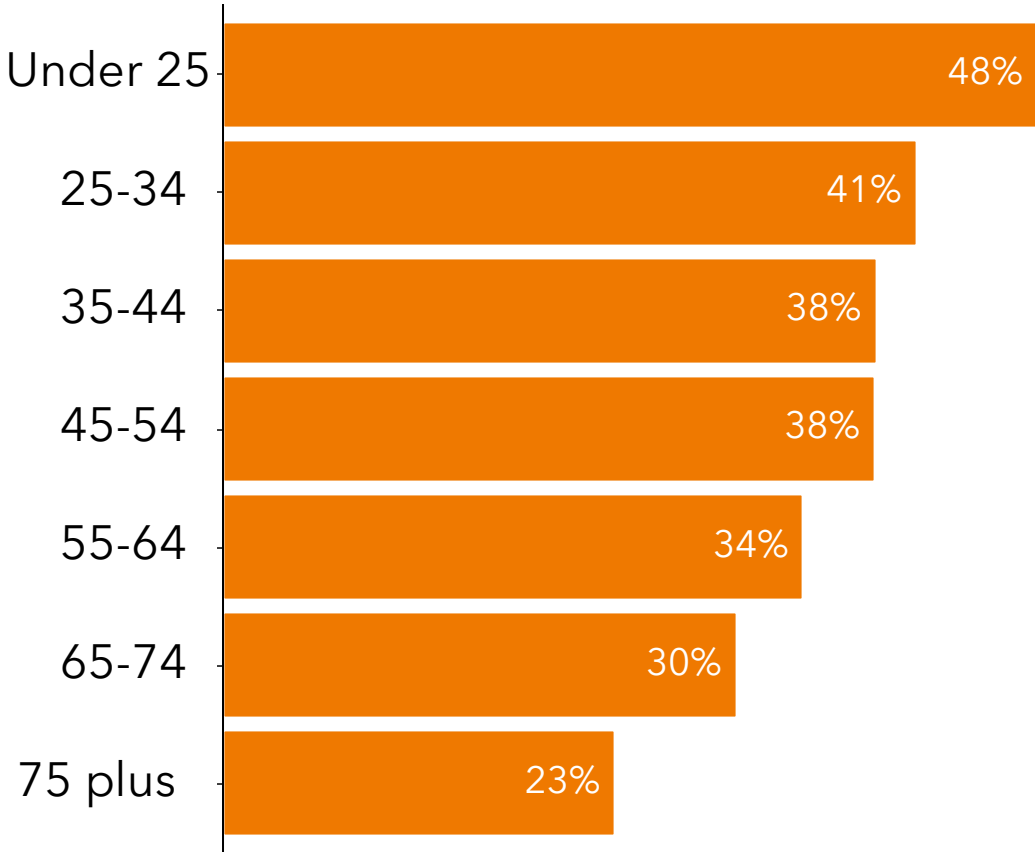
As a whole, retirees today feel more comfortable financially than any other group in society



Notes: Median of survey results from 2011 to 2019. Excludes anomalous December 2014 survey. Middle-aged singles and couples without children, and younger singles and couples without children, have been excluded for readability. Middle-aged households with no children are sometimes imagined to be the most financially secure, but even their self-assessed financial comfort is worse than retirees, having averaged just below 5.5 across the survey period.

Source: Daley et al (2018) Money in retirement: more than enough, Figure 3.1, updated using ME Bank (2020) Household financial comfort report - seventeenth edition, Figure 15.

Percentage of households with at least one indicator of financial stress in 2019-20, by age



Notes: ABS Survey of Income and Housing respondents are asked whether they face any of 14 indicators of financial stress, such as needing to pawn something, being unable to heat or cool the home, or going without meals – all due to a shortage of money. Age is based on the age of the head of household.

Source: Grattan Institute analysis of ABS 2019-20 Survey of Income and Housing.

The Retirement Income Review, and Grattan research, find the Age Pension is broadly adequate

Retirement Income Review

Final Report
July 2020

Balancing act: managing the trade-offs in retirement incomes policy

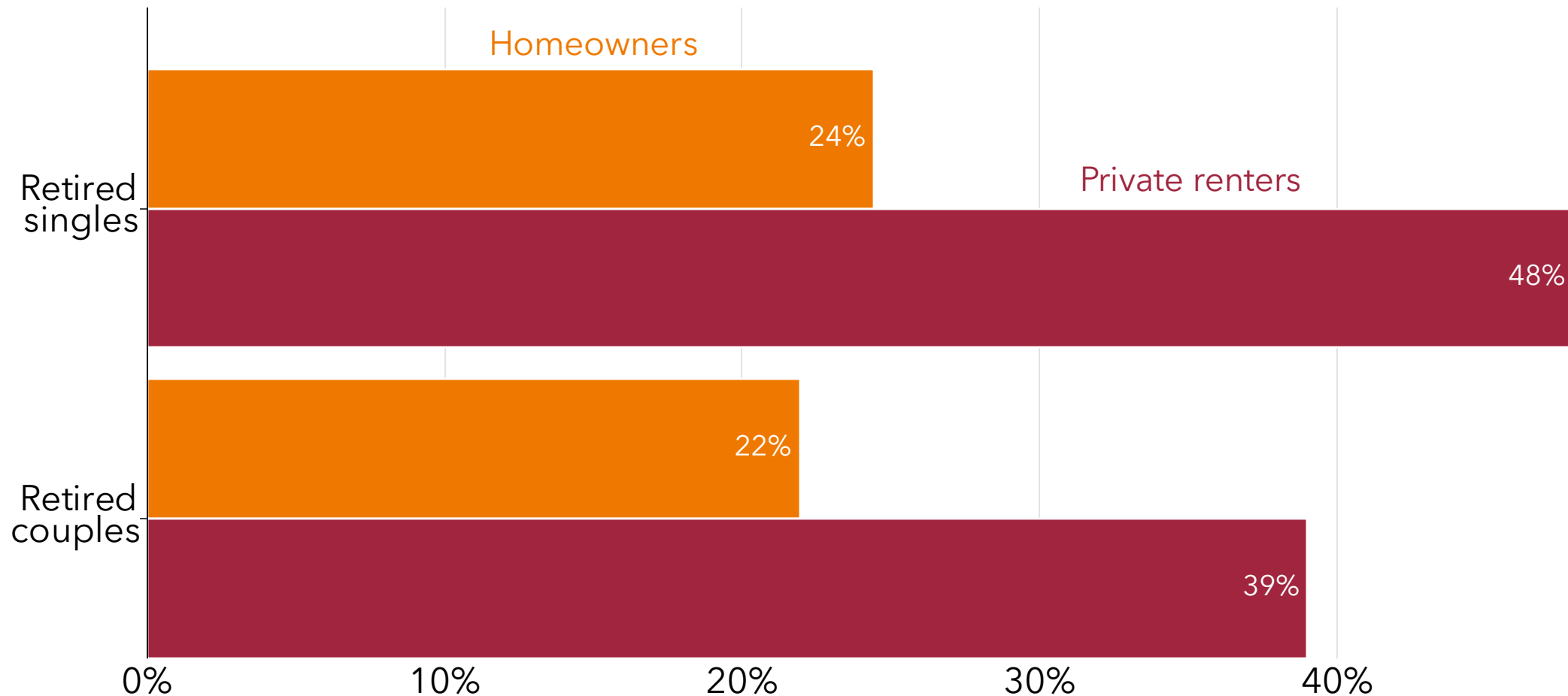
Submission to the Retirement Income Review
Brendan Coates and Jonathan Nolan

"The maximum rate [of the Age Pension] compares favourably internationally and is above available absolute poverty benchmarks." (p. 127)

"Most ways of measuring poverty suggest that the Age Pension provides a modest, but adequate, level of income in retirement." (p. 22)

Retirees typically face little financial stress...unless they rent

Percentage with at least one financial stress in the past 12 months, 2019-20

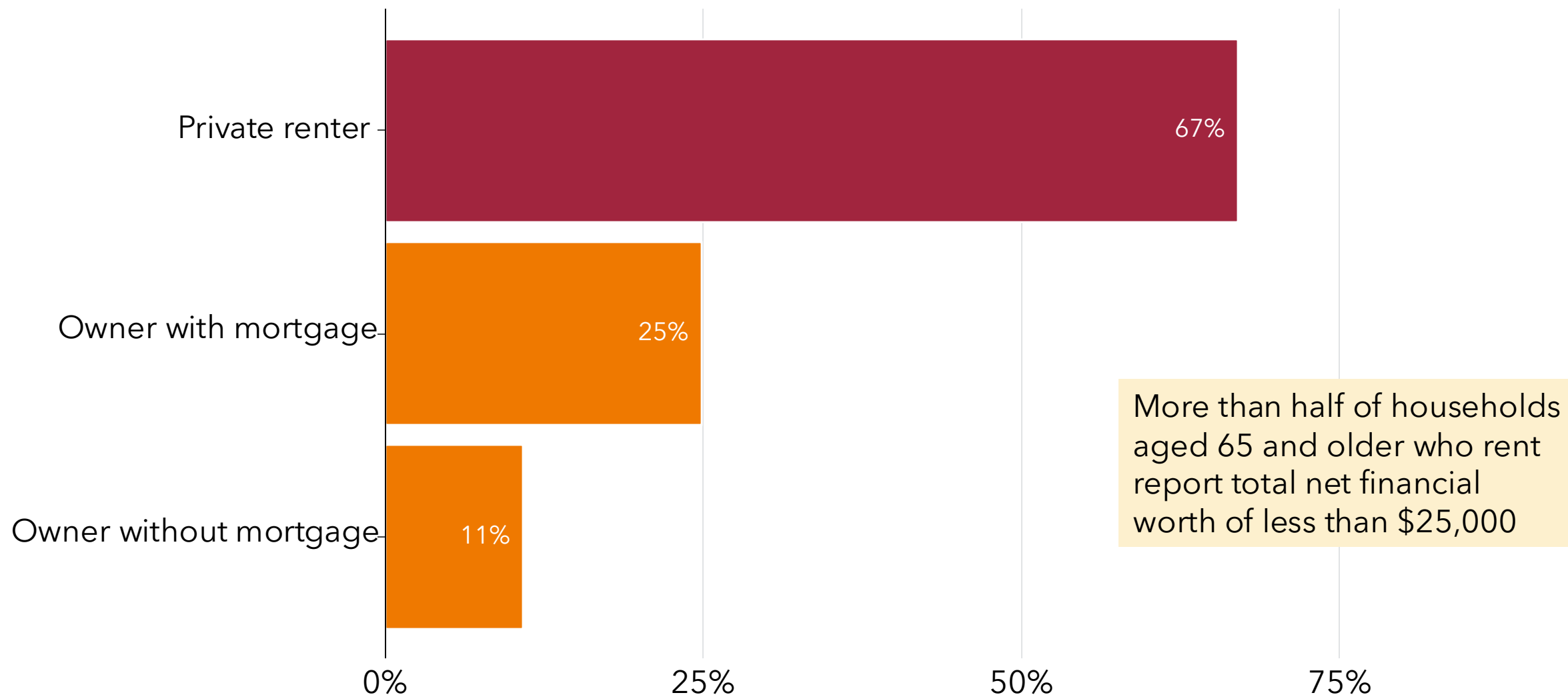


Notes: There were 14 possible indicators of financial stress. They include needing to pawn something, being unable to heat/cool the home, or going without meals - all due to a shortage of money. Retired is designated by the reference person being out of the labour force and older than 65.

Source: Grattan Institute analysis of ABS 2019-20 Survey of Income and Housing.

Retirees who rent are much more likely to live in poverty

Income poverty rate for retiree households, by tenure, 2019-20

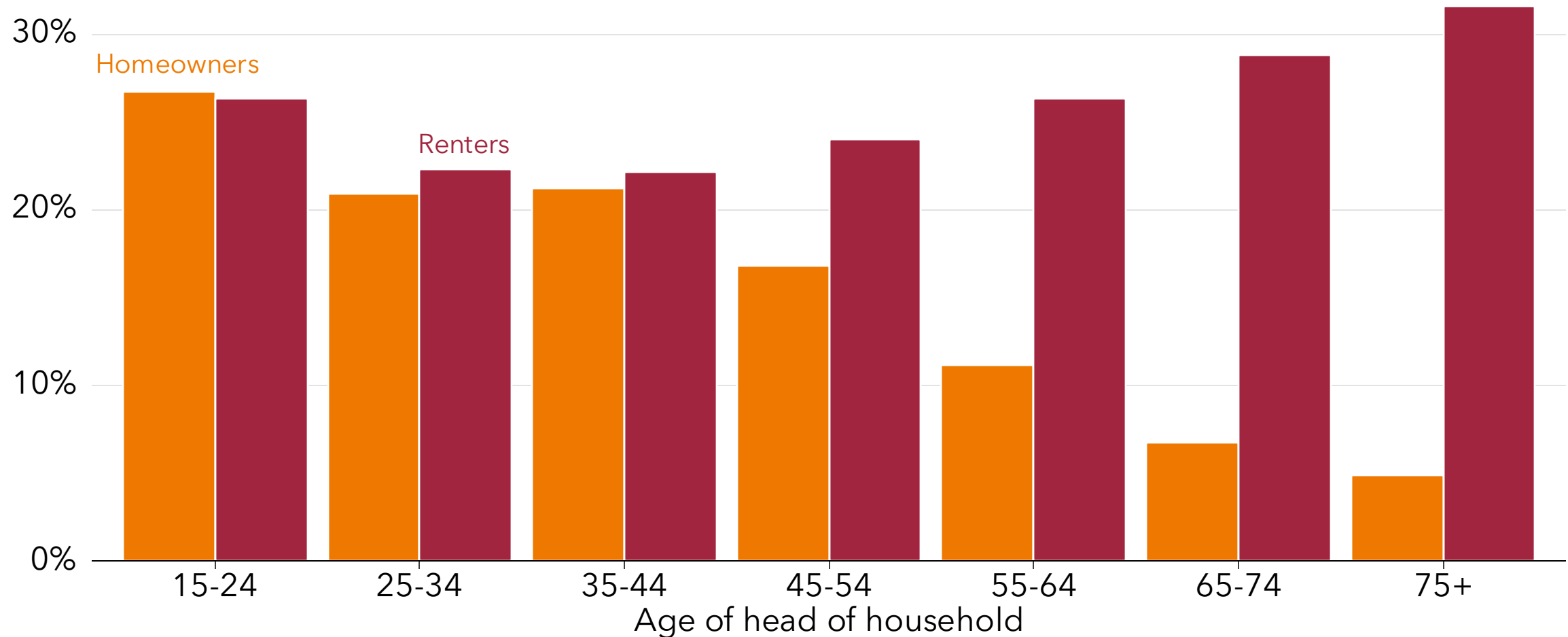


Notes: Income poverty is measured as equivalised household disposable income (after housing costs) being less than half of the median for the population, excluding households with unincorporated business income, and households who report zero or negative incomes. Retiree households are defined as those where the reference person is older than 65 and is not in the labour force.

Source: Grattan Institute analysis of ABS 2019-20 Survey of Income and Housing.

Housing costs for retirees who rent are much higher than for homeowners

Housing costs as a percentage of household disposable income by age and tenure type, 2019-20



Notes: Housing costs include mortgage interest and principal repayments, and general rates for homeowners, and rental payments for renters.

Source: Grattan Institute analysis of ABS 2019-20 Survey of Income and Housing.

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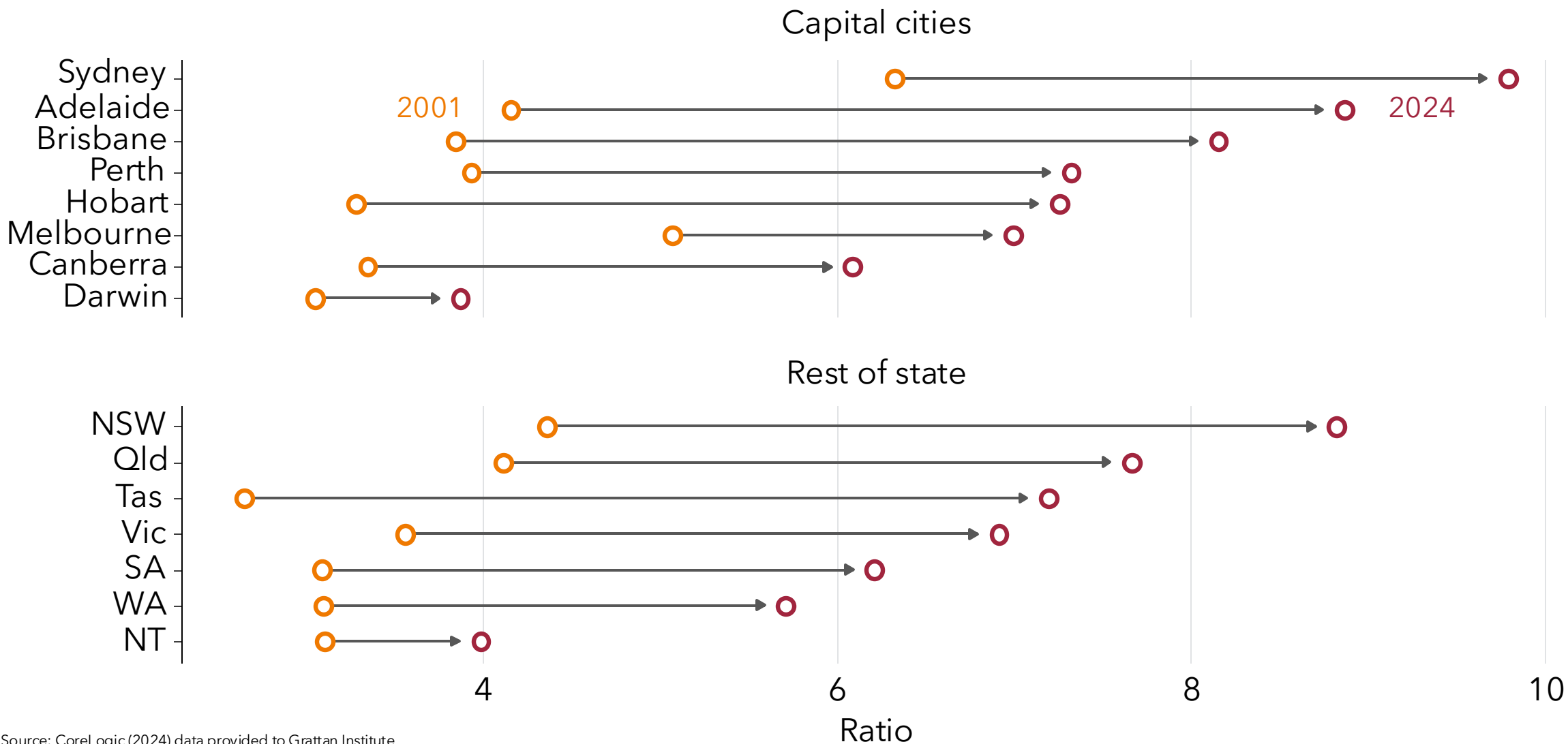
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Price-to-income ratios have increased nationwide

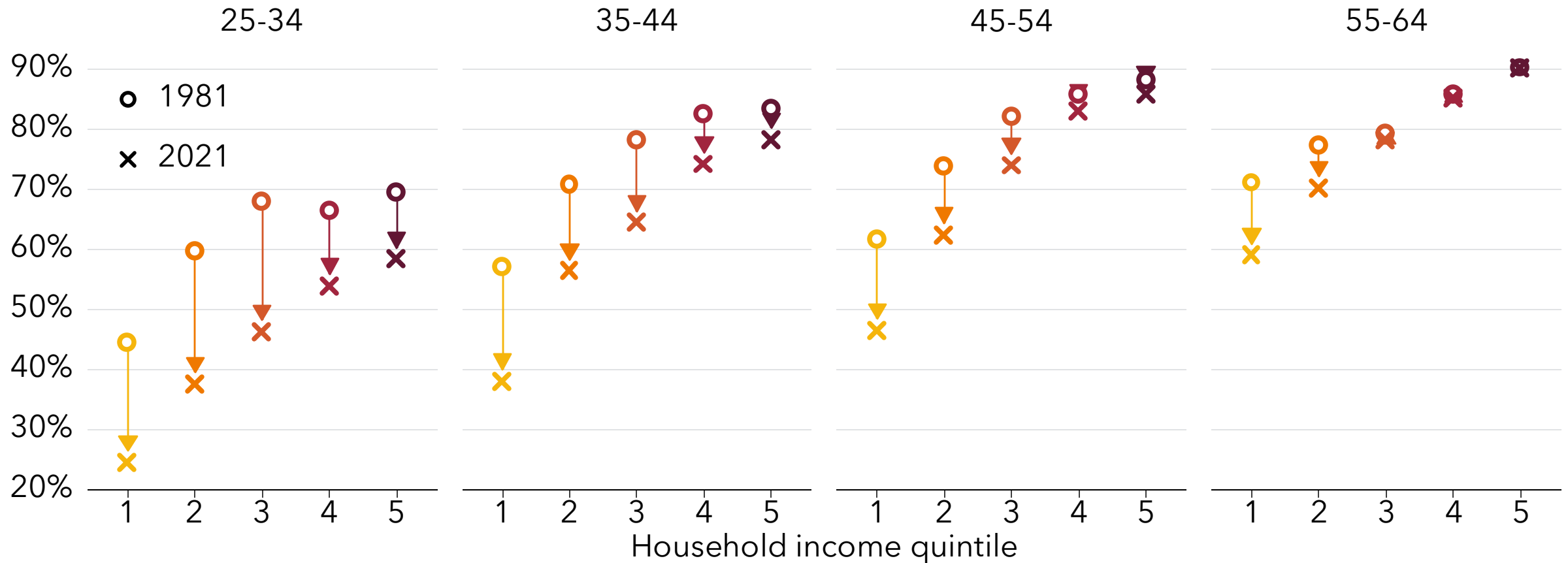
Ratio of median dwelling price to median household income, by region



Source: CoreLogic (2024) data provided to Grattan Institute

Homeownership is falling particularly fast for low-income earners

Homeownership rates by age and income, 1981 and 2021

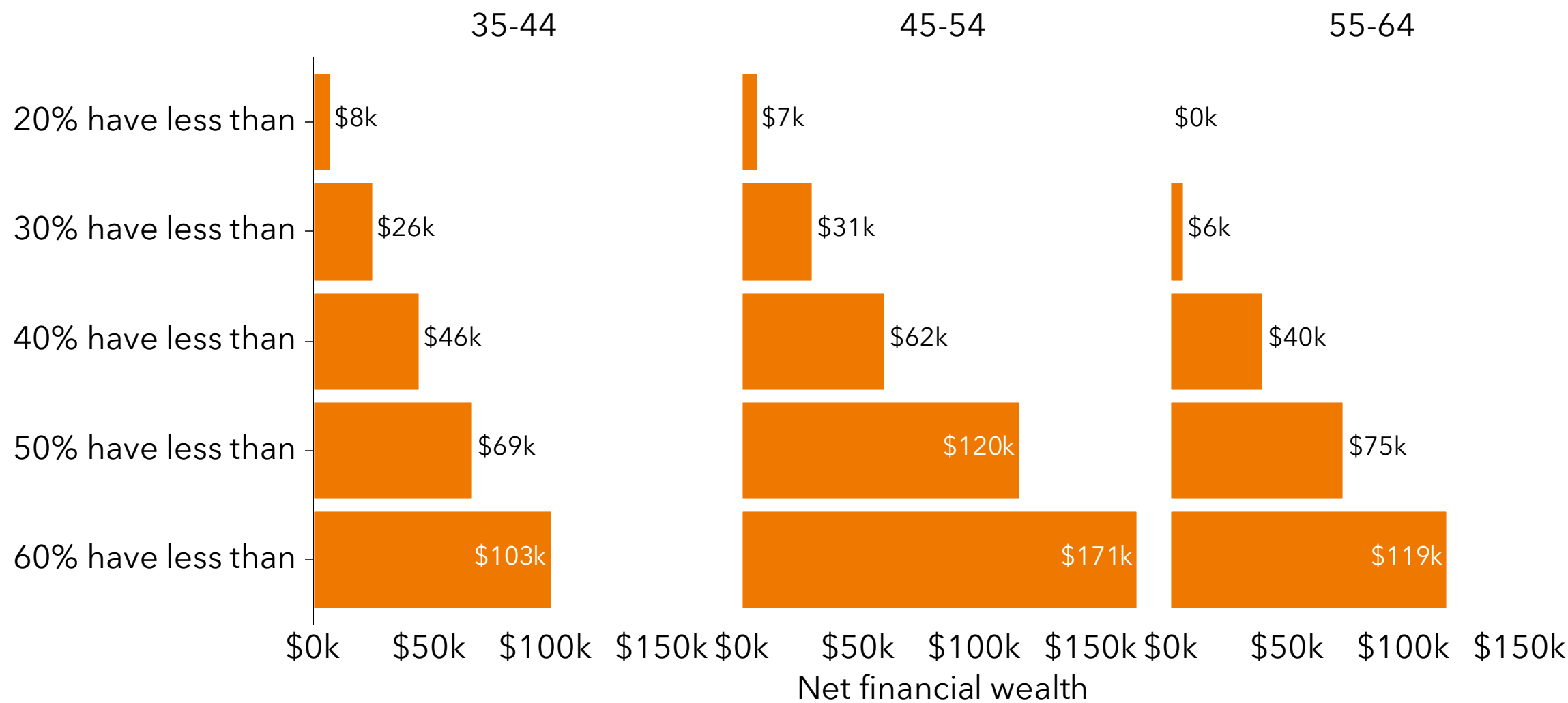


Notes: Private dwellings only. Excludes tenure or income not stated. 'Other' tenure is counted as a non-owner. Household incomes are reported in ranges so sorting into quintiles is an approximate exercise (i.e. there will be large ties at the margins of each quintile). This means small changes in ownership rates may not be significant. Income not equalised due to data limitations.

Source: Grattan Institute analysis ABS 1981 Census 1% sample file and 2021 Census 5% sample file.

Many renting households who are set to retire in the next decade have few savings

Percentiles of net financial wealth by age for renting households



Note: Age is age of head of household. Net financial wealth excludes the value of vehicles, the family home, home contents, and mortgage liabilities.
Source: Grattan Institute analysis of ABS 2019-20 Survey of Income and Housing.

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Rent Assistance is a supplement paid to recipients of income support payments that rent

- Commonwealth Rent Assistance is a tax-free income supplement made to renters who receive another income support payment, such as the Age Pension
- Rent Assistance covers 75 cents for each dollar spent on rent between a minimum and maximum rent threshold.
- In 2022-23, the federal government spent \$4.7b on Rent Assistance which was paid to 1.3 million income units, including more than 200,000 age pensioner households who rent on the private market

Eligible rent thresholds and maximum payment rates for Rent Assistance

	Minimum rent	Maximum rent	Maximum payment
<i>Fortnightly rates</i>			
Single	\$149.00	\$430.60	\$211.20
Single, sharer	\$149.00	\$336.74	\$140.80
Couple, combined	\$241.40	\$506.74	\$199.00
<i>Annual rates</i>			
Single	\$3,885	\$11,226	\$5,506
Single, sharer	\$3,885	\$8,779	\$3,671
Couple, combined	\$6,294	\$13,211	\$5,188

Notes: For individuals who are income- or asset-tested, Rent Assistance is added to the base rate of payment before payments are reduced in accordance with the relevant test.
Source: Services Australia (2024) *How much can you get*, DSS (2023) Annual report and DSS (2024) Benefit and Payment Recipient Demographics.

Rent Assistance is a demand-driven and targeted way of supporting low-income renters



Rent assistance is targeted to the poorest households

- **75%** of Rent Assistance payments go to the **bottom 20%** of households by wealth



Rent Assistance automatically responds to demand

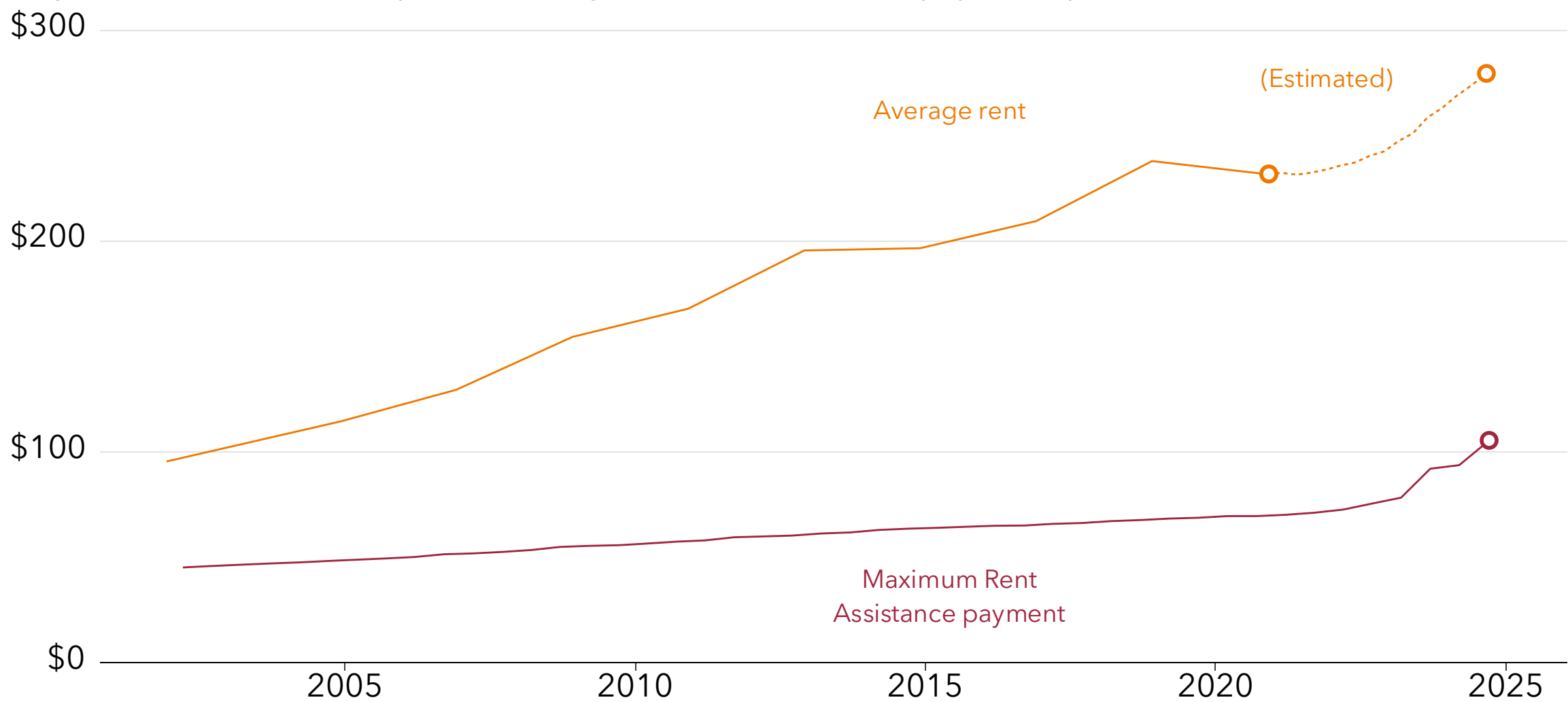
- Government spending on Rent Assistance automatically increases as more people need more of it
- The proportion of income support recipients who receive Rent Assistance has increased from 12 per cent in 2008 to 21 per cent in 2020
- Total spending has risen **3.1 per cent** a year in real terms since 1992 – more than the overall economy (3 per cent)

Note: Some of the recent increase in CRA is due to changes in policy parameters not demand.

Sources: Grattan analysis of the ABS (2019-20) Survey of Income and Housing, Dept of Family and Community Services 2000-01 Annual Report (Figure 11), DSS Demographics March 2024, ABS Consumer Price Index (June 2024), ABS National Accounts (June 2024).

But the maximum rate of Rent Assistance has not kept up with rents paid by recipients

Single Rent Assistance recipients' average rent and maximum payment, per week



Note: The estimated values use data on Rent Assistance recipient rents to September 2024. Single max CRA is to Sept 2024. Single, no children is the modal CRA income-unit type. Pre 2008, CRA recipient status is approximated by isolating private-renter households that declare Government transfers as their main source of income.

Source: Grattan Institute analysis of ABS Survey of Income and Housing 2000-01 to 2019-20 and the DSS Historical Payment Guide.

To understand how much Rent Assistance needs to rise, we outline a minimum budget for retirees

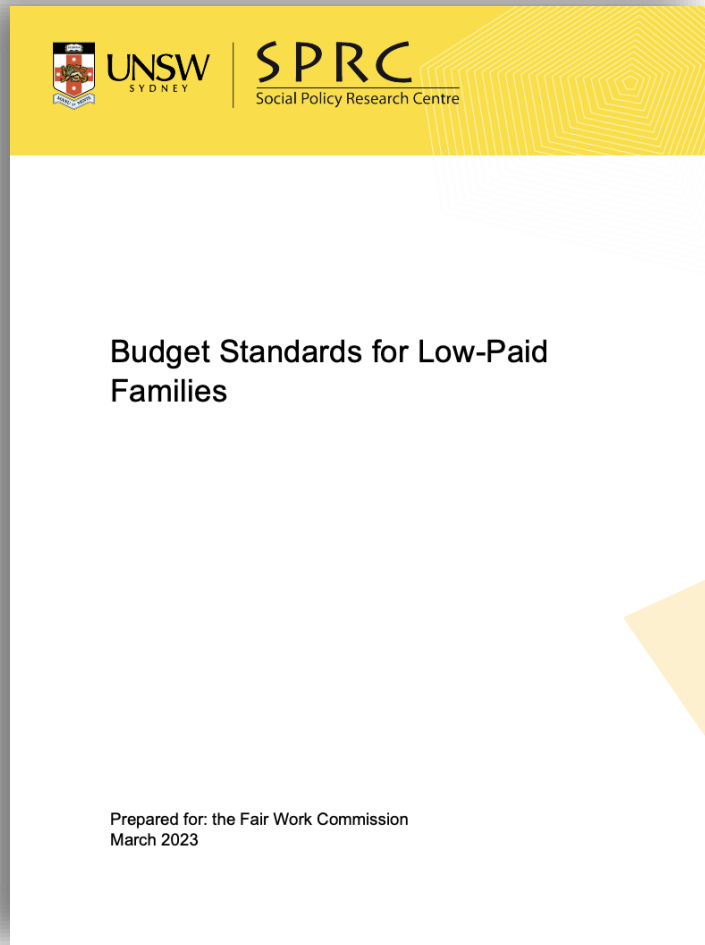
Minimum non-housing budget

- How much does an Age Pensioner need to budget for non-housing essentials?
 - Budget should include things such as food, clothing, transport, and energy
- We draw on pre-existing research on minimum budget standards

Minimum rental budget

- What rent should a retiree be able to afford?
 - Budget should provide an adequate range of housing options
- We look at prevailing rents in the private market for Australian capital cities

Budget standards provide an intuitive way of measuring non-housing costs



"The aim was to produce budgets that reflect how much is required to satisfy basic needs"

"There is no allowance for even the most modest or occasional 'luxuries'"

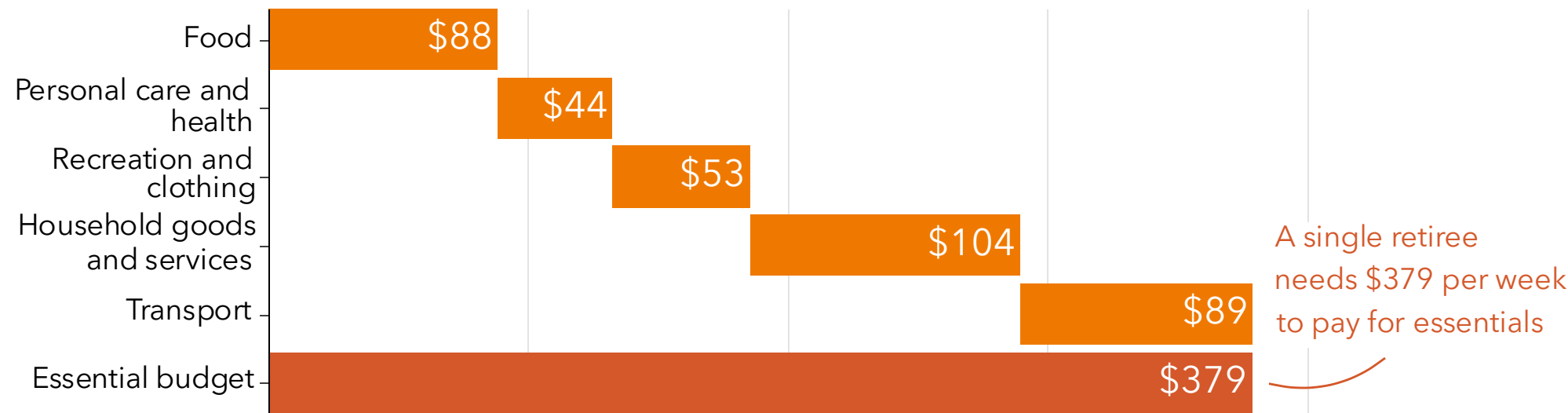
"The budgets are thus extremely 'tight' and provide no room for further reductions"

Bedford et al. (2023, p.3)

For a typical single retiree, non-housing essentials cost \$380 per week

Expense by budget category, \$ per week as at June 2024

A low-cost budget includes essentials...



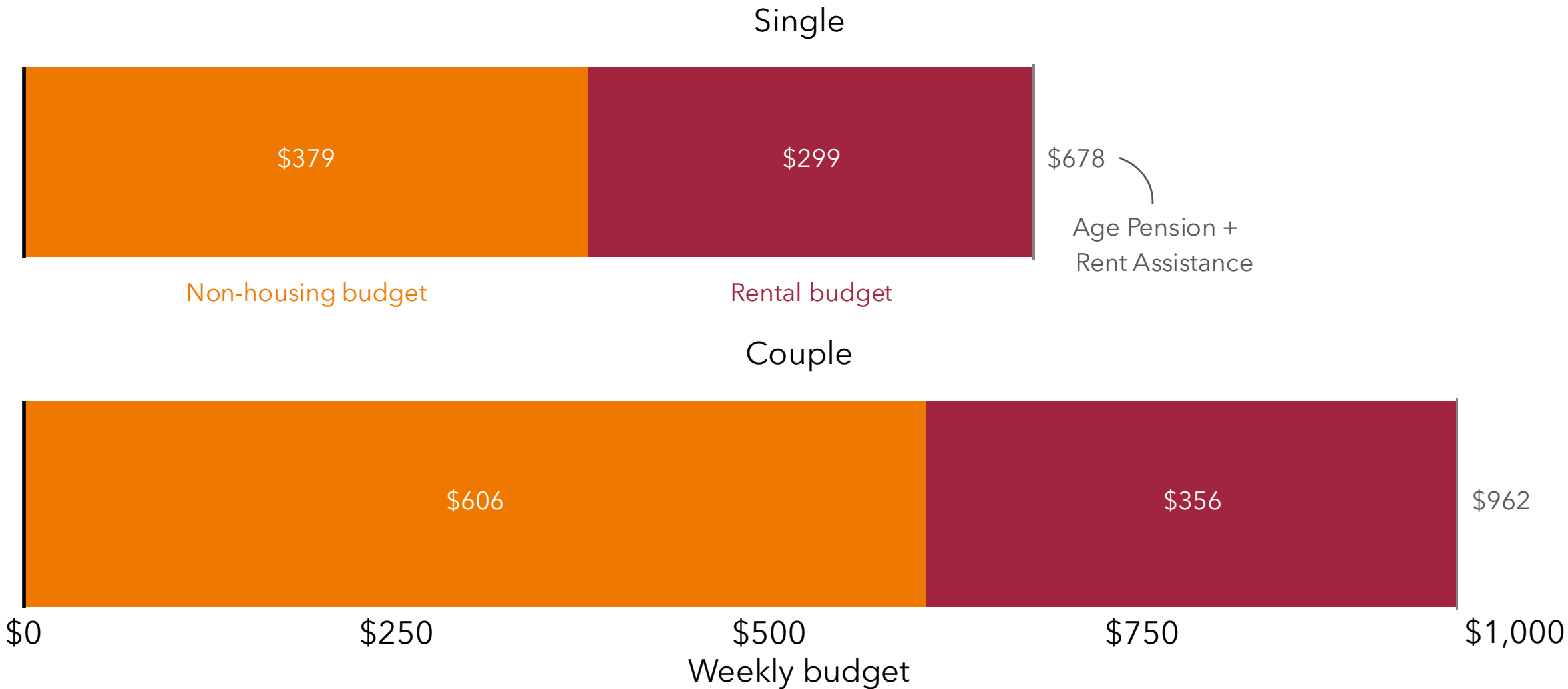
...but excludes discretionary items



Notes: Transport, health, and energy costs have been adjusted from to better represent retiree expenditure. Each component of the budget has been inflated to June 2024 with the relevant CPI group. Totals may not sum due to rounding.
Source: Grattan Institute analysis of Bedford et al. (2023) *Budget Standards for Low-Paid Families* and ABS CPI (June 2024).

This leaves a single age pensioner with less than \$300 per week for rent

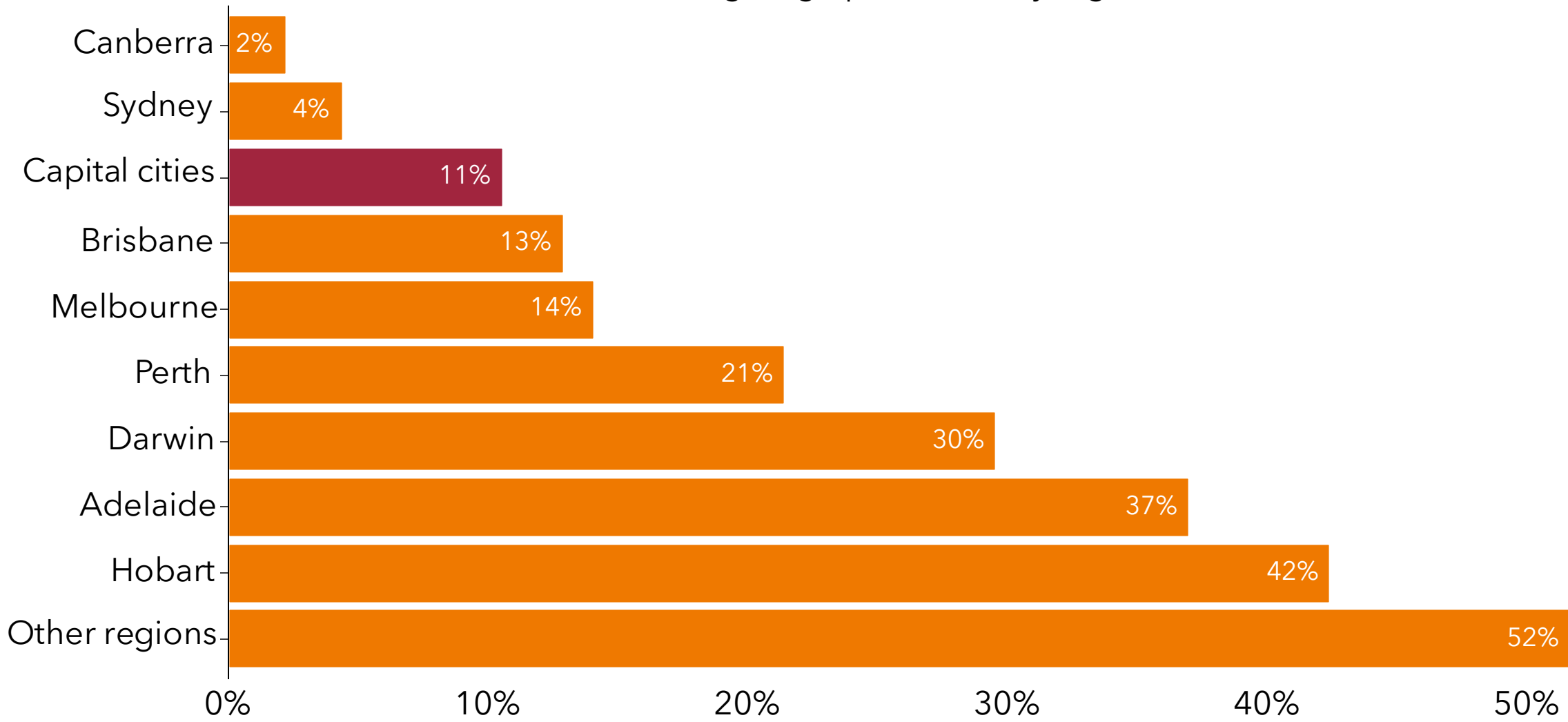
Household budget for a renter receiving the full Age Pension and Rent Assistance, per week, 2024 dollars



Notes: Non-housing budgets have been adjusted to better reflect retiree expenditure. Full Age Pension and Rent Assistance rates are as at 20 September 2024.
Source: Grattan Institute analysis of Bedford et al. (2023) *Budget Standards for Low-Paid Families* and ABS CPI (June 2024).

Only 11 per cent of one-bedroom homes in capital cities are affordable for a single age pensioner

Share of one-bedroom homes affordable for single age pensioner, by region



Notes: Based on a single household receiving the full rate of the Age Pension and Rent Assistance, with non-housing costs of \$380 per week. Excludes non-market tenancies and dwellings rented outside of real-estate agents. Rents inflated forward to 2024 using CPI rents.
Source: Grattan Institute analysis of ABS Census (2021) and ABS CPI (June 2024).

We benchmark Rent Assistance to rents for cheap homes in the capital cities



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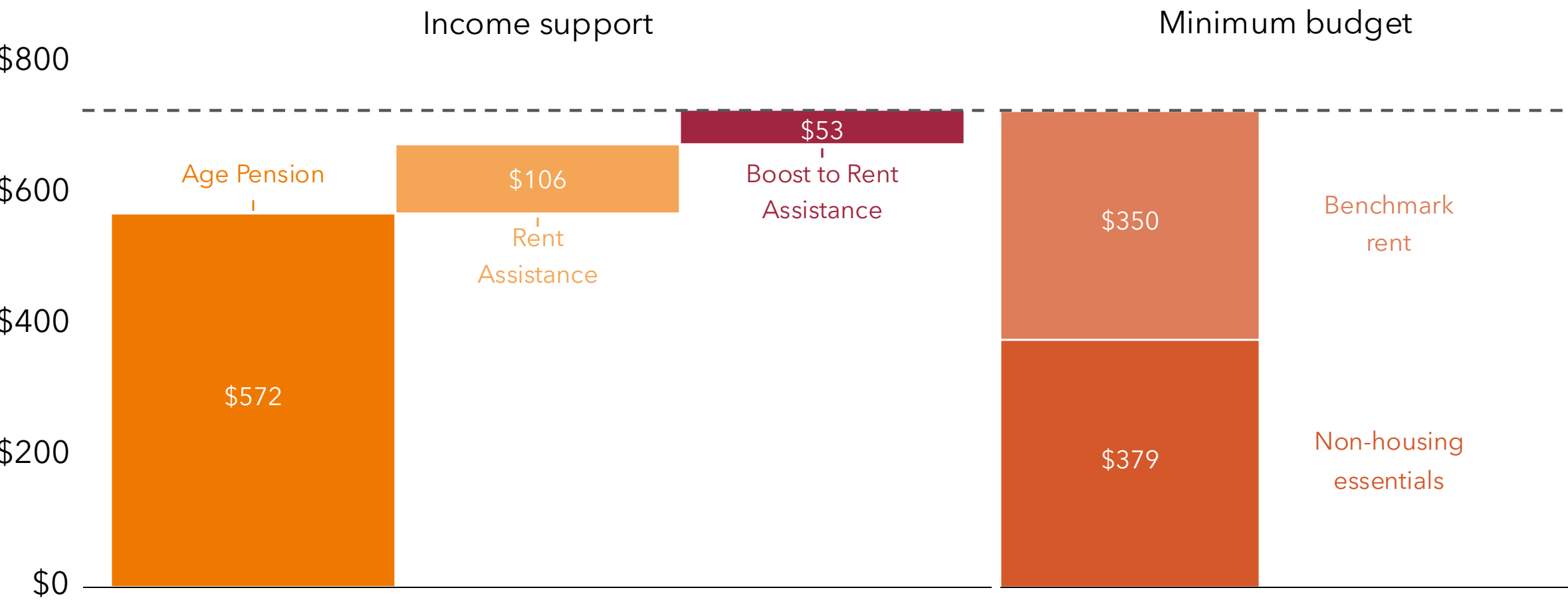
Rent Assistance should allow recipients to afford a minimum standard of housing

Household type		Proposed rental benchmark (\$ per week)	
	Single	\$350	25 th percentile of 1-bedroom homes in capital cities
	Couple	\$390	25 th percentile of 1- and 2- bedroom homes in capital cities

Source: Grattan Institute analysis of ABS 2021 Census and ABS CPI (June 2024).

Boosting Rent Assistance by 50% would allow a single pensioner to afford \$350 per week in rent

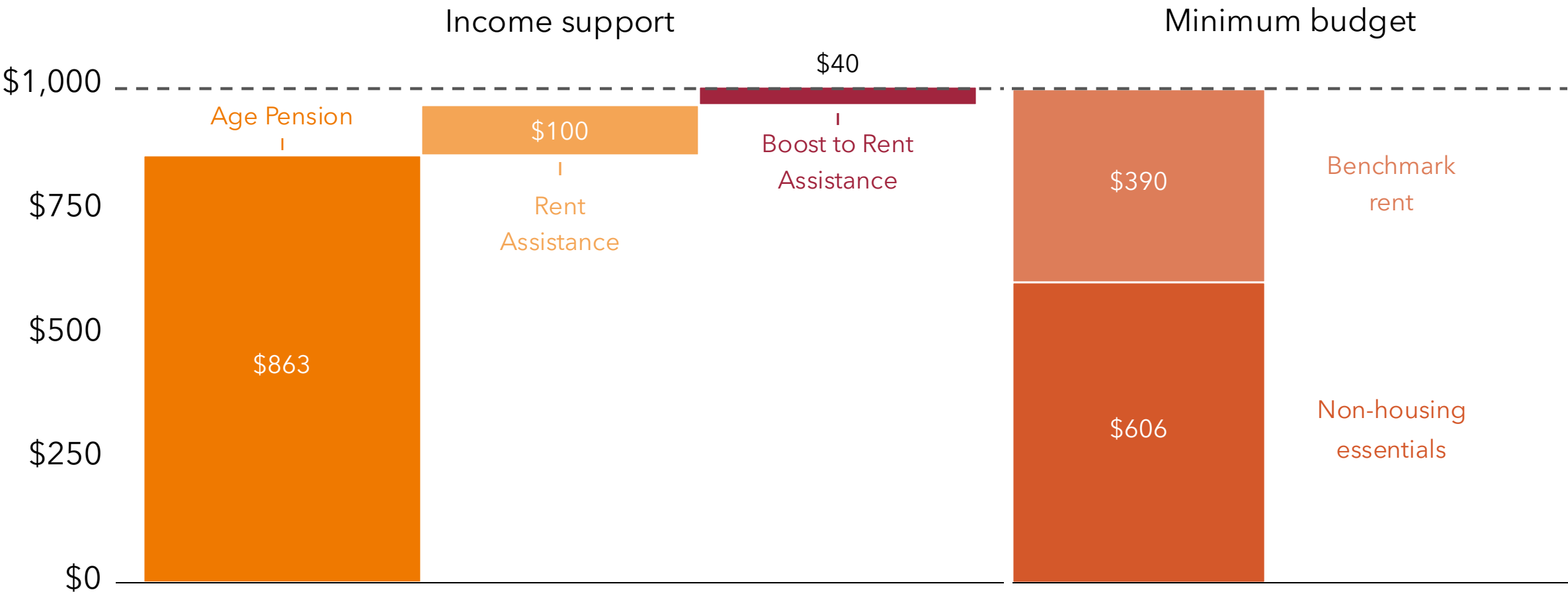
Income supports and minimum budget for a single on the Age Pension, \$ per week



Note: Assumes a minimum budget for non-housing costs of \$379 per week and a benchmark rent set at the 25th percentile of 1 bedroom units in Australian capitals. Income support payments all reflect maximum rates.
Source: Grattan Institute analysis of ABS (2021) Census, ABS (2024) CPI, Saunders et al. (1998) and Bedford et al. (2023).

Boosting Rent Assistance by 40% would allow age pensioner couples to afford \$390 per week in rent

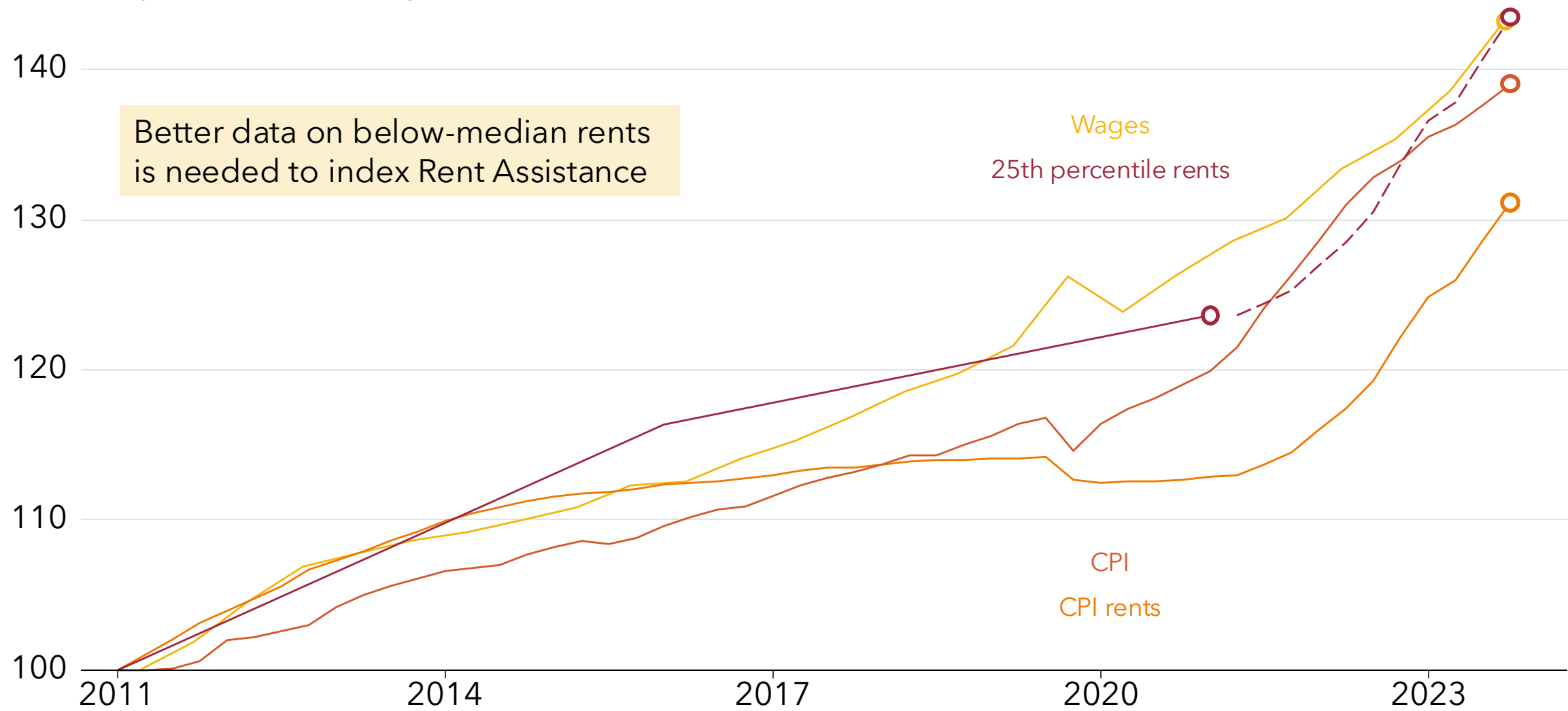
Income supports and minimum budget for a couple on the Age Pension, \$ per week



Note: Assumes a minimum budget for non-housing costs of \$606 per week and a benchmark rent set at the 25th percentile of 1-2 bedroom units in Australian capitals. Income support payments all reflect maximum rates.
Source: Grattan Institute analysis of ABS (2021) Census, ABS (2024) CPI, Saunders et al. (1998) and Bedford et al. (2023).

To maintain its value, Rent Assistance should be indexed to the 25th percentile of rents

Various options for indexing Rent Assistance, 2011 = 100

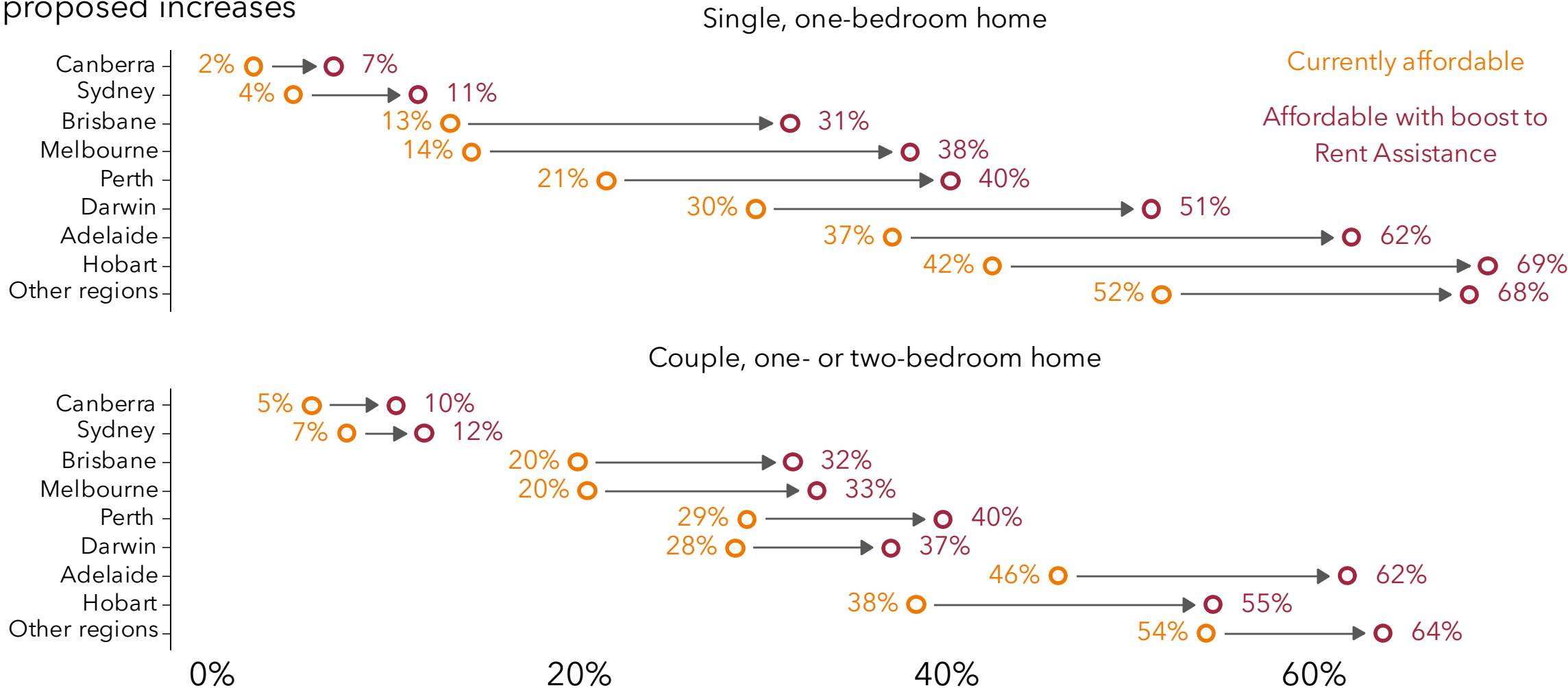


Notes: Rent benchmark is the 25th percentile of one- and two-bedroom homes in capital cities, estimated based on five-yearly Census data. Benchmark is estimated to 2024 using CPI rents. Wages are average weekly earnings.

Source: Grattan Institute analysis of ABS Census (2011, 2016, 2021), ABS CPI (June 2024), and ABS Average Weekly Earnings (May 2024).

Boosting Rent Assistance as we propose would give pensioners more and better housing choices

Share of rental homes affordable for age pensioner household, under current payments and under our proposed increases

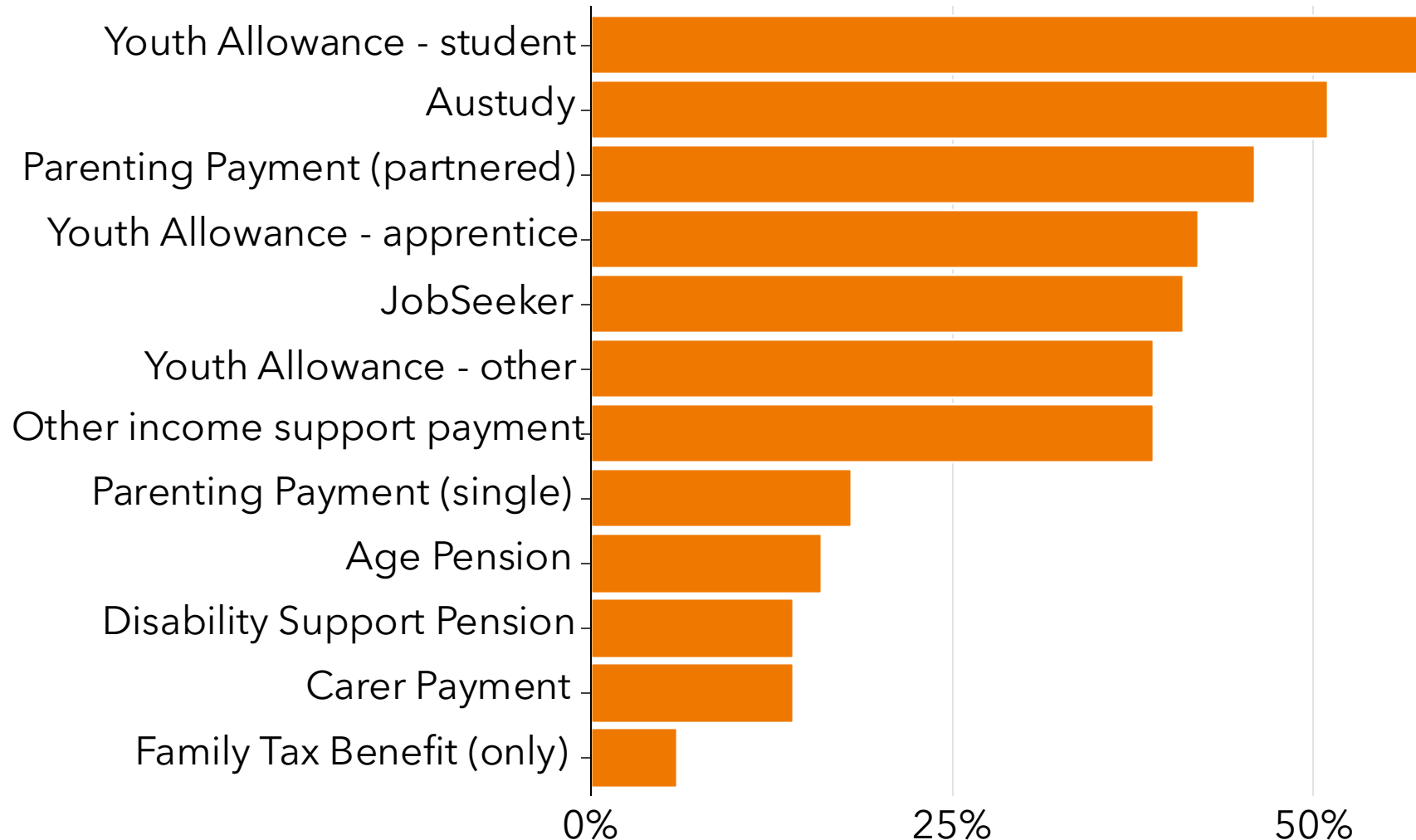


Notes: Based on a household receiving the full rate of the Age Pension and Rent Assistance. Non-housing costs are assumed to be \$379 per week for singles and \$606 per week for couples. Non-housing costs for single sharers are assumed to be \$475 per week, and include an additional 'discretionary' budget. Rental homes exclude non-market tenancies and dwellings rented other than from real-estate agents. Rents are inflated to June 2024 using CPI rents. Assumes no pass-through from Rent Assistance increases to rents paid in the broader rental market.

Source: Grattan Institute analysis of ABS Census (2021) and ABS CPI (June 2024).

Rent Assistance should be increased for both retirees and working-age recipients

Share of Rent Assistance recipient households' spending more than half their income on rent, by primary payment type, June 2022



- Younger Australians are more likely to experience financial stress, and to spend more of their income on housing, than older renters
- Given this, any increase to Rent Assistance should also be increased for working-age recipients
- Base rates for the JobSeeker and Youth Allowance payments also need to increase

Boosting Rent Assistance as we propose is affordable, if we look to budget savings elsewhere

Boosting Rent Assistance would come at a cost...

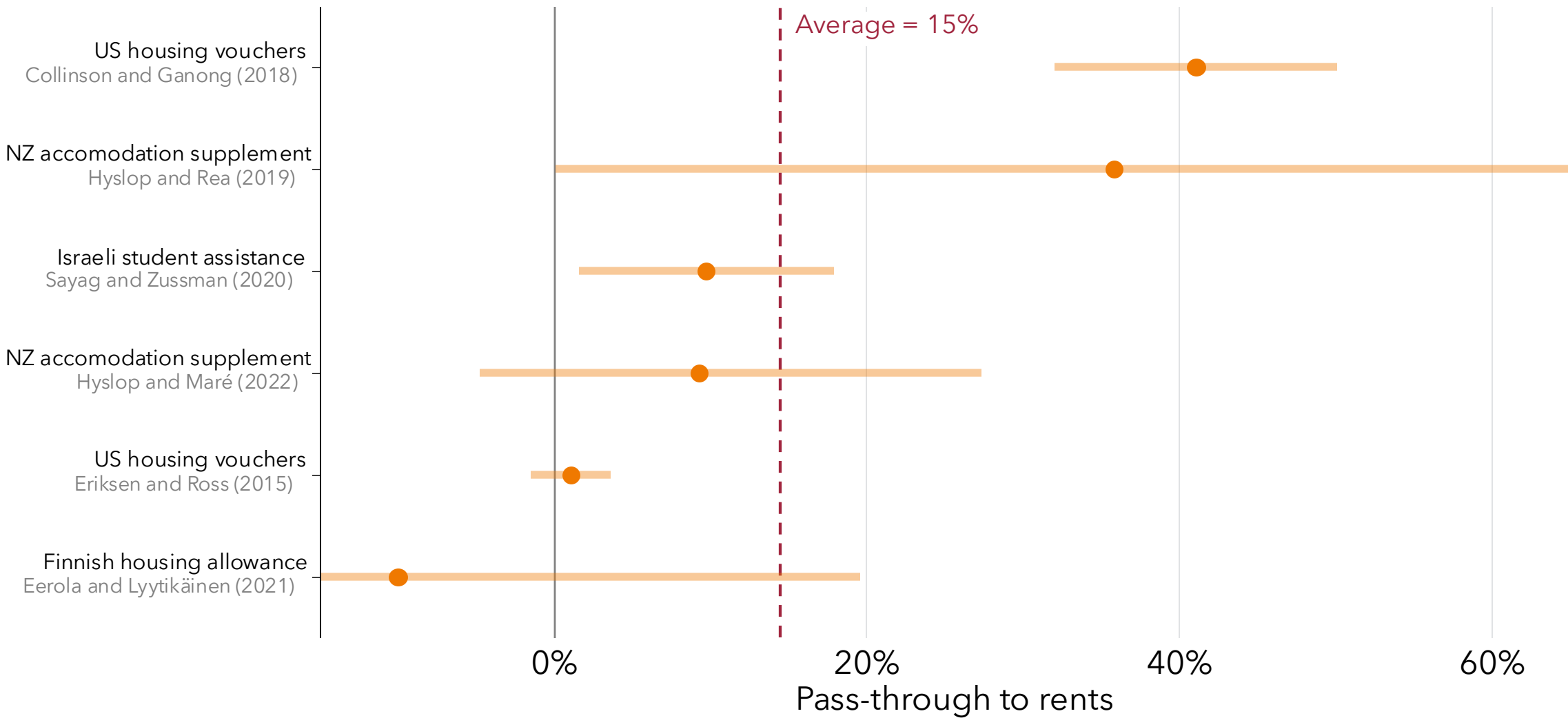
- Budget cost of \$2 billion per year
- Around \$500 million of this expense would accrue to Age Pension recipients

...but there are many ways the cost could be offset

- Super tax: lower the Division 293 tax threshold to \$220,000 and increase the rate to 35 per cent (\$1.1b)
- Super tax: reduce the concessional contributions cap to \$20,000 (\$1.6b)
- Super tax: tax retirement earnings in superannuation at 15 per cent (\$5b)
- Lower the capital gains tax discount to 25 per cent (\$5b)
- Limit negative gearing to future investment income (\$2b)
- Including the value of the family home above \$750,000 in the Age Pension assets test (\$4b)

Studies suggests more than five in six dollars of any Rent Assistance rise will benefit renters

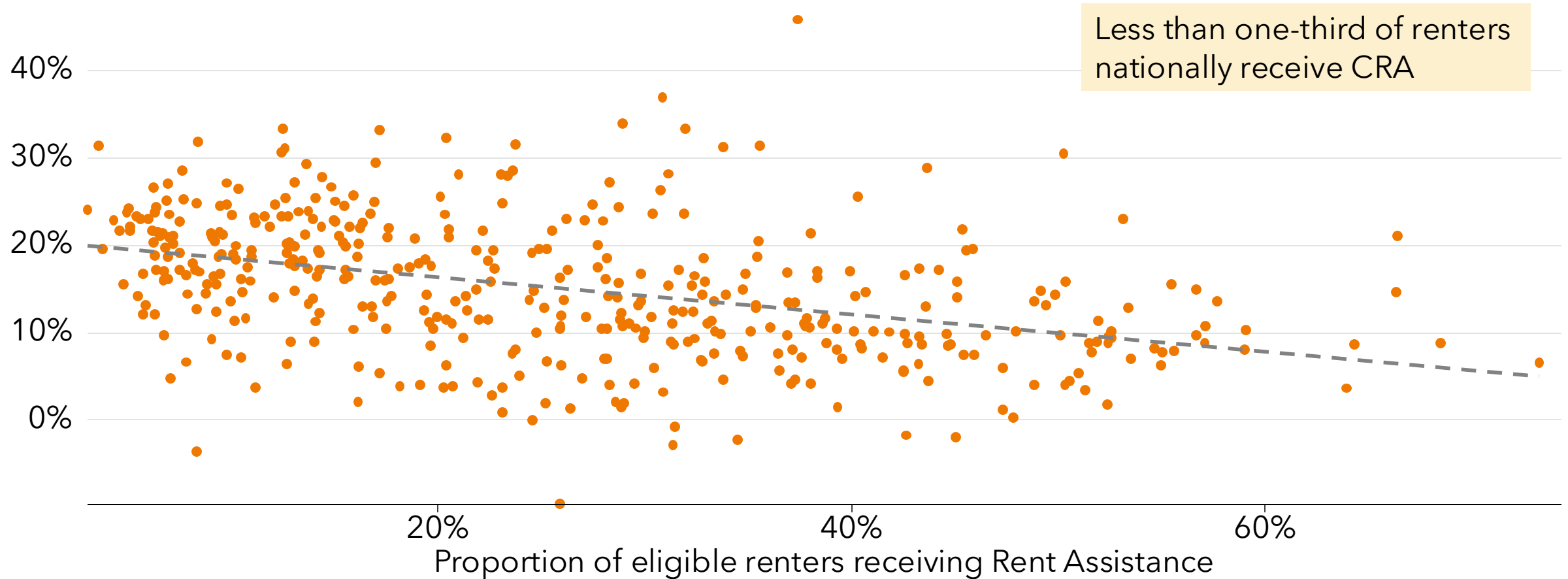
Percentage pass-through from housing assistance to rents (0 = no pass-through), by study



Notes: Shaded areas are 95 per cent confidence intervals. Some intervals extend beyond the range shown.
Source: Grattan Institute analysis of Collinson and Ganong (2018), Eerola and Lyytikäinen (2021), Eriksen and Ross (2015), Hyslop and Maré (2022), Hyslop and Rea (2019), Sayag and Zussman (2020)

Areas in NSW with more Rent Assistance recipients did not see higher rents after recent payment rises

Change in annual average rents from April 2023 to April 2025, by NSW postcode



Note: Each dot represents the change in average rents for a postcode area over the two-year period. The proportion of eligible renters receiving Rent Assistance is calculated by dividing the average number of recipients within each postcode and year by the estimated total number of private and community housing renters as at the 2021 Census, adjusting for estimated population growth.

Source: Grattan analysis of NSW Rental Bond Data - April 2022 to April 2025, DSS Benefit and Payment Recipient Demographics - September 2023, ABS 2021 Census, ABS 2023-24 Regional population.

Rent Assistance is cheaper than other housing supports for low-income pensioners

Rent Assistance

- Under our proposal, up to **\$8,300 per year** for single household
- Depends upon the private rental market, but responds to demand

Social housing

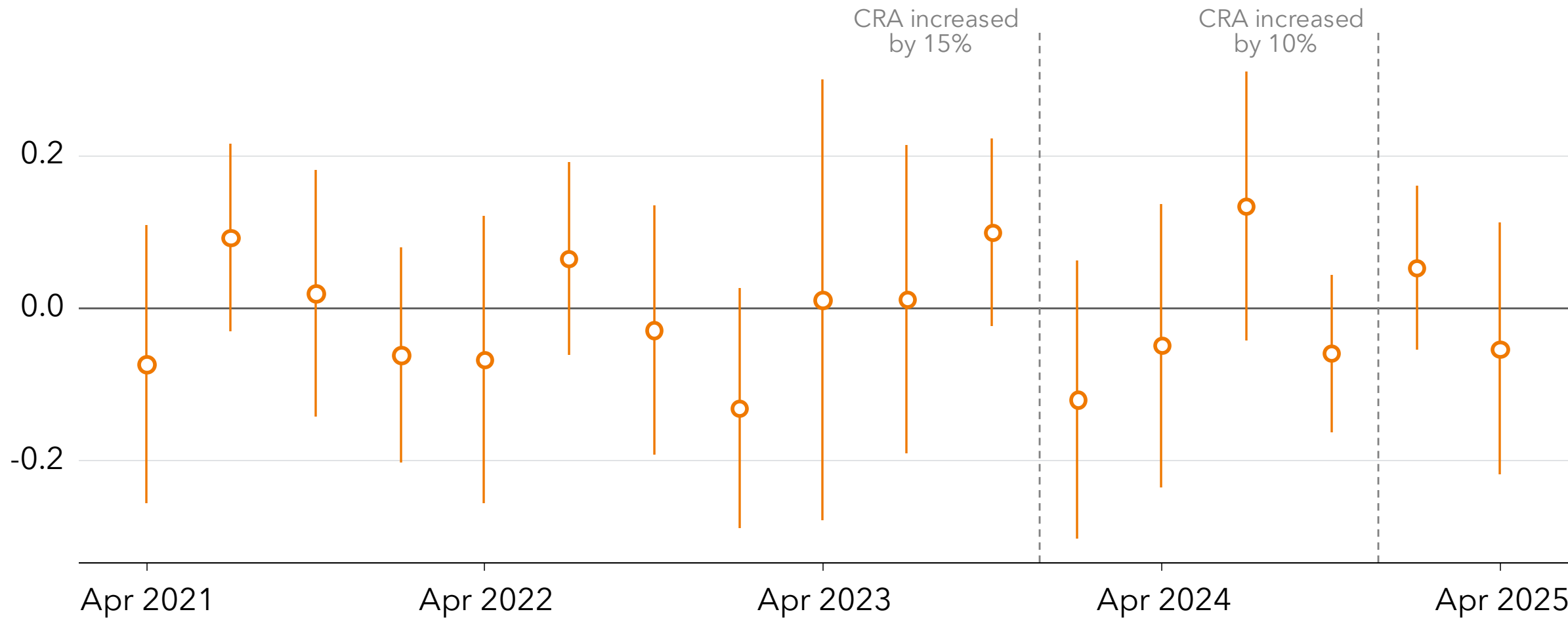
- Subsidy required is now around **\$24,000 per year**
- Provides stable, low-cost tenure for those most in need
- However, current social housing funding is not enough to meet demand

Affordable housing

- Subsidy varies, but is often above **\$10,000 per year**
- Places aren't well targeted, often making receipt of support a lottery
- Many schemes do not accept low-income tenants if they would pay more than 30 per cent of their income on rent

Rent Assistance take-up hasn't predicted changes in rents following recent increases

Effect of Rent Assistance take-up rate on change in postcode average rent, by quarter



Note: Values shown are estimates from linear model regression changes in rents on the share of a postode that receives Rent Assistance, controlling for time-varying SA4 fixed effects.

Source: Grattan analysis of NSW Rental Bond Data - April 2022 to April 2025, DSS Benefit and Payment Recipient Demographics - September 2023 , ABS 2021 Census, ABS 2023-24 Regional population.

Separating women are especially vulnerable to losing their home before retirement

- The home is typically a family's largest – separation often requires it to be sold
 - Separating couples then often lack the assets to each purchase a new home
- Just 34 per cent of women who separate from their partner and lose the house manage to purchase another home within five years, and only 44 per cent do so within 10 years
- Unsurprisingly, older women that have separated or divorced are more than three times as likely to rent at age 65 years than married women
- Separated women also typically have just two-thirds the assets of separated men in retirement

Regional payment variation could better target support, but would add complexity

Regional Rent Assistance payments could better target urban renters...

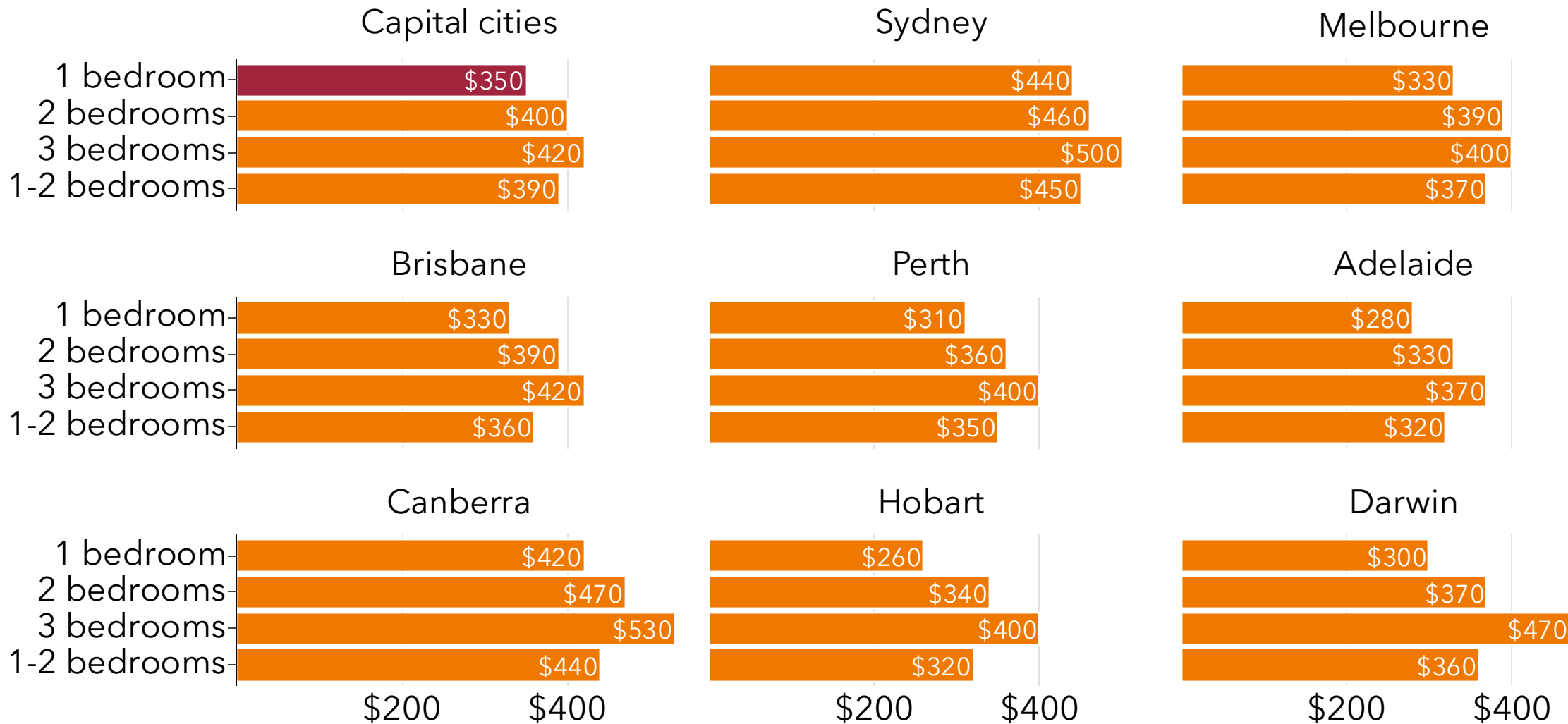
- Allowing the maximum rate of assistance to vary by region – as in New Zealand – would allow for increases to be better targeted
- Increasing CRA as we recommend in Sydney and Canberra – with smaller increases for Melbourne and Brisbane and no increase in regional areas – would reduce the cost of our proposal to just \$600m per year

...but would introduce additional complexity and inequities

- Regional variation is a blunt instrument, as rents vary significantly within and regional areas
- Introduces political and administrative complexity – other countries with regional payment levels often fail to update them to reflect changing rents

A cheap 1-bedroom home in a capital city costs \$350 per week, or up to \$440 per week in Sydney

Estimated 25th percentile weekly rents as at June 2024, by region

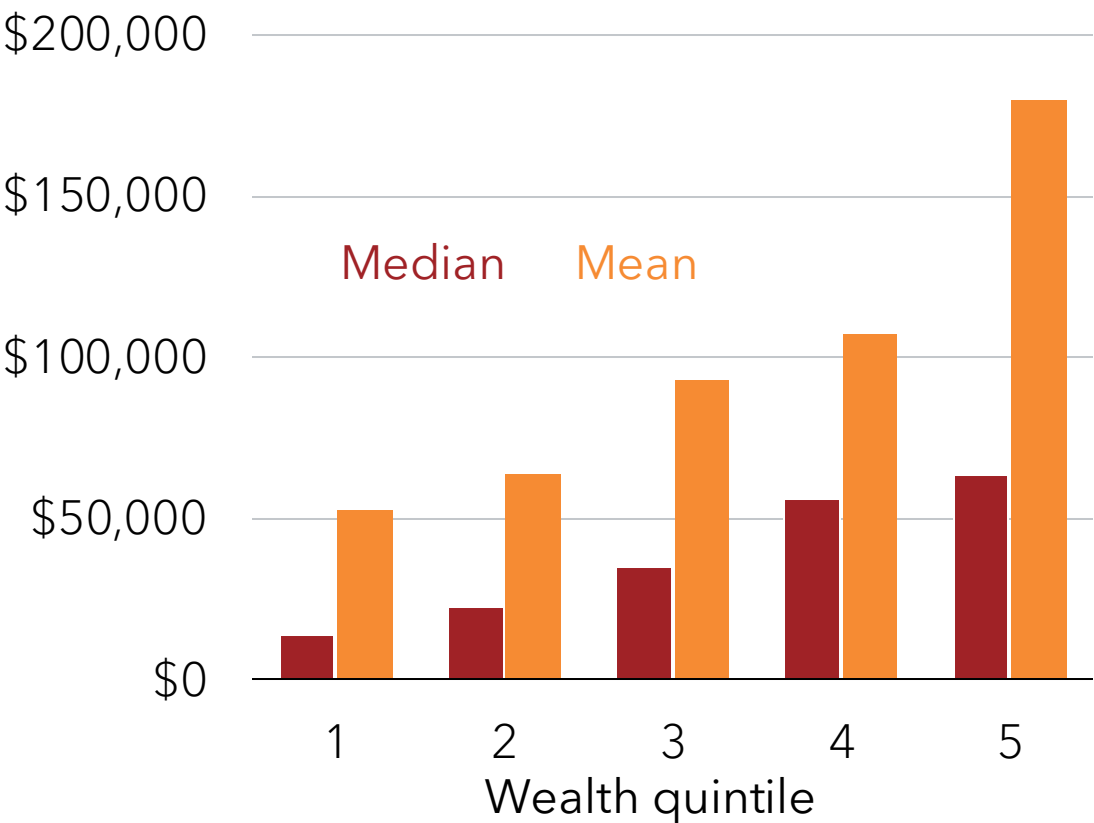


Note: Estimated rents are grown forward using CPI rents from September 2021 to June 2024. This is conservative as historically low-income rents have grown quicker than overall rents. Rents exclude non-market tenancies and are rounded to the nearest \$10.

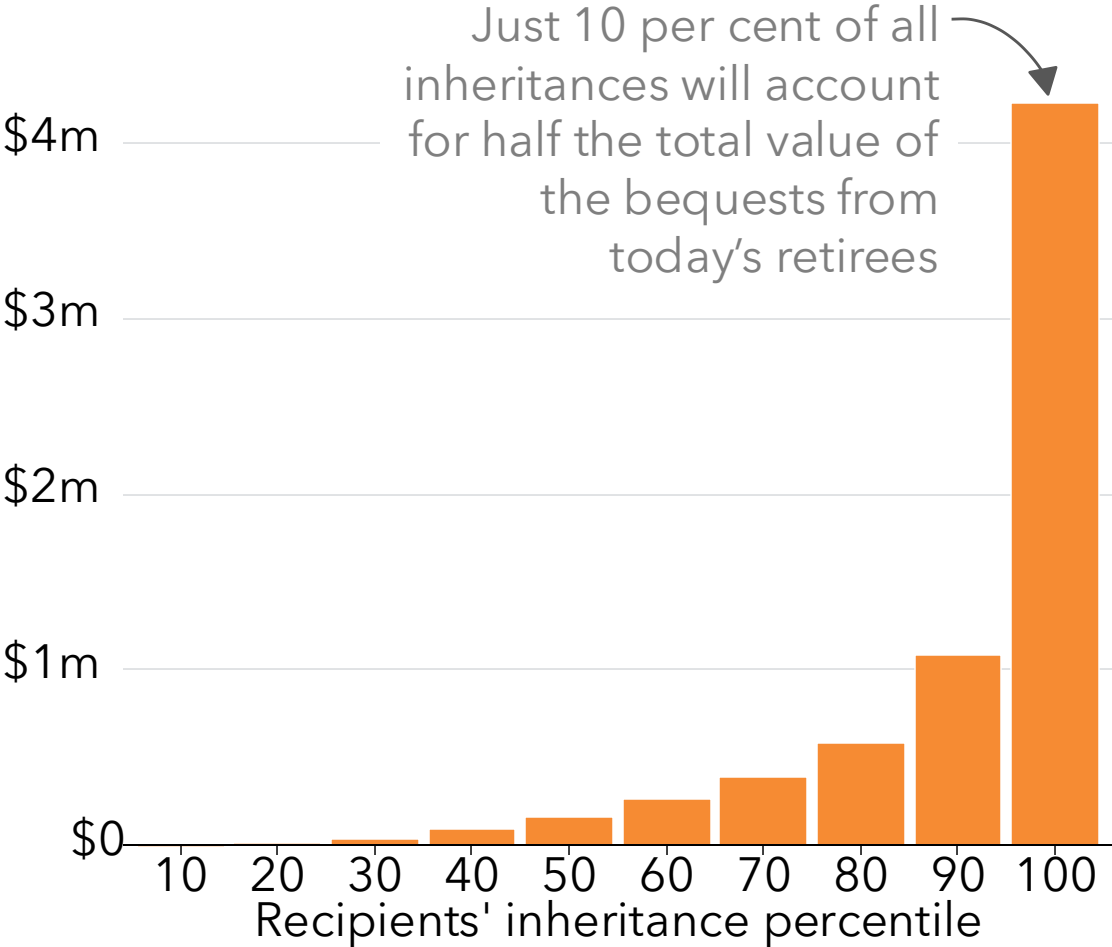
Source: Grattan Institute analysis of ABS 2021 Census and ABS CPI June 2024.

Inheritances are unlikely to solve the problem: most older renters are unlikely to inherit a home

Average size of inheritance where one was received, by prior wealth quintile, \$2017-18



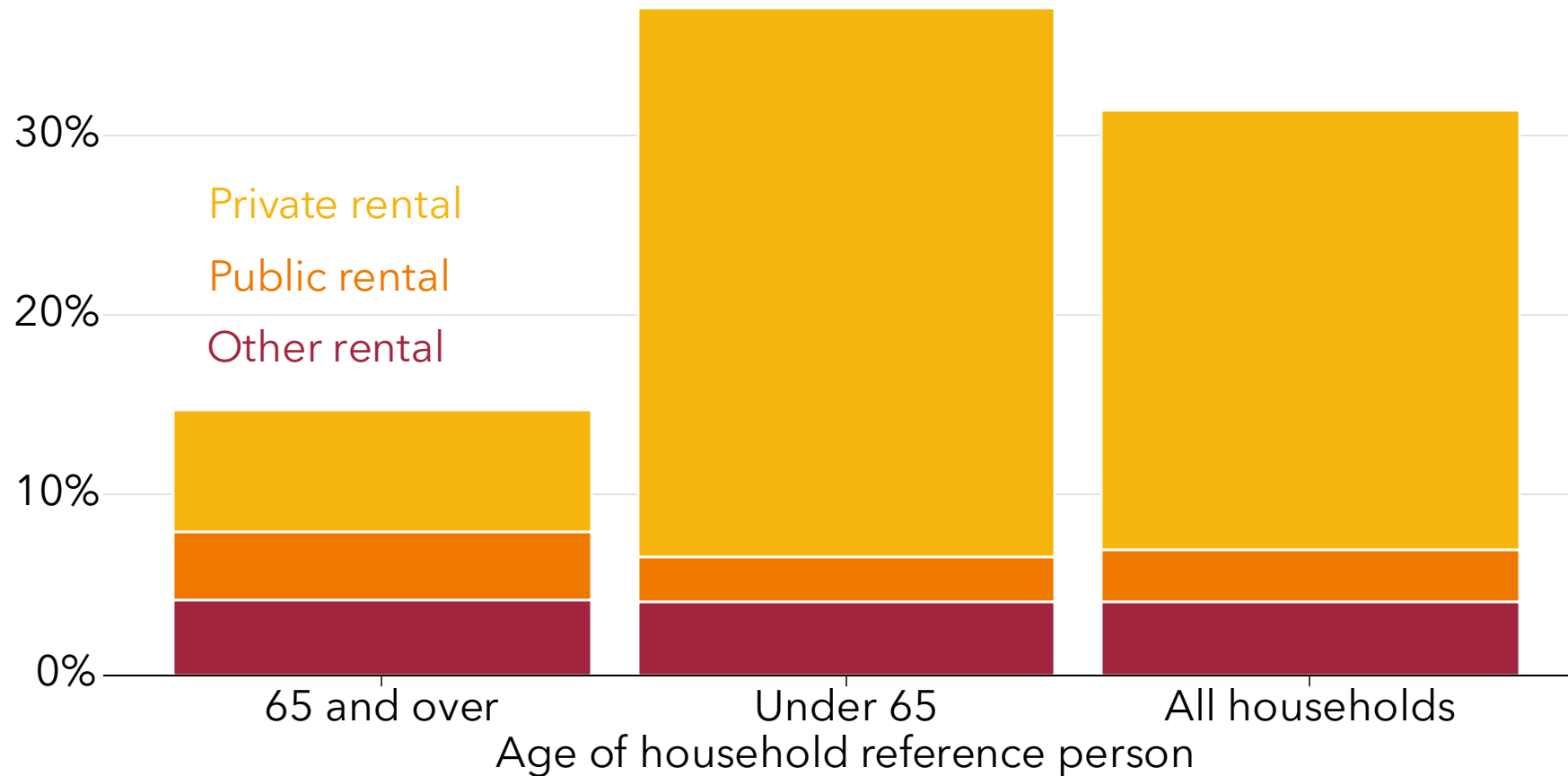
Projected inheritances from households currently aged 60 and older



Notes: Data on inheritances by wealth of recipient is not available from the probate records, so we use data from HILDA on self-reported inheritances. We observe significantly lower average inheritances in HILDA than in the probate data. Wealth captured only in 2002, 2006, 2010, and 2014 surveys. Wealth quintile based on most recently-captured wealth information for an individual. Individuals are allotted to a wealth quintile across all respondents. Source: HILDA surveys, 2003 to 2018.

Future retirees will be more likely than current retirees to live in private rentals

Renters as a per cent of the population, by rental type, 2019-20



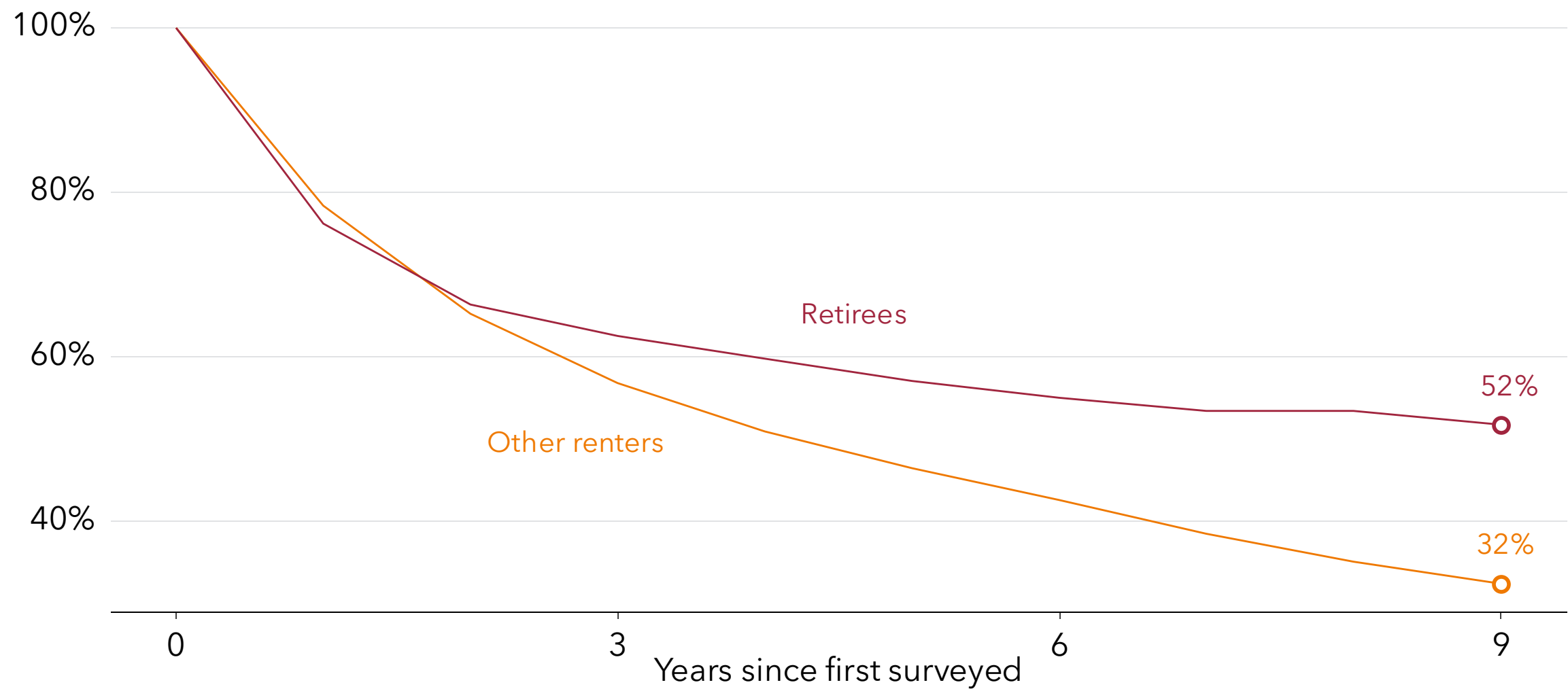
- Social housing provides a generous safety net to more than one third of all renting retirees
- Australia's social housing stock is stagnating, having fallen from 7% to <4% of all housing in the past three decades

Note: 'Other' includes (but is not limited to) renting from family and community housing providers.

Source: Grattan analysis of the ABS 2019-20 Survey of Income and Housing basic microdata.

Retirees tend to rent for longer

Proportion of people renting in year 0 who still rent



Notes: Retirees defined as individuals aged 65 and over who are not in the labour force. Renters includes social housing tenants, but excludes individuals who live in their home rent free. 'Other renters' sample excludes individuals aged under 18. Proportions are modelled Kaplan-Meier estimates.
Source: Grattan Institute analysis of HILDA Waves 11 to 22.